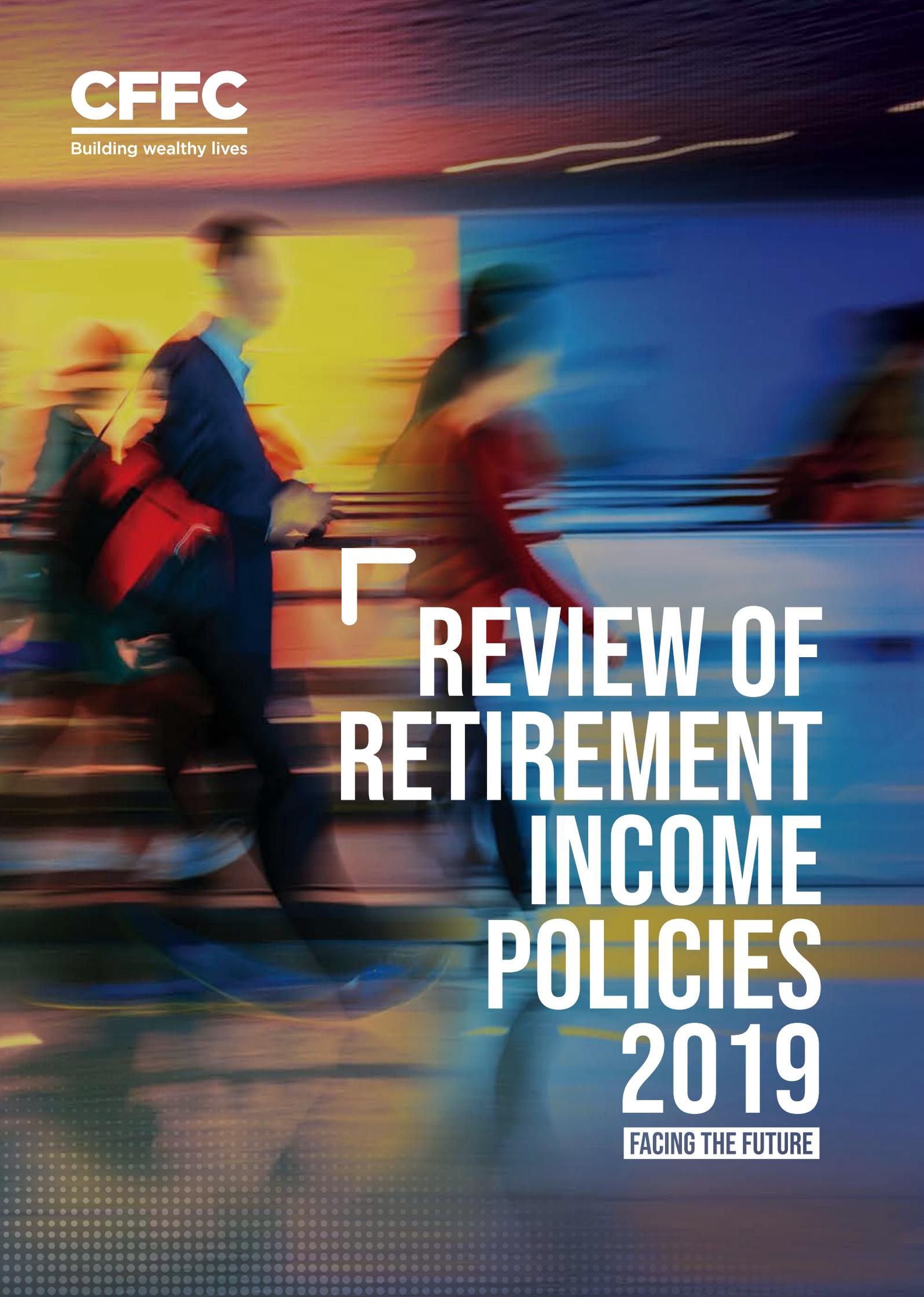


**CFFC**

Building wealthy lives



┌  
**REVIEW OF  
RETIREMENT  
INCOME  
POLICIES  
2019**

**FACING THE FUTURE**

# CONTENTS

RETIREES  
WHO RELY ON  
NZ SUPER:

80%

## 03 FORWARD

08 Terms of reference

## 10 EXECUTIVE SUMMARY

## 26 CHAPTER ONE RETIREMENT INCOME POLICIES AND THE ROLE OF RETIREMENT COMMISSIONER

28 Retirement for the 21st century

30 What comprises NZ's retirement  
income policies?

30 Where we are and where we're  
heading

31 NZ Super and the NZ Super Fund

32 Wellbeing among  
NZ Superannuitants today

34 What the submissions said

36 Looking back to look forward

40 Engagement and research

43 Next steps

46 Recommendations

47 Appendix

## 50 CHAPTER TWO PREPARING FOR OUR BEST RETIREMENT

52 Wellbeing and vulnerability of  
New Zealanders in retirement

53 Outcomes of focus groups  
and interviews

55 The impact of housing on retirement  
planning and vulnerability

57 Retirement outcomes for women

58 Technological change  
and the future of work

59 What the public told us

60 Assessment and recommendations

64 NZS and implications for Māori

64 KiwiSaver: Enhancing savings  
outcomes

66 KiwiSaver recommendations

75 KiwiSaver and implications for Māori

## 78 CHAPTER THREE NZ SUPER- VALUE FOR MONEY

80 Fiscal sustainability of NZ Super

81 NZS sustainability – the research

83 A progressive taxation option

84 What the public told us

88 The question of longevity

89 NZ Super sustainability and purpose  
– our response

## 92 CHAPTER FOUR KIWISAVER AND KIWISPEND

95 KiwiSaver fees – public perception and  
understanding

96 Recommendations

98 KiwiSaver – ethical investment options

98 What the research tells us

100 What the public told us

101 Recommendation

102 Decumulation – spending our savings

105 KiwiSpend – a decumulation partner to  
KiwiSaver?

107 What the public told us

107 Decumulation – our assessment

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**Peter Cordtz**  
Interim Retirement Commissioner

## FORWARD

First and foremost, I wish to acknowledge the many people who have contributed to this work and the many more who may play a part in fulfilling its intent.

This report seeks to address the Government's terms of reference, within a broader outline of the retirement income ecosystems that the questions they give rise to cohabit. While I do address each of the specific terms of reference questions and issues in this report, and provide these in a summary chapter that opens the report, I have not structured the report to strictly follow the terms of reference in a linear manner. This is due to the terms each containing a number of cross cutting aspects and in many respects they talk to each other.

In approaching this review as Interim Retirement Commissioner, I have of course brought my own views and experience to bear, which are naturally different to those of previous commissioners – and no doubt, of future ones also. I come with perhaps less direct experience of the inner workings of government or of the financial sector than some previous commissioners, but believe I have brought a more hands-on view of how a diverse array of lower income and vulnerable New Zealanders experience material hardship.

I also bring a particular view on the disparity experienced by Pacific and Māori New Zealanders receiving or about to receive New Zealand Superannuation (NZS).

It is disheartening that reviews have been stressing the importance of addressing this disparity for more than two decades. Despite this, in some regards the inequity has not improved at all - and has even worsened in some areas, particularly income and housing. It is clear to me there are Treaty equity issues in the fact that Māori still live, on average, shorter lives and often with lower standards of living

than many Pākeha New Zealanders experience. I am also mindful that article 3 of the Treaty promised Māori 'all the Rights and Privileges of British Subjects'. It is important to reflect on the reality that Māori have not yet been provided one of the most basic of these citizenship privileges - a shared life expectancy with equitable standards of living. They make up only 5% of the over 65 population, compared to more than 16% of the whole population. But I am also aware it is not the role of the Retirement Commissioner to make findings about breaches of the Treaty, and accordingly my recommendations focus on improving the system for all New Zealanders.

Many whakatauki, my whakapapa and lived experience have guided me through this review; these reflect the importance of focusing on the wellbeing of people ahead of other priorities, of treasuring life at all stages, and valuing the knowledge and experience of our elders as knowledge repositories and guides and mentors for younger generations.

In addition to these guiding visions, I believe that one of the measures of success of our society, and government's impact in that, is - as Norman Kirk said - that all New Zealanders have the best chance to have 'Someone to love, somewhere to live, somewhere to work and something to hope for'.

I understand this as recognising the need for a practical foundation with a solid and secure home and income, which the Government is at least in part responsible for enabling, as well as the importance of connection to people - recognising that this is not an area that government should be particularly seeking to influence - and faith that the future will be better, or at least no worse.

For New Zealanders in or thinking about their future retirement, I think these foundational needs continue to resonate very strongly, and are reflected in the views we heard very clearly from the public that people are increasingly worried that they, or their family, will not have somewhere secure to live in retirement, nor will they have an adequate income. This is in addition to concerns they may have about isolation and lack of connection.

### A NOTE ON LANGUAGE

I want to set out some of the key language we use in this report. In the body of the report, you will see the phrase 'we' used regularly; this reflects the team approach taken by the Office of the Retirement Commissioner, known currently as the Commission for Financial Capability (CFFC). It has been a team effort to undertake the research and structure the themes that enabled us to get this final report to you on time, despite the challenges CFFC and the role of the Retirement Commissioner have met in 2019. However, responsibility for the recommendations and assessments made in the report is mine alone.

**EHARA TAKU  
TOA I TE TOA  
TAKITAHU,  
ĒNGARI HE TOA  
TAKITINI.  
MY STRENGTH  
IS NOT MINE  
ALONE, BUT  
THAT OF MANY.**

Another term to point out is use of NZS as shorthand for New Zealand Superannuation, and therefore also the use of NZ Superannuitants in referring to New Zealanders who are receiving NZS. Meanwhile we have tried to steer away from using 'retirement' as our classification of NZ Superannuitants, as it is a significant feature in New Zealand - we think a very positive one - that NZ Superannuitants can continue to work in paid employment. It is becoming clear that the language of retirement is outdated both in terms of legal implications and the public discourse, and there is a need to

identify language that better reflects the realities for older New Zealanders as being the tuākana and mentors of our society, while becoming the kaumātua or elders.

Regardless of whatever term is used, these New Zealanders are still very much involved, whether in the workplace, in voluntary work, caring, mentoring, learning or the many other ways New Zealanders of all ages live their lives. That is, we don't think that in reality New Zealanders retire from much, rather they transition to new or different things, and the lived reality is much more dynamic than the phrase 'retirement' implies. Still, the legislation is called the 'New Zealand Superannuation and Retirement Income Act', and the commissioner is named the Retirement Commissioner, so we don't think we are free to disregard the term and therefore use it where we think appropriate, while being careful to distinguish that NZ Superannuitants are often not in fact retired or see themselves as such.

## NZ SUPER IS GOOD VALUE

I do not seek to outline our assessments and recommendations here, as these are readily accessible in the summary report as well as in the full version of the chapters. However I do want to set out upfront my overarching view that NZS is delivering good value for New Zealanders under current settings, and moreover will be needed by more New Zealanders in coming years.

I therefore do not think that the best step to ensure sustainability of NZS is to focus at this point on raising the age of eligibility, or that taking this step would necessarily achieve the intended outcomes, or at least without putting significant costs elsewhere on the system. I am very aware that in suggesting that the age of eligibility may not be the priority right now, I am putting forward a more nuanced point of view from my immediate predecessors. The economic context changes over time – from Treasury’s most recent publicly available projections, NZS looks affordable on current settings for the medium term, even though it did not necessarily look so in earlier years. The outcomes we wish to achieve through policy interventions also need to reflect the priorities of the times. The Government’s focus on applying a wellbeing lens is particularly relevant for retirement outcomes for New Zealanders, and means that fiscal sustainability needs to be considered within a broader view as to what NZS delivers. I wish to stress again though, that even from a fiscal responsibility perspective, NZS is sustainable. From the latest data and projections we have from the Treasury, NZS will cost under seven percent (net) of national GDB by 2060. This is a significant rise in proportional cost, from 4.8% today, but is still well under what some other OECD countries already spend on pensions and yet find manageable because of a mix of pre-retirement policy settings, tax settings, private savings and investments, and government-supported pensions offsetting other costs on the taxpayer.

And of course there is the significant offsetting of the cost of NZS already, from the tax paid by NZ Superannuitants on their NZS and all other income, as well as their contribution through expenditure to the local and national economies. NZS also enables many NZ Superannuitants to undertake unpaid, voluntary work in their community. This is a huge contribution relied on in many communities and which should be accounted for in considering the costs and benefits of NZS.

Therefore instead of repeating the call from the last two reviews to lift the age of eligibility as the priority action resulting from this review, I instead recommend a more deliberate focus across the Government’s major pre-retirement policy areas as the priority near-term action by the Government. This is to ensure all New Zealanders have the best opportunity to prepare for retirement. This I believe amounts to a clarion call, as will require commitment to policy design and implementation with regular and honest evaluation to ensure policies are delivering to improve retirement outcomes for all New Zealanders.

I stress this applies equally to CFFC, as the Office of the Retirement Commissioner; it is our responsibility to lead the coordination and monitoring of the system, and to ensure a comprehensive and aligned work programme. We have a responsibility to lead the delivery of a number of the recommendations we make in this report.

In particular, I believe that comprehensive and transparent monitoring and evaluating of progress by relevant agencies on a regular basis is needed. This is to shine a light on progress with implementation of policy, as well as the gaps that should be bridged as a priority to ensure all New Zealanders have the opportunity to enjoy their retirement through being able to maintain appropriate standards of living, supported by NZS but ideally augmented by their own savings and assets. While recognising that this monitoring and evaluating role across the retirement income system is, under the legislation, the role of the Retirement Commissioner I believe that the reality is that the Retirement Commissioner has not been resourced or had the authority to require or support agencies to report if they don’t already see the value in doing so. We think this should be addressed for the sake of improving outcomes for New Zealanders.

## CONTEXT AND CHALLENGES

As concluding comments, I believe that it is appropriate to outline the unique context in which the 2019 review has taken place. This past year has been a particularly difficult one for CFFC, as well as for the role of the Commissioner itself. The lengthy and ongoing uncertainty over the only recently resolved appointment of a new Retirement Commissioner was compounded by the absence of the previous Retirement Commissioner for large periods of the usual

review preparation period. In addition, there was delay and challenges with important census data updates, and the Treasury’s Long Term Fiscal Statement (LTFS) modelling not being due until 2020. Consequently, we have not had the benefit of some usual foundations to support the review process and thinking. Some of these timings have been due to unique circumstances that have been unavoidable for all parties, while some have been due to changes in sequencing of information and processes that were in fact initially intended to assist these reviews. For example, the report we quote from in chapter one, into the history of the establishment of the Retirement Commissioner role and, preceding that, of the establishment of National (now NZ) Superannuation notes that the LTFS was specifically intended to be provided for these reviews.

Another consideration is worth noting: it is clear from the commissioned research into the history of reviews that the intention of previous governments and across the political parties which collaborated through the Accord of 1993 and beyond was that reviews should be regular but sequenced away from election cycles. This was in order to ensure that retirement income policies were decoupled as much as possible from short term political considerations, and to avoid frequent changes in system settings which would increase uncertainty and hamper New Zealanders’ ability to plan for their retirement. I believe that this risk is playing out to some extent currently, with submissions from the public – as well as the research into wellbeing and lived experiences of today’s 55+ New Zealanders – reflecting higher levels of stress than evident during previous reviews. Many future retirees are worried that they won’t have adequate housing provision, income and/or savings to supplement NZS as it is, let alone should the age of eligibility be raised from 65.

On the other hand, and very importantly in terms of potential for long-term impact for New Zealanders, the timing with the Government’s wellbeing approach is very welcome. Capturing the opportunity presented by this lens will help ensure we stay focused on a sustainable retirement income system that includes fiscal sustainability criteria, but also reflects the social and cultural values of our society and represents the best package of support and systems for all New Zealanders. This is so that, whatever their

age, everyone has clear opportunity to prepare for their eventual retirement, and to enjoy whatever retirement years they attain. How long that is may be the big unknown for us all, but we should all be able to be confident that, whether we have months or many years in retirement, a good standard of living is our future, with people to love, somewhere to live and adequate income and support available to maintain appropriate standards of living.

Having said that many whakatauki have guided me this past year, two have been particularly helpful in shaping my approach to this ‘transitional’ review and remaining anchored in the purpose of this work.

Kia whakatōmuri te haere whakamua – I walk backwards in the future, with my eyes fixed on the past.

We’ve taken care to look back to help map the way forward, while recognising the need to future-proof the best of the current system for generations of New Zealanders to come.

Ngā mihi,



**Peter Cordtz**  
Interim Retirement Commissioner  
20 December 2019

**MŌ TĀTOU,  
Ā, MŌ KĀ URI  
A MURI AKE  
NEI FOR US  
AND OUR  
CHILDREN  
AFTER US.**

# 2019

## REVIEW OF RETIREMENT INCOME POLICIES 2019

## TERMS OF REFERENCE

Aspects of retirement income policies the review must address and the topics to be discussed in the Retirement Commissioner's 2019 report:

1. An assessment of the effectiveness of current retirement policies for financially vulnerable and low-income groups, and recommendations for any policies that could improve their retirement outcomes.
2. An update and commentary on the developments and emerging trends in retirement income policy since the 2016 review, both within New Zealand and internationally.
3. An assessment of the impact that the following will have on government retirement income policies, including KiwiSaver and New Zealand Superannuation:
  - a) The changing nature of work, including the increasing number of people who are self-employed and/or working in temporary and flexible jobs;
  - b) Declining rates of home ownership; and
  - c) Changes in labour market participation of those 65 years and older.
4. Information about, and relevant to, the public's perception and understanding of KiwiSaver fees, including:
  - a) The level and types of fees charged by KiwiSaver providers; and
  - b) The impact that fees may have on KiwiSaver balances.
5. Information about the public's perception and understanding of ethical investments in KiwiSaver, including:
  - a) The kinds of investments that New Zealanders may want to see excluded by KiwiSaver providers; and
  - b) The range of KiwiSaver funds with an ethical investment mandate.
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.
7. Information about the public's perception of the purpose and principles of New Zealand Superannuation.
8. An assessment of decumulation of retirement savings and other assets, including how the Government can ensure New Zealanders make the most of their money in the decumulation phase.



**THE PUBLIC SUBMISSIONS REFLECT WHAT NEW ZEALANDERS STRESSED ARE CRITICAL ISSUES.**

## EXECUTIVE SUMMARY

In this report on the 2019 Review of Retirement Income Policies, we address the specific terms of reference set by the Minister of Commerce and Consumer Affairs, as required every three years under section 83 of the New Zealand Superannuation and Retirement Income Act 2001. These are set within a broader outline of the retirement income ecosystems that the questions they give rise to cohabit.

This summary should be read with the full report it accompanies. It is provided with the intention of making the issues and findings covered under the review as accessible for as many New Zealanders as possible, and to respond to their energetic engagement in the review process.

In this summary, we set out our main assessments in response to each of the terms of reference set for the review, followed by any key corresponding recommendations. To understand the rationale behind the assessments, it is important that the full related chapters are reviewed, including the outline of the relevant commissioned research. As importantly, the chapters set out a fairly comprehensive outline of the public submissions we received, reflecting what many New Zealanders stressed to us are critical issues for themselves, their children, grandchildren, parents and grandparents.

The individual terms of reference questions and issues are specifically addressed in each chapter at some length. But the report chapters are not structured in a strictly linear fashion to follow the terms of reference numerically because the terms of reference each contain a number of cross-cutting aspects that depend on each other. This reflects a system that must work together in a coordinated fashion, and whose parts are regularly monitored and evaluated, to ensure that our retirement income system is achieving the objectives that have been set for it by New Zealanders.

## KEY ASSESSMENTS

- NZS is good value for money for the country; it is supported by New Zealanders, and it delivers positive impact for recipients and particularly for those who are in material hardship before they reach 65 years of age.
- For these New Zealanders, NZS delivers a noticeable lift in standards of living. This is a very significant and positive impact that we do not think should be risked for future retirees – at least until policies that can better prepare more New Zealanders for their retirement are delivering more measurable impact.
- Extensive modelling of the effect of raising the age of eligibility is required before we can be sure that it is the most effective mechanism to keep NZS sustainable – and we have time to undertake this through the next review periods.
- There are other options that government should address in the nearer term and that are more pressing than changes to age of eligibility. These include creating a better coordinated and more impactful pre-retirement policy system, so that New Zealanders have the best opportunity to prepare for retirement, and more support for appropriate housing provision at the same time as being able to save and invest outside of the housing market.
- Beyond the question of age of eligibility for NZS, to build greater sustainability of the retirement system long term, we need to look at the wider pre-retirement period when asset accumulation and savings provide the foundation for an independent retirement.
- Greater longevity among the NZ population will result in both costs and economic benefits as working lives extend beyond current thresholds, adding economic activity and generating greater tax revenue. How tax revenue is optimised to ensure the sustainability of NZS is always a question that the Government should be prepared to consider as a primary option, and at least in parallel to considering changes to the age of eligibility.
- Future reviews should report in the year following an election, rather than prior, and should have the benefit of a well-resourced and long-term research programme that is agreed by retirement sector experts and government agencies that are monitored by the Retirement Commissioner.

## OUTLINE OF THE REPORT

In addition to this summary, the report consists of four chapters, plus appendices. Each chapter is built around a cluster of shared themes, including an examination of the specific issues that the relevant terms of reference ask us to address.

### CHAPTER ONE

#### CONTEXT FOR THE REVIEW AND THE ROLE OF THE RETIREMENT COMMISSIONER

The first chapter examines the nature of retirement income policies, why the role of the Retirement Commissioner was established, and the ongoing relevance of the role and triennial reviews. We set out the context for this 2019 review, noting the latest data from the Ministry of Social Development (MSD) on the numbers receiving NZS, and MSD's reporting on the most up to date household income material.

We also take a comprehensive look backwards to the establishment of New Zealand's modern retirement income system from the early 1970s, with the aim of ensuring a shared understanding of why regular reviews were established, and the outcomes and shared themes apparent across reviews. There is remarkable consistency in themes across reviews, many of which continue to resonate in 2019. The issues raised require ongoing monitoring to ensure both the efficiency and sustainability of the system for future retirees.

### CHAPTER TWO

#### PREPARING FOR OUR BEST RETIREMENT

Retirement is a stage we want all New Zealanders to be able to attain, in the best possible health and with the highest standards of living possible. Achieving this requires having had regular employment with income levels that allow people to set aside savings and/or investments to draw on in later life when other income diminishes. The foundation for a secure retirement also requires a house that serves both as place to live and belong within a community, and as an asset, the value of which

can be realised on retirement to supplement income in retirement, while still ensuring appropriate housing.

The second chapter therefore focuses on the pre-retirement system and its impact on NZS and KiwiSaver, by exploring how well it is preparing New Zealanders for independence in eventual retirement. Each element of the system plays a significant role in enabling New Zealanders to make the best preparations for our retirement futures.

### CHAPTER THREE

#### NZ SUPER – GOOD VALUE FOR MONEY

Chapter three addresses terms of reference six and seven, which cover the fiscal sustainability and public perceptions of the purpose of NZS.

Entitled 'New Zealand Superannuation: Value for money', this chapter examines the issues around sustainability of NZS, together with New Zealanders' priorities for the public support we offer to those transitioning to retirement. This needs to be understood as within the context of competing demands for public spending for New Zealanders in other phases of life, and the reality that trade-offs are always required to meet the highest priorities for New Zealanders.

In this chapter we also explore the concept of longevity. The gift of more years from improvements in health and wellbeing should not just be thought of as more years in older age. It is also the lengthening of all stages of life, and the opening-up of more transition points to the next - and potentially new, rather than just slower - phases of life. We like a recent description of longevity as the enlarging of 'the canvas of our lives'.<sup>1</sup>

### CHAPTER FOUR

#### KIWISAVER AND KIWISPEND

As requested by the fourth and fifth terms of reference for the review, our third chapter has a focus on New Zealanders' perceptions of KiwiSaver and on ethical investment options through KiwiSaver. This chapter also looks at

the decumulation side of the savings coin, as requested of us under the eighth term of reference. This is all within the overarching aim of supporting more New Zealanders to save more, so that they have more choice in their retirement, as well as helping the Government to understand what support may be needed to maintain independence and appropriate standards of living for New Zealanders throughout their later years.

### CHAPTER STRUCTURE

Each chapter has a similar structure, with the threefold purpose of: 1) setting out the Terms of Reference and research;<sup>2</sup> 2) sharing the views of the public from their submissions; and 3) outlining the rationale for our recommendations.

In each chapter, we set out a fairly comprehensive summary of what we heard from the public on the relevant topic, as one of our core aims was to amplify the depth and range of New Zealanders' voices on these issues. Through our submission process, we heard from nearly 800 New Zealanders expressing their personal fears and challenges, or suggesting improvements they consider necessary, as they prepare for retirement, or live through it.

### ENGAGING ON THE REVIEW

To ensure that views of the public and those of expert stakeholders could be captured as fully as possible we undertook an extensive online public engagement process through 2019. The terms of reference for the review were highlighted on CFFC website from early in 2019, and we began receiving submissions from March. The number of submissions we received ramped up significantly from August, when we began to put out a series of media releases and videos outlining the critical issues in the review; this was supported by creation of a template for submissions. In response, in total we received 168 submissions via the commission's [review@cffc.org.nz](mailto:review@cffc.org.nz) inbox, and 605 submissions via the online submission form on CFFC website. This included 25 submissions from organisations. We also met with, in person or over the phone, a number of submitters who requested discussion. We are very grateful to all submitters, and particularly to those who gave further of their time to share their stories

or views in person. In addition, we established focus groups and commissioned interviews through Ipsos NZ to help us explore targeted questions of vulnerability in New Zealanders' lived realities, and how this was impacting on their preparation for, or experience of, retirement. The results from the focus groups and interviews were reinforced by much of what we heard from the public through submissions.

We commissioned a series of research reports for the review, to enable thought-leadership and innovation to be harnessed while exploring the issues outlined in the terms of reference for this review. We also sought to add to the body of work on retirement income generally, as a central repository for the public and to continue to build from for future reviews. All reports commissioned for this review are available online at CFFC's website.

In addition to delivering the commissioned research reports, their authors gave further time in providing advice to the review team with insights across the system. The programme director for the review, Kate Riddell, was also guided by a small number of advisors working directly with her to help ensure consistency with and draw together knowledge from past reviews, as well as to help 'sense-test' future priority work areas. Particular thanks in this regard must go to Associate Professor Susan St John and Dr Claire Dale from the Retirement Policy Research Centre (RPRC, University of Auckland Business School); to Professor Jennifer Curtin from the Public Policy Institute (PPI, University of Auckland); to Dr Kay Saville-Smith of the Centre for Research, Evaluation and Social Assessment (CRESA); to Professor Fiona Alpass and Dr Joanne Allen from the Health and Ageing Research Team (HART, School of Psychology, Massey University); to David Tikao, Executive Director Whai Rawa, Te Rūnanga o Ngāi Tahu; to Geoff Pearman, Managing Director, Partners in Change; to Mary Holm, particularly for her support on KiwiSaver aspects; to Dr Simon Chapple, Institute for Governance and Policy Studies (Victoria University of Wellington School of Government); and finally to Alison O'Connell and Malcolm Menzies, both of whom had lead roles in previous reviews and have very generously supported the programme director in this review.

<sup>1</sup> The Conversation, 25 November 2019, Australian edition.

<sup>2</sup> The commissioned research reports are online at CFFC's website, together with CFFC's own research.

The intention by the review team had been to establish a formal Expert Advisory Group to guide the incoming Retirement Commissioner, considering the sequencing of transitioning between commissioners and the delayed start to getting the review underway. But as events played out, the new Retirement Commissioner was not appointed in time to take over the lead for this review, so we were not able to move ahead with establishing the formal advisory group. The intention remains, however, to establish such a group to provide guidance to the new Retirement Commissioner and their office on options to innovate and evaluate retirement outcomes, to guide the future research programme, and to help ensure there is a strong network of voices independent of the commission and of government on these critical issues for New Zealanders.

In designing and implementing our engagement plan for the review, we aimed for maximum accessibility and broad reach. These issues are important to both the nation as a whole – and as chapter one outlines, have been politically sensitive in the past – and to the lives of individuals. The importance of the issues to New Zealanders was reflected in both the volume and tone of submissions received, and is reflected across the research for the review. A fuller description of the process we have undertaken for engagement on the review is outlined in chapter one.

THE IMPORTANCE OF THE ISSUES TO NEW ZEALANDERS WAS REFLECTED IN BOTH THE VOLUME AND TONE OF SUBMISSIONS RECEIVED, AND IS REFLECTED ACROSS THE RESEARCH FOR THE REVIEW.

# 2019 RRIP

## THE TERMS OF REFERENCE FOR THE REVIEW AND SUMMARY OF OUR KEY OBSERVATIONS AND RECOMMENDATIONS IN RESPONSE

In this section, we provide a summary of key findings and recommendations for each of the specific term of reference and across the themes.

### ONE

An assessment of the effectiveness of current retirement policies for financially vulnerable and low-income groups, and recommendations for any policies that could improve their retirement outcomes.

- 1.1.** Our assessment for term of reference one is grouped with our assessment for term of reference three, below.

### TWO

An update and commentary on the developments and emerging trends in retirement income policy since the 2016 review, both within New Zealand and internationally.

- 2.1.** A comprehensive outline of the history of reviews up to 2019 is outlined in chapter one, which also provides an update and commentary on developments in recent years. This is also picked up further in chapter four in terms of comparison of international decumulation models.

### THREE

An assessment of the impact that the following will have on government retirement income policies, including KiwiSaver and New Zealand Superannuation:

- a) The changing nature of work, including the increasing number of people who are self-employed and/or working in temporary and flexible jobs;
- b) Declining rates of home ownership; and
- c) Changes in labour market participation of those 65 and older

- 3.1.** Our assessment for terms of reference one and three, in terms of impact on NZS, is that:

- Firstly, we believe that it is clear from the evidence that NZS is working effectively to support New Zealanders to maintain a foundational standard of living. We estimate that 15-20% of those retiring experience significant levels of material deprivation prior to receiving NZS. It is clear that NZS has helped to improve their material standards of living, and also their mental and social wellbeing. NZS is, in effect, the backstop intervention that addresses inequalities experienced and accumulated during New Zealanders' lives. We should recognise and celebrate the very significant and positive impact of NZS, particularly for vulnerable New Zealanders.
- Second, at the same time as noting the value and positive impact of NZS, we are concerned that the percentage of New Zealanders who are vulnerable to poorer outcomes in their future retirement is growing. In other words, the profile of today's NZ Superannuitants should not be assumed to set the template for how future retirees will look even in the near term.

- We therefore do not think that the best step in terms of addressing vulnerability and improving retirement outcomes for more New Zealanders is to focus at this point in time on raising the age of eligibility, nor that taking this step would necessarily achieve the intended outcomes, or at least not without putting significant costs elsewhere on the system.
  - In addition we believe raising the age of eligibility in the next two to three decades could significantly risk heightening equity issues for those groups of New Zealanders whose lower life expectancies mean they are not able to enjoy the benefits NZS delivers for comparable periods for New Zealanders generally. This includes Māori and Pacific New Zealanders, for whom life expectancy rates are still significantly lower than the national average. While, from current demographic trends, rates for both look likely to gradually catch up over the coming twenty years, we believe that it would not be consistent with the Treaty and general principles of equity and fairness, nor fair or efficient by other measures, to raise the age of eligibility for NZS just as more Māori and Pacific New Zealanders start to be able to access and benefit from it for longer periods.
  - Hence, **we recommend that NZS should be retained on current settings**, at least until more equitable retirement outcomes are achieved for all New Zealanders. The focus in the near to medium terms should first be on lifting retirement outcomes through improved impact from the pre-retirement system, and particularly through ensuring adequate employment and incomes to enable savings and asset accumulation, and housing support that provides New Zealanders with appropriate options as to where they live throughout their life course.
- 3.2.** More specifically on employment and housing and their impact on NZS, our specific chapter two recommendations include that the Government should:

- **Establish a new government ‘employment connection’ service** to sit between the Ministry for Social Development (MSD) and the Ministry for Business, Innovation and Employment (MBIE), focused on providing practical support and specific job and skills-matching services for any New Zealander who needs support to connect to their next job. We believe this would be helpful for employers in many parts of New Zealand also, as with the changing nature of work, we think a direct employment connection service is needed more than ever to help employers to connect with those people in their region or city with the skills and experience that their business needs now, and into the future.
  - **Establish additional forms of housing support** for low and middle-income New Zealanders who will be retiring over the coming twenty years who:
    - » are reliant on selling their house to supplement their income in order to maintain standards of living but will not likely be able to afford to buy a home in the same area, if at all, or
    - » who don’t own a house and have inadequate levels of savings or other assets to offset this.
  - Maintenance of NZS at current settings and provision of additional support for housing are going to be of critical importance for both groups, if we are to avoid risking declining living standards for a significant number of New Zealanders in the coming decades.
- 3.3.** In terms of impact on KiwiSaver from changes in these aspects of the retirement income system, our chapter recommendations focus on:
- ensuring KiwiSaver is working as effectively as possible for its target savers, ie those New Zealanders who would otherwise not save enough to maintain standards of living, including self-employed New Zealanders, and
  - considering other ways to lift incomes and therefore saving as an option for the lowest income New Zealanders.
- 3.4.** More specifically, for impact on KiwiSaver from changes in the nature of work, of changing participation of older workers and from declining rates of home ownership, **our recommendations for change include:**
- **Introducing ‘Small Steps’ to automatically default new members**, and as an option for current members, into small, annually stepped, contributions, rising by 0.5% on each 1 July, up to a cap of 10%;
  - **Targeting the Government contribution to more effectively incentivise voluntary (non-employee) contributions;**
  - **Phase in employer contributions for members aged over 65, and consider implications of doing so for those aged under 18 also;**
  - **Phase out the inclusion of KiwiSaver in total remuneration packages;**
  - **Establish a centralised financial capability hub for hardship applications;**
  - **Add a sidecar savings facility to KiwiSaver for short-term emergencies;**
  - **Auto-enrol beneficiaries in KiwiSaver through a government contribution;**
  - **Undertake modelling of the potential range of impacts from removing the current KiwiSaver owner-occupier requirements;**
  - **Explore options to support collective pooling of savings**, to enable families/collectives whose individual members can’t access a mortgage, to use their collective leverage to reach home ownership
  - **Consider the introduction of care credits for New Zealanders** otherwise having to stop or minimise their contributions to KiwiSaver due to caring responsibilities requiring them to leave or suspend employment.

## FOUR

Information about, and relevant to, the public’s perception and understanding of KiwiSaver fees, including.

- a) The level and types of fees charged by KiwiSaver providers; and
- b) The impact that fees may have on KiwiSaver balances.

**4.1.** It is clear from the submissions we received that a significant section of KiwiSavers feel they are being charged excessive fees, and while others understand that fees are an inevitable part of investing, many are not sure how to calculate what is a fair fee for a fair return. In addition, many submitters don’t understand the level of fees set or how much they will pay over the course of their KiwiSaver, and don’t feel they have full disclosure to understand the range of choices available to them.

**4.2.** To address these gaps, **we recommend:**

- **Excluding fixed fees from low-balance KiwiSaver accounts.**
- **Displaying fee projections on annual member statements, together with a comparison to the average for that type of fund.**
- **Improving disclosure around share investing in KiwiSaver, and**
- **Making prescribed investor rates (PIR) tax refundable.**

## FIVE

Information about the public’s perception and understanding of ethical investments in KiwiSaver, including:

- a) The kinds of investments that New Zealanders may want to see excluded by KiwiSaver providers; and
- b) The range of KiwiSaver funds with an ethical investment mandate.

**5.1.** It is clear from the submissions we received that a significant section of KiwiSavers and others want more choice and more transparency as to where and what their money is invested in.

**5.2. We therefore recommend that the recently launched charity, Mindful Money - which promotes ethical investment options - should be resourced by Government.** Funding Mindful Money directly would erase any potential conflicts of interest through requiring providers to cover switching costs as currently. While conscious that the regular process would be to go to tender first, we think in terms of efficiency and cost, and considering that the public want information now so that they can make informed choices that align with their personal values, funding Mindful Money is the most efficient and simple step for the Government to take.

## SIX

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.

- 6.1.** Our assessment in chapter three of the impact of current retirement income policies on current and future generations is, as already heralded in chapter 2, that:
- NZS is effective at delivering a lift in standards of living for the most vulnerable New Zealanders on current settings. While expensive, it delivers good value for money, and should be secured for future generations.
  - NZS is affordable on current settings and projections at least for the medium term (through to mid-century). This means that we still have the advantage of adequate lead time to undertake the extensive modelling that we believe is required to know with more certainty what the effect of raising the age of eligibility would likely be, including on those New Zealanders who are most vulnerable to poor outcomes in retirement, and before taking decisions that risk the stability and positive impact of NZS in the meantime, or that increase stress for younger New Zealanders who already worry they will miss out on NZS. The next reviews of the retirement income system should be resourced in order to lead this work.
  - If the Government does not agree with this assessment as to affordability of NZS in the medium term, then there are other options that should be considered as well as considering changes to the age of eligibility. These include changing tax rates for all or some New Zealanders, for example to claw back more NZS from wealthier recipients than from less wealthy, length of residency for eligibility, international pension agreements, and exploring options to develop innovation leading to economic growth from the increase in longevity.

- While changing the age of eligibility at a future point may be a logical option then, the focus now should be on improving impact from the pre-retirement policies that could and should help New Zealanders to prepare for their retirement.
- Therefore in the meantime, a purpose statement for New Zealand's retirement income system should be developed, so that we all have certainty as to what the system is aimed at achieving, and who within government is responsible for each part of it, as well as for the whole. Developing a shared view of what makes up our broader retirement income system, and to what ends, will enable identification of what is working well and could be ramped up, and what gaps should be bridged as a priority. This way the Government's retirement system could be shifted to deliver increasingly effective support, in a systemic manner, for all New Zealanders while understanding the trade-offs that should be weighed together.

## SEVEN

Information about the public's perception of the purpose and principles of New Zealand Superannuation.

- 7.1.** Alongside our assessment of the impact of retirement income systems with regard to fiscal sustainability, we also include in chapter three information about the public's perception of NZS. This is not only to meet the seventh term of reference but because it is necessary to balance fiscal sustainability with other considerations, such as effectiveness and value to New Zealanders.
- 7.2.** Indeed, the public was anxious to tell us their views on the purpose of NZS. Many of our submitters stressed that they see NZS as, at the least, aimed at ameliorating poverty, if not to provide a comfortable, if basic, standard of living. Moreover, there is a clear consensus that NZS is valued by New Zealanders. We think it is important to capitalise on this consensus.
- 7.3.** To this end, as noted above, **we recommend that a purpose statement for New Zealand's retirement income system is advanced by the Retirement Commissioner**, in consultation with the public, government agencies and expert stakeholders. We will action this as soon as feasible, commencing early in 2020 and as part of the development of the Commission's new Statement of Intent that covers the period through to 2024.

## EIGHT

An assessment of decumulation of retirement savings and other assets, including how the Government can ensure New Zealanders make the most of their money in the decumulation phase.

- 8.1.** In contrast with the wide agreement among New Zealanders of the value of NZS, we cannot yet see any consensus on how government can best support New Zealanders to manage their own assets and savings through the decumulation phase of life. While some say they would welcome advice and support from the Government to help them manage decumulation, others said that they want no role for the Government in helping them manage their own money or constraining how or when it could be spent.
- 8.2.** There is also confusion about what choices are available for New Zealanders, and where to go for neutral information to support money-management decisions through the decumulation stage of life. We think that more work is needed to know what assistance to manage savings and income New Zealanders need or want for the decumulation phase of their lives.
- 8.3.** We therefore note the intention for the Retirement Commissioner to advance a decumulation work programme, including:
- convening an Expert Advisory Group to explore a range of options for Government to consider, including outlining existing and potential demand for new products such as annuities or reverse mortgages, as well as helping understand the costs to the public of further government intervention beyond NZS, and
  - ongoing consultation with the public to ensure a strong focus on understanding the range of challenges that New Zealanders continue to face in decumulating their savings and assets, considering the unknown longevity factor every person faces.

# REVIEW OF RETIREMENT INCOME POLICIES 2019

## NEXT STEPS

### CO-ORDINATION AND MONITORING

In addition to the various challenges of the past year with the role of the Retirement Commissioner, there have been some interesting timing alignments and mis-alignments, that mean significant aspects of the retirement income system, or changes in the system that could impact on how government delivers for New Zealanders, have been under consideration by parts of government in parallel with this review. These parallel investigations and work programmes include:

- **The public sector reforms** that have been announced in 2019 and for which legislation has recently been introduced into the House and is currently at Select Committee. These reforms have the potential to create significant impacts as they establish new cross agency mechanisms to drive action and collectively own impact from government interventions.
- Work towards publication in the first quarter of 2020 of **Treasury's Long-Term Fiscal Statement modelling**; along with the 2020 Budget, this will provide an update on the projected costs to the Government of meeting commitments such as NZS, compared with the Government's expected tax take, likely cost pressures and demographic trends. It is unfortunate that the timing of this review and the LTFS update have not aligned, and we recommend that future reviews and the LTFS modelling timelines are specifically-aligned. However, based on the information that is available, we understand that long-term demographic trends and associated cost projections are likely to be fairly stable. Our recommendations have been closely guided by this understanding.
- **The Productivity Commission's work into 'Technological change and the future of work'**. This programme seeks to address two broad questions asked by Government:

- » What are the current and likely future impacts of technological change and disruption on the future of work, the workforce, labour markets, productivity and wellbeing?
- » How can the Government better position New Zealand and New Zealanders to take advantage of innovation and technological change in terms of productivity, labour-market participation and the nature of work?

There is a clear alignment between these questions and the first and third terms of reference for this review, though again the timing is mismatched, with the final reporting from the Productivity Commission not due until the first quarter of 2020. CFFC will seek to include the outcomes of that work into our future work programme, where appropriate.

- **The Minister of Social Development's Bill to amend the New Zealand Superannuation and Retirement Income Act** is currently before Select Committee and will not be reported back to the House until 2020. This Bill covers a range of matters that are related to aspects of this review and that we received submissions on from the public and expert stakeholders. These issues include: spousal and direct deduction policies of overseas pensions, non-qualified partner rates, the differences between single-sharing and married-sharing rates of NZS, and eligibility of New Zealanders for NZS who are resident overseas but paying tax in New Zealand. We have not had the capacity to investigate each of these issues as fully as would be required to make recommendations ahead of the progress of the Bill, so we will instead follow the progress of the Bill closely and work with MSD to pick up outstanding issues.

- Also very relevant is the **promised development of action plans in 2020** under the Office for Seniors 'Better Later Life' Strategy, and the Government's 'Employment Strategy', being led by MBIE. In addition to these specific action plans, there is a broad range of work programmes underway across agencies that are of both general and specific relevance to New Zealanders' retirement outcomes. These include the Ministry for Pacific Peoples 'Pacific Aotearoa: Lalanga Fou' report and approach to supporting improving outcomes for Pacific communities, Te Puni Kōkiri's Whānau wellbeing and whānau-centred policy approach across their work to deliver better outcomes for Māori, the Ministry for Women's work programme on the gender pay equity gap, as well as a broader work programme to enhance outcomes for women, and the Ministry of Housing and Urban Development's work programme to support every New Zealander to have a place to call home.
- We are also mindful of the partnership between the Government, Council of Trade Unions and Business NZ under the Tripartite Future of Work. This has a focus on technological progress and demographic change as two of its four main focus areas, and both of which are very relevant to preparation for retirement, as well as work programmes on lifelong learning, and on managing risk and impacts of displacement on workers<sup>1</sup>.
- We note also the work underway by the **Human Rights Commission exploring in-work poverty and supporting pay transparency** to help create a fairer employment environment and improved incomes for vulnerable New Zealanders, and
- Also more broadly relevant is the Government's ongoing evolving **response to the recommendations of the Welfare Expert Advisory Group (WEAG)** and any further **response by government to the recommendations of the Tax Working Group**.

The Retirement Commissioner has a clear mandate under the legislation to monitor and coordinate across the Government retirement

income system. But the above list of activities underway in parallel with the review, many of which have at least some direct relevance to the review's terms of reference and vice versa, shows that coordination across the Government retirement system is not very strong. We believe this lack of coherence across the system needs to be addressed as a priority, and therefore support the intention of the public sector reforms.

In the same spirit as the public sector reforms, we also feel there is a missed opportunity in having the Retirement Commissioner report only into the Commerce and Consumer Affairs portfolio, through MBIE. This reporting line makes good sense for KiwiSaver, and we acknowledge that the innovation and bedding in of KiwiSaver since its commencement in 2007 needed to be a priority focus. But the reality is that Social Development is the most relevant portfolio to NZS and its supporting legislation. Together with the other benefits the Government provides through MSD, NZS needs to be carefully aligned and monitored in concert with KiwiSaver to ensure that changes and refinements of any one part have the intended outcomes across the whole.

**We therefore believe the governance for the Retirement Commissioner needs to be through both the Social Development and Commerce and Consumer Affairs portfolios**, rather than through either one of these portfolios, and supporting agencies, in isolation of the other. We suggest that regular meetings between the Retirement Commissioner and the Ministers of Social Development and Commerce and Consumer Affairs would be valuable, and that both Ministers should work with the Retirement Commissioner to jointly establish terms of reference for future reviews.

More generally, more deliberate monitoring and coordination of the whole retirement income system is critical to ensuring that all of the various current workstreams noted above – and no doubt other work underway across government – are aligned and delivering the most efficient and desirable outcomes for New Zealanders. Any issues that risk effectiveness for New Zealanders should be identified in a timely manner, and with commensurate options to address developed in a way that takes into account interactions throughout a complex system. This greater coordination within the

retirement system should be implemented immediately rather than await implementation of the wider public sector reforms.

We therefore set out in the remaining paragraphs of this summary the actions CFFC, as the Office of the Retirement Commissioner, will take to enable a better-aligned, whole of government, retirement income system that works for New Zealanders, and is based on a firm understanding of their realities:

- The Retirement Commissioner will, as a priority in 2020, work to establish a Senior Officials' Group at Deputy Chief Executive level across the core government agencies that can make the most difference to retirement outcomes. This group should commit to meeting regularly, to ensure a collective view of the Government's retirement income programme can be quickly built.
- This group will help the Retirement Commissioner to shape a three-year (and ideally, ongoing) research and evaluation programme. This is so a shared view of the impact of policies is established in time for the next review, and where impact is not being achieved, priorities are established to address the shortfall.
- In parallel, an Expert Advisory Group will be established to ensure ongoing input from experts outside of government. This group will help the Retirement Commissioner test options for a policy statement on the purpose of New Zealand's overarching retirement income system, and will also bring their networks to help inform design and support engagement with specific communities and the broader public.
- With the support of both senior officials and expert advisors, the Retirement Commissioner will work to develop a policy statement on the purpose of New Zealand's retirement income system. This will need to be supported by an ongoing programme of engagement with the public, to ensure that a purpose statement articulates what it is about NZS that is most valued by the public and aligns with New Zealanders' values.
- At the same time, recognising that three yearly reviews are not regular enough to advance the most pressing priorities, the

Retirement Commissioner will work towards providing regular updates to both the public and to government with a snapshot of highlights, new actions and identified gaps for pressing attention.

- In terms of broader process, **we recommend that the regular review cycle should be specifically amended to fall in the year after an election, rather than prior**. We make this recommendation as it is clear from the commissioned research into the history of reviews (set out in chapter one) that the intention of previous governments and across the political parties who collaborated through the 1993 Accord onwards, was that reviews should be purposefully sequenced away from election cycles.

In conclusion, we make our assessments and associated recommendations with the ultimate aim of ensuring retirement income policies are as effective as possible for New Zealanders. At the same time our role is to help the lead government agencies to align and enable delivery across the system and not just within the activity and pressures that individual portfolios inevitably face.

Our assessments and recommendations are made within the context of the Government's prioritisation of the wellbeing approach. Capturing the opportunity presented by this lens will help ensure we stay focused on a sustainable retirement income system that includes fiscal sustainability criteria, but also reflects the social and cultural values of our society and represents the best package of support and systems for all New Zealanders of this and future generations of retirees. We want to ensure that, whatever their age now, everyone has clear opportunity to prepare for their eventual retirement, and to enjoy whatever retirement years they attain. We should all be confident that, whether we have months or many years in retirement, a good standard of living is our future.

<sup>1</sup> see <https://treasury.govt.nz/information-and-services/nz-economy/tripartite-future-of-work-forum>

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**REVIEW OF  
RETIREMENT  
INCOME  
POLICIES  
2019**



**CHAPTER**  
**ONE**  
**RETIREMENT INCOME  
POLICIES AND THE ROLE  
OF THE RETIREMENT  
COMMISSIONER**

## RETIREMENT INCOME POLICIES AND THE ROLE OF THE RETIREMENT COMMISSIONER

### TERM OF REFERENCE 2

An update and commentary on the developments and emerging trends in retirement income policy since the 2016 review, both within New Zealand and internationally.

### TERM OF REFERENCE 7

Information about the public's perception of the purpose and principles of New Zealand Superannuation.

In this chapter, we set the scene for why New Zealand's retirement income system is structured the way it is. This requires us to look back at the history of our retirement income system, including why the role of the Retirement Commissioner was established to coordinate across the system and monitor impact. We lay out the current data on NZ Superannuation (NZS), and the likely future trends and costs, in order to explore why affordability of NZS is often assumed to be the critical question.

We then provide an extensive outline of the history of reviews, as we believe that setting out this history is an important contribution of this review. We finish with an outline of the process we undertook for this review and the steps that the Retirement Commissioner and their office intend to undertake over the coming year to reinforce the retirement income system to the extent that we can do this as an Autonomous Crown Entity, with responsibility for coordination and monitoring, but without responsibility for leading any policy development specifically. First, though, we

start by explaining what we mean by 'retirement' and what is included under the general header of 'retirement income policies'.

### DEFINING RETIREMENT FOR THE 21ST CENTURY

Until recently, retirement has generally been taken to mean finishing paid employment and retiring from the labour force. However, we think that for many New Zealanders retirement no longer happens at a significant moment but is a gradual transition from earning new income to instead spending down what income has been earned and saved or invested previously. As described in the submission from the New Zealand Association of Actuaries: 'The term "retirement" is used ... for the phase of life when most people do significantly less or no paid work and generally need income from their savings or other sources. While some individuals may transition from full employment to being fully retired on a specific, pre-planned day, the reality is rarely this straightforward<sup>1</sup>.'

Retirement is a relatively recent phenomenon itself, emerging over the last 130 or so years as life expectancy increased in many of the countries that now make up the Organisation for Economic Co-Operation and Development (OECD). Increases in longevity meant that, heading towards the turn of the twentieth century, more older people were surviving beyond their ability to work than had been the case for previous generations. A new challenge was emerging of how to support these longer-lived citizens no longer able to work.

Following Germany's lead of a decade earlier, New Zealand introduced an old aged pension from 1898, through the 'Act to Provide for Old-Age Persons'.<sup>2</sup> This was in response to the rapidly changing proportion of over 65s in the New Zealand population, which tracked from only 1.3% in 1881, to close to double that at 2.1%

<sup>1</sup> 'Retirement income policy in New Zealand: A discussion of context and principles', submission to the 2019 Review of Retirement Income Policies by the Retirement Income Interest Group of the New Zealand Society of Actuaries, September 2019, page 1. Submission is publicly available at [https://actuaries.org.nz/nz-super-works-well-but-increasing-longevity-puts-kiwis-retirement-savings-at-risk/?tribe\\_event\\_display=past](https://actuaries.org.nz/nz-super-works-well-but-increasing-longevity-puts-kiwis-retirement-savings-at-risk/?tribe_event_display=past)

<sup>2</sup> A thorough history of the old aged pension has been set out in previous reviews, and particularly in the work of David Preston in his 2008 background paper for the Commission David Preston, Retirement Income in New Zealand: the historical context, 2008 and available at <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/Background-papers/History-and-trends/27b4c9b6d8/RI-Review-BP-Retirement-Income-History-2008.pdf>

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by 1891, and to 3.8% by 1901. Not everyone over 65 was eligible for the pension under the 1898 Act, and there were significant hardship tests imposed; thus the pension was initially founded on the basis that some state support would be provided for some over 65 year olds, if they could no longer work and earn to support themselves.

In contrast, today many over 65-year old New Zealanders are still working and earning independently, while we need to acknowledge also that many others undertake very valuable, if often unpaid, work within their communities. Conversely, in terms of an age boundary (with the exception of a very small number of specific roles), there is no legal age of retirement in New Zealand law, and people can choose to retire from work at any age before or after 65. This calls into question the specific coupling of 'retiring' with turning 65 and becoming eligible for NZS. For much of this report therefore, and as noted in the Forward, we have steered away from using 'retirement' or 'retiree' as our categorisation of NZ Superannuitants. The

reality is, whether they continue to work through choice or necessity, many NZ Superannuitants are simply not retired.

Indeed it is becoming clear that the language of retirement is outdated both in terms of legal implications and the public discourse. There is a need to begin a process to identify language that better reflects the realities for older New Zealanders as being the tuakana or mentors of our society, while on the path to becoming our kaumātua

or elders. We don't think that in effect New Zealanders retire from much, rather they transition to new or different things and the lived reality is much more dynamic than the phrase 'retirement' implies. Still, the legislation is entitled the 'New Zealand Superannuation

and Retirement Income Act', and the Commissioner is termed the Retirement Commissioner, so we don't think we are free to disregard the term. We therefore use it where we think appropriate, but will continue to engage with the public to identify more relevant 'retirement' language for New Zealand in the 21st century.

In terms of the historical landscape, the other change worthy of note in these introductory comments to the context is of the introduction of KiwiSaver in 2007. This has been the single biggest change in our retirement income system in recent decades, since universal National Superannuation (now New Zealand Superannuation) was established in the 1970s.

As previous Retirement Commissioner Diana Crossan noted in 2008, just after the commencement of KiwiSaver:

'The biggest change of all for retirement provision has been the 2007 introduction of KiwiSaver. New Zealand now has a second major policy plank in retirement living standard provision. The KiwiSaver contributory cash accumulation schemes assisted by government and employer contributions are a distinct break with the policies of the previous two decades. Further, the changes in the taxation laws applicable to investment funds classified as Portfolio Investment Entities has made these managed funds potentially much more attractive investment options for many investors.'<sup>3</sup>

## THERE IS A NEED TO BEGIN A PROCESS TO IDENTIFY LANGUAGE THAT BETTER REFLECTS THE REALITIES FOR OLDER NEW ZEALANDERS.

<sup>3</sup> Foreword by Diana Crossan, to 'Retirement Income in New Zealand: the historical context' by David Preston, commissioned by the Retirement Commission, December 2008.

## WHAT COMPRISES NEW ZEALAND'S RETIREMENT INCOME POLICIES?

New Zealand Superannuation (NZS) and KiwiSaver are at the heart of our retirement income system. But they are necessarily supplemented by a large number of policies and regulations, some of which have a direct line of sight to retirement, and some of which do not have retirement outcomes at the forefront of their design but still impact, sometimes significantly, on how well New Zealanders are supported to prepare for retirement. A broad range of government policy and regulatory leads are relevant, from MSD and MBIE, the Financial Markets Authority, Statistics NZ, the Treasury, Te Puni Kōkiri, Inland Revenue Department, Ministry for Pacific Peoples, Ministry of Housing and Urban Development, Ministry for Women, Department of Internal Affairs and Local Government New Zealand, Ministry of Health, Ministry of Education and the Tertiary Education Commission, just to name the most obvious agencies of relevance to eventual retirement outcomes. In reality, as 'retirement' is a phase of life - just like childhood, the teenage years, or middle-age - any government policy that impacts on how New Zealanders live or transition through life stages will have an impact on retirement outcomes. As the New Zealand Association of Actuaries describes it: 'Many areas of policy affect retirement income outcomes including those governing entitlements to statutory benefits, employment, taxation, financial services regulation, healthcare, aged care and more... [Moreover] Individual lives are complex, and there is no standard path to, or through, retirement. Health, life choices or financial shocks can make large differences to retirement outcomes.'<sup>4</sup>

Under the New Zealand Superannuation and Retirement Income Act 2001 (NZSRI Act), the role of the Retirement Commissioner is set out at section 83c) '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, in accordance with section 84'. This is the fifth review by the Retirement Commissioner under this legislation. Meanwhile, also under section

83 of the NZSRI Act, the ongoing functions of the Commissioner are:

- '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...
- b) to monitor the effectiveness of retirement income policies that are being implemented in New Zealand...'

It is clear in the legislation, therefore, that the Retirement Commissioner has a responsibility to help improve the effectiveness of and to monitor retirement income policies on an ongoing basis, including but not restricted to years the Review takes place.

## WHERE WE ARE AND WHERE WE'RE HEADING

New Zealand is undergoing a demographic change: an increase in the number of older people, an associated increase in the proportion of older people in the population, and an increase in longevity, or how long New Zealanders live beyond age 65. For example, according to the New Zealand Society of Actuaries' latest data, the number of people aged 65 years and older (currently around 700,000), will double by the early 2040s, while the number of people aged 90 years and older (currently around 31,500), will double by the mid-2030s and quadruple by the mid-2040s.<sup>5</sup> This means several things: there will be more diversity within the over 65 'older' age group, with more 'older old' New Zealanders, as well as more 'younger old'. Every person's experience within what could be 30 to 40 years over 65 will be unique; more people will be receiving NZS and will likely receive it for longer.

Already, according to Statistics New Zealand, the number of people aged 65 plus has doubled since 1988, and:

'is projected to double again by 2046. It is expected there is a 90 percent probability that there will be 1.32-1.42 million people aged 65+ in 2043, and 1.62-2.06 million in 2068.

<sup>4</sup> 'Retirement income policy in New Zealand: A discussion of context and principles', submission to the 2019 Review of Retirement Income Policies by the Retirement Income Interest Group (RIIG) of the New Zealand Society of Actuaries, September 2019, page 3. Submission is publicly available at [https://actuaries.org.nz/nz-super-works-well-but-increasing-longevity-puts-kiwis-retirement-savings-at-risk/?tribe\\_event\\_display=past](https://actuaries.org.nz/nz-super-works-well-but-increasing-longevity-puts-kiwis-retirement-savings-at-risk/?tribe_event_display=past)

<sup>5</sup> RIIG (2019). 'Longevity in New Zealand: Implications for Retirement Income Policy' Retirement Income Interest Group of the New Zealand Society of Actuaries, October 2019 submission to the 2019 Review of Retirement Income Policies, page 10. Submission is publicly available at [https://actuaries.org.nz/nz-super-works-well-but-increasing-longevity-puts-kiwis-retirement-savings-at-risk/?tribe\\_event\\_display=past](https://actuaries.org.nz/nz-super-works-well-but-increasing-longevity-puts-kiwis-retirement-savings-at-risk/?tribe_event_display=past)

By 2032, it is expected that 20–22 percent of New Zealanders will be aged 65+, compared with 15 percent in 2016. By 2050, this proportion is expected to reach 21–27 percent and reach 24–33 percent by 2068.

This means that for every person aged 65+, there will be about 2.8 people aged 15–64 in 2035, 2.4 in 2055, and 2.0 in 2068. This compares with 4.4 people in 2016 and 7.1 in the mid-1960s.<sup>6</sup>

MSD figures show that around 94% of New Zealanders over the age of 65 received NZS in 2019. At the end of March 2019, there were 774,651 recipients of NZS (including 13,231 non-qualified partners (NQP)) and 7108 recipients of the Veterans Pension (VP). This meant expenditure in the year ended March 2019 of over \$14,492,577,000 (ie, nearly \$14.5 billion) before tax on NZS, Veterans Pension and NQP.<sup>7</sup>

The Treasury uses Statistics New Zealand's population projections in its 2016 statement on New Zealand's long-term fiscal position, He Tirohanga Mokoopuna. This sets out that spending on NZS will increase to 7.9% gross of GDP in 2060, from the current 4.8% of GDP. As importantly, the costs of financing debt will increase from 1.6% of GDP to 11% of GDP in the same time period, driven in part by increased expenditure on NZS and health due to the ageing population and a necessity to borrow money (assuming taxes are not increased). The statement links future fiscal pressures to the ageing population:

While current government finances remain relatively strong, fiscal pressures are projected to build over the next 40 years. Population ageing is projected to apply pressures through slower revenue growth (resulting from less participation) and increased expenses (primarily through New Zealand Superannuation and healthcare).<sup>8</sup>

Treasury projections are sometimes criticised for not including the tax paid on NZS, a lack of adjustment of tax thresholds due to inflation, and not including the contributions from the New Zealand Super Fund.

### HOW IS NZS PAID FOR AND WHAT IS THE ROLE OF THE NZ SUPER FUND?

It quickly became apparent from the public submissions received for the review that there is a lot of confusion among submitters – and we suspect more broadly – as to the role of the New Zealand Superannuation Fund (NZ Super Fund, also sometimes called the 'Cullen Fund'). Its name leads to some of the confusion, as the NZ Super Fund does not pay for NZS payments yet and will not begin to do so until the 2035/36 financial year, when it will provide 4.5% of the total costs of NZS that year, and then with full disbursements reaching 10% of NZS costs by 2066, peaking at 12.8% of NZS costs in 2078, and averaging 11.2% of NZS costs for the 50 years from 2060–2110.\*

So the NZ Super Fund does not yet fund NZS, but rather has been investing since it was established under the NZ Superannuation and Retirement Income Act 2001, to assist with covering the projected cost increases of future NZS. Government contributions to the NZ Super Fund were suspended from between 2009 and 2017. In December 2017 contributions resumed, with an initial payment of \$500 million planned for the financial year to 2018.

NZ Super Fund is the 'SAYGO' (Save As You Go) part of our public retirement income system, as NZS is, until 2035/36 financial year, entirely funded by today's taxes ('PAYGO' – Pay As You Go), and then from 2035/36 is still mostly funded through the tax take of the day.

The Guardians of New Zealand Superannuation is the independent Crown entity tasked with ensuring that the NZ Super Fund is managed and administered effectively. The intention of the fund is to, in its own words, 'smooth

out the increasing future cost of Superannuation' \*\* which is important in the context of longer life expectancy.

In sum, 'The New Zealand Superannuation Fund (NZ Super Fund) invests money on behalf of the Government, to help pay for the increased cost of universal Superannuation entitlements (New Zealand Superannuation) in the future. By doing this the NZ Super Fund adds to Crown wealth, improves the ability of future Governments to pay for Superannuation, and ultimately reduces the tax burden of the increasing cost of providing universal Superannuation on future New Zealanders.... We [the NZ Super Fund] play an important part in covering the cost of the increasing percentage of New Zealanders who will reach retirement age in the coming decades, but we are just part of the picture. Taxes contributed in each respective year will continue to make up the bulk of cash required for Superannuation payments.'\*\*

\* NZSF submission to review 'Smoothing the future cost increases of providing universal Superannuation to New Zealanders', pages 5-7, see <https://nzsuperfund.nz/>

\*\* NZ Super Fund submission, page 3.

The Treasury's 2016 projections have been updated in this year's half Year Economic and Fiscal Update (HYEFU) 2019, and this gives a projected net cost of 6.6% of GDP by 2060. It is important to note we are using the net figure here as we believe that it is the net figure, rather than the gross figure of 7.9%, that shows the true cost to the taxpayer.<sup>9</sup>

Meanwhile, a calculation by the Council of Trade Unions, included in their submission to the Review, concludes that the net fiscal costs of NZS will rise to 5.9% (net) of GDP in 2060,

rather than 6.6% as projected by the Treasury. Obviously the updated projections from Treasury in 2020 will provide more certainty, but the accepted trends confidently look to be less than 7% net of GDP by 2060.

### WELLBEING AMONG NZ SUPERANNUITANTS TODAY

According to 'MSD's Household Incomes report', the material wellbeing of the vast majority of older New Zealanders (aged 65+) continues to be good to very good. This primarily reflects the mix of universal public provision (mainly NZS) and the high rate of mortgage-free home ownership amongst today's NZ Superannuitants (72% of whom own the home they live in without a mortgage). Within the current cohort of NZ Superannuitants, there is high dependence on NZS, with around 60% of singles and 40% of couples reporting less than \$100 per week per capita from non-government sources.

We know from CFFC's own regular surveys that well over 70% of respondents rely on NZS as their main source of income (78.5% of respondents who are 65 or over). Savings, other pension and income from a spouse or partner are the only other main sources of retirement income reported by more than 2.5% of respondents, with the most common sources of additional income being savings (49%), income from bond, stocks and shares (20%) and KiwiSaver (18%).<sup>10</sup> Of those who are reporting difficulties in making ends meet, the majority rent or have a mortgage, with little other than NZS for income. This group is around 4–8% of older New Zealanders (~30,000 to 60,000).

Home ownership rates, including those with mortgages, among the 65+ group remain steady and high (~86%), but a downward trend in mortgage-free home ownership is evident, from 83% in the mid-1990s to 72% from 2015 to 2018. MSD's Household Incomes report

6 [http://archive.stats.govt.nz/browse\\_for\\_stats/population/estimates\\_and\\_projections/NationalPopulationProjections\\_HOTP2016/Commentary.aspx](http://archive.stats.govt.nz/browse_for_stats/population/estimates_and_projections/NationalPopulationProjections_HOTP2016/Commentary.aspx)

7 Description of New Zealand's current retirement income policies, Ministry of Social Development, available at <https://cfc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/MSD-Report-on-NZ-Retirement-Policies.pdf>, page 13. <https://treasury.govt.nz/sites/default/files/2016-11/ltfs-16-htm.pdf>

8 <https://treasury.govt.nz/sites/default/files/2016-11/ltfs-16-htm.pdf>, page 6.

9 6.6% is the net figure in this year's Half Year Economic and Fiscal Update (HYEFU) 2019, available at <https://treasury.govt.nz/publications/model/new-zealand-Superannuation-fund-contribution-rate-model-hyefu-2019>; see in particular the 'NZS Expense – History & Future' tab. It is important to note that the net figure is the true cost to the taxpayer of providing NZS, but the gross figure of 7.9% is generally used to enable comparison with other public expense categories, and as tax paid on NZS is part of the overall PAYE recorded in tax revenue in the Crown accounts.

10 <https://cfc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/The-big-picture/CFFC-Research-Income-Sources-and-Hardship-in-Retirement.pdf>, page 2.

suggests that ‘Declining mortgage-free home ownership for the cohorts approaching ‘retirement’, and elevated low income rates (AHC [After Housing Costs]) for older working-age adults living on their own suggest that the group with financial challenges (currently 4-8%) may grow in coming years.’<sup>11</sup> Meanwhile, rising employment rates among the 65+ (whether out of necessity or choice) are contributing to significantly rising income inequality within the 65+ group.

In addition to being provided with MSD’s reports noted above, CFFC commissioned research into New Zealanders’ actual experience of transitioning to retirement. We commissioned Massey University’s Health and Ageing Research Team (HART) to provide us with results of their longitudinal study that has been tracking experiences of material wellbeing of older adults aged 55-76. This study has been undertaken with the aim to: ‘identify the dominant trajectories of material wellbeing as New Zealand adults approach and pass age 65; to assess the association of these experiences of material wellbeing with known risk factors for financial vulnerability, including homeownership and employment, and; to assess concurrent experiences of non-material wellbeing on indices of physical, mental and social health over this period’.<sup>12</sup>

This report helps round out the picture of the context today for NZ Superannuitants with the lived experiences of New Zealanders who have been transitioning to age 65 plus through the 11 years of the longitudinal study to date. The full report is available on the commission’s website at <https://www.cffc.org.nz/reviews-and-reports/2019-review-of-retirement-income-policies/research-and-reports/> and, as with the other commissioned research, we encourage readers to review the full report.

The main findings of this report include that there is significant diversity in the levels and changes in material wellbeing for New Zealanders at age 65. Reinforcing MSD’s reports also, the report finds that a majority (between 80-85%) of adults reach age 65 ‘with good material wellbeing’; further this group is

generally able to maintain or improve their material wellbeing as they age. However, a smaller group arrive at age 65 experiencing material hardship (around 15-20%).

The executive summary states that ‘Many adults begin a process of preparation and planning for “retirement” in the decades prior to making age related changes that may impact their income in later life. However, these opportunities to accumulate assets to support material wellbeing in later life are shaped by factors such as employment, income, costs of living, and events such as illness, injury, and financial shocks. Individual differences in exposure to these experiences across the life course mean that policies supporting income in retirement are likely to have diverse impacts on material wellbeing in the community.’

The report states that these different trajectories can be predicted to some extent by a range of factors, and particularly including homeownership and employment patterns: ‘Not owning a home in later life predicted experiences of material hardship in later life, along with not being in the paid workforce long term, being single, owning a house with a mortgage, having/having held a non-professional occupation, and having no tertiary qualification. ... Although homeownership was higher among those reporting good material wellbeing in later life, rates of homeownership were highly stable between ages 45-64 for both groups. The odds of material hardship in later life also increased for those who did not have a tertiary education, those with prolonged unemployment ages 55-64, onset of prolonged illness or disability ages 55-65, and relationship loss ages 45-54’.

The report provides some recommendations for retirement income policy: ‘Under current retirement income policy settings, established risk factors for financial vulnerability continue to be associated with material hardship in later life. These experiences reflect accumulation of material and non-material disadvantage in the decades prior to eligibility for retirement income support, as evidenced by poorer health, lower workforce engagement and lower rates of

homeownership. As such, policies enabling accumulation of material wealth across the life course (eg, those supporting skills training, employment, health, and homeownership) also play an important role in supporting material wellbeing in retirement. The importance of homeownership for material wellbeing in later life and stability of homeownership over ages 45-64 indicate that declining homeownership in mid- and later- life may pose a challenge to the accumulation and maintenance of assets supporting material wellbeing in retirement. Similarly, the association of paid employment in later life with material wellbeing suggests that barriers to continued workforce participation in mid- and later-life may be meaningful points of intervention.’

We pick these points up again in chapter two, in our discussion on the pre-retirement policy system. Next we reflect what the submissions said on the current context for New Zealand’s retirement income system.

## WHAT THE SUBMISSIONS SAID

With reference to:

### TERM OF REFERENCE 2

An update and commentary on the developments and emerging trends in retirement income policy since the 2016 review, both within New Zealand and internationally.

We asked the following question in our survey:

*“Different countries have different pension systems. What’s your impression of NZ Super compared with pensions in other countries?”*

Respondents have a generally positive impression of NZ Super, although many suggested improvements to existing policy settings.

People who have a positive impression of NZS describe it most frequently as ‘universal’, ‘fair’ and ‘generous’, while others describe it as ‘adequate’ and a ‘necessary safety net’. They think that the benefit of the system lies in those characteristics:

*‘I like that ours is the same for all’*  
– Natasha

*‘A necessary safety net’*  
– Andrew

However, the same simplicity and generosity was also associated with a perception of financial unsustainability. For some, this meant questioning whether the residency criteria of ten years should be increased:

*‘NZ Super is an excellent scheme as it is universal. The only change I would make is to the eligibility... if a person migrates to New Zealand, they [should] get the pension based on... 20 years residency.’* – Michael

Others were concerned about the adequacy of NZS to live on, regardless of whether people own their own home in retirement. Some suggested that NZS should be enhanced to better keep pace with a rising cost of living:

*‘It has largely reduced poverty in older people who own a home. However, for the next generations it will not be enough as renting will eat up too much of this payment.’* – Ana

*‘At 69 now I’m living on the pension. It’s impossible almost if you have a home even due to maintenance, health insurance costs, car costs, rates etc.’* – Marilyn

Despite most people taking pride in its universality, others recognised the unfairness of rich and poor over-65s being entitled to the same rate of NZS. Means-testing came up in some submissions. Some respondents were in support of means-testing, but most were not:

*‘Maybe no need to give it to wealthy retirees’*  
– Noemi

<sup>11</sup> MSD’s 2019 Household Incomes Report: Background and Selected Key Findings, 7 Nov 2019 (Short Summary 2019) page 9, available at <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/household-incomes-1982-to-2018.html>

<sup>12</sup> ‘The wellbeing and vulnerability of older New Zealand adults in retirement: a background paper prepared for the Commission for Financial Capability’s 2019 Review of Retirement Income Policy’, by Dr Joanne Allen and Prof Fiona Alpass, Health and Ageing Research Team Massey University, 1 August 2019

*'Very simple and quite generous, since millionaires and billionaires can also get it'*  
– Emma

*'The beauty of our system is it's universal and simple to administer – you accept some people who get it don't need it'* – Tracy

Others felt that eligibility was more about one's contribution to New Zealand society, regardless of personal income or wealth.

Comparisons to other countries were infrequent, but Australia, the United Kingdom and Singapore were among the countries referred to in comparison. Respondents who talked about other countries' systems did not want to replace NZS, but rather to improve it through borrowing aspects of other systems. For example, Australia's system was generally seen as having stricter criteria but some thought that it provides more effective assistance for the vulnerable elderly:

*'Most other First World [Countries] look after their elderly SO much better! Australia just one example'* – Lynda

*'NZ pension is excellent – Australia has much stricter criteria on eligibility ie, assets'*  
– Terry

Countries such as Singapore were favoured by some respondents due to their focus on personal savings:

*'Singapore much better but they are more disciplined. We must try to encourage saving and not reckless spending'* – Judith

A few misconceptions came up in peoples' responses. Firstly, some people thought that the tax take was being diverted away from a believed NZS dedicated 'pool' of funding and that the taxes they paid were supposed to be put aside during their lifetime in order to pay for their NZS. As set out above, this is not the case in reality – NZS is paid out of general taxation, and not from a separate pool of funds. There was also some confusion between KiwiSaver and NZS, in that people would talk about personal contributions to NZS. Some respondents also talked about the need for greater employer contributions to KiwiSaver accounts, in comparison to other countries:

*'Australia has 9.5% contributions by employers – why not here in NZ?'* – Julia

## LOOKING BACK TO LOOK FORWARD

Having set out the context for the numbers, demographic trends and general projections for New Zealand's retirement income system, we turn next to provide an extensive summary of the recent past, to explain why our retirement income system has been structured around universal provision through NZS, and why the role of the Retirement Commissioner was established. We set this out in some detail because we believe it is worth ensuring that the record is maintained for future reviews and think it is important to capture now, before we risk losing detail and the institutional knowledge that has been built up over past reviews. As stated in *Titiro whakamuri kōkiri whakamua – Looking back to move forward*, 'Much of the physical record and memories of past Reviews have become dispersed, and the Commission for Financial Capability has decided that it is timely to bring these together before they are entirely lost.... Ideally, this "Review of Reviews" will help build on past experience and contribute towards continuous improvement of retirement income policies in New Zealand...'<sup>13</sup>

In highlighting the history of reviews, we also wish to ensure that the record of reviews is accessible for New Zealanders now and into future reviews. We think that making this record accessible will be of significant value as the Retirement Commissioner works over the coming year to develop a policy statement for New Zealand's retirement income system, including through ongoing engagement with the public.

## WHY NEW ZEALAND'S CURRENT RETIREMENT INCOME SYSTEM IS AS IT IS

The *Titiro whakamuri kōkiri whakamua* (*'Titiro Whakamuri'*) report stresses 'the foundational influence' of the 1991-1992 Task Force on Private Provision for Retirement (which became known as the Todd Taskforce, after its Chair, Jeff Todd). The Todd Taskforce represented a seminal phase of New Zealand's retirement income system, and though initially set up to explore

whether private retirement savings should be compulsory, ended up taking over review of the whole system including of the National Superannuation (now NZS), as the Ministerial group set up in parallel to advance this was unable to make adequate progress. One of the reasons for the impact achieved by the Todd Taskforce was the huge amount of research they undertook in companion with a comprehensive engagement process, over two years and through three reports. Their findings as to the framework for New Zealand's retirement system have not been overturned since.

The *Titiro Whakamuri* report lists over forty key themes coming through the reviews from the Todd Taskforce onwards, with many of these themes remaining relevant now. The list of themes provided in *Titiro Whakamuri* is quoted in full in the appendix to this chapter, but we think can be summarised under the following categories:

- a) **Need for better data and research**, including on demographic change, longevity and health implications, and the need to recognise and understand as deeply as possible the diversity in trajectories as New Zealanders age;
- b) Importance of **complementary savings schemes**, consistently recommended to be voluntary rather than compulsory, and resulting in KiwiSaver's introduction in 2007;
- c) **Value of NZS** as a simple, universal system that closely reflects New Zealand's values, and role of NZS within the broader mix of private and public provision of support for retirement as well as the support that families and networks provide for older members;
- d) **Cost of NZS** and importance of broader economic growth to maintain affordability; within that, regular questioning of the technical changes that could be made to maintain affordability, including eligibility,

<sup>13</sup> *'Titiro whakamuri kōkiri whakamua – Looking back to move forward A Review of Past Reviews of Retirement Income Policies in New Zealand'*, prepared for the Commission for Financial Capability, by Malcolm Menzies, November 2019.

indexation, targeting, deductions from overseas pensions, residency etc;

- e) The importance of **financial education and capability** of New Zealanders to be able to optimise their planning and preparation for their eventual retirement;
- f) Critical **relationship between housing costs and retirement income**;
- g) And of skills, **employment, and income** to be able to save, invest and/or remain in an earning situation in order to improve retirement income results; also the role of employer contributions;
- h) **Regulation** of the financial markets for saving; and also need for broader range of options to support decumulation;
- i) **Taxation** implications and opportunities to support NZS provision, including whether tax incentives are positive or negative, and the role of the NZSF;
- j) Need for **fairness** for different communities of New Zealanders, including for women, for Māori and Pacific New Zealanders;
- k) And the **value of consensus to ensure political stability** of the system – including the value of the 1993 Accord between most of the main political parties to capture that consensus.

For the remainder of this section we paraphrase or directly quote (as indicated) from *Titiro Whakamuri*, as the most efficient way to outline the progress of reviews since 1991.

The 1993 Accord represented an apex point for consensus and political agreement. The Accord is still extant, though in reality we are not aware that the remaining parties to it (Labour, National, and Green) have met to consider how to implement the Accord for some while. However, the ideal of consensus on retirement income policies has remained regardless of the current situation with the Accord.

Over the years since the Accord was agreed, 'Some issues have waxed and waned and remain unresolved. ...But most of the forty themes are ongoing and need to be continually revisited and checked against agreed parameters, purpose and priorities. This is what the Reviews have done.'

*Titiro Whakamuri* continues:

'There is a consistent narrative throughout all the Reviews that retirement income is best delivered by a mix of public and private sources, with voluntary, private savings and investments providing the degree of flexibility required to address diverse individual needs. Much of the policy debate is centred on what the appropriate public/private mix should be. The Reviews of the 1990s reflected a widespread (though not universal) assumption that private provision should ultimately replace that from the public purse. This view has gradually become less prominent...

Both public and private provision depend on a healthy, growing economy and private provision also depends on well-functioning financial markets and financially capable consumers. However, most consumers can never be as well informed about financial products as are those working in the industry and they will need transparency and tailored, affordable advice delivered in well-regulated forms.

KiwiSaver is a useful addition that will help many to maintain their standard of living in retirement, but housing, health, business ownership, taxation and labour market trends also impact significantly on retirement income and wellbeing in older age. These multiple elements underline the need for Reviews to adopt a holistic perspective on retirement income policy. Without Reviews, there would be no single lens through which to view the overall picture of current and future financial wellbeing.

The core element of New Zealand Superannuation (NZS) is relatively simple and works well, particularly in comparison to other countries' public pensions. Many Review reports have started from this position and extolled the virtues of NZS. But the overall retirement income system is complex and has multiple objectives and stakeholders. Many women, Māori, Pasifika, low income people and the "Old old" have vulnerabilities that policies need to take into account, in order to ensure equity and fairness. The system's performance needs to be continuously monitored and reviewed, but this requires better data - particularly longitudinal data - and more research than is currently available.

Demographic changes are likely to result in more costs, particularly in health and age care, that have so far not been fully considered within the retirement income framework. When these are added to the increasing costs of NZS itself, it is clear that New Zealand faces some fiscal challenges. The New Zealand Superannuation Fund (NZSF) is designed to help, but only a little.<sup>14</sup> The contribution of the community and voluntary sector, including families, to the welfare of older people is not always taken into account.

The specialist and technical nature of the required data analysis points to the benefits of continuity in Reviews. Regular Reviews prompt the updating of data, to ensure the quality of policy analysis is not compromised. Regularity also ensures that expert knowledge is kept up to date and built upon rather than lost (the wheel doesn't need to be reinvented each time). A "community of practice" means that researchers and analysts develop skills in integrating across the various domains related to retirement income policies. The alternative would be for each department or agency to re-learn about retirement income policies, and integrate with others, every time the policies came up for review.

Public confidence and trust in retirement income policies can be maintained through a combination of continuous and periodic Reviews which act as a way of gathering feedback from the public and communicating policy issues such as trade-offs between competing objectives. The Reviews promote informed debate about the issues, help build consensus on overall objectives and understanding of the need for any changes.

Should changes to the retirement income framework be required in future, they need to be carefully thought through, based on consensus, signalled well in advance and carefully implemented.<sup>15</sup>

The *Titiro Whakamuri* report puts some focus on the process undertaken to support reviews.

Just as there have been consistent policy themes, Review processes have had common elements. Generally, there has been oversight by a small Task Force, Review Group or Advisory Body, supported by a secretariat and a body of externally commissioned, independent research and consultation. Oversight of this sort has ensured access to a broad set of expertise and opinion, and the building of a consistent knowledge base.<sup>16</sup> The scope of Reviews carried out by the Retirement Commissioner has been somewhat constrained by being funded out of baseline budget, rather than having a ring-fenced allocation.

Some background research has revisited issues which change little between Reviews. For example, demographic trends are well known, as is the importance of housing and employment to older people. It might be more efficient to commission fewer reports on the underlying issues, and then identify status "indicators": e.g. latest longevity figures and population projections as they are produced by Statistics New Zealand; projections of the cost of NZS as they are

<sup>14</sup> 'The NZSF will not reduce the cost of NZS, only the way in which it is funded in future.'

<sup>15</sup> *Titiro whakamuri kōkiri whakamua – Looking back to move forward A Review of Past Reviews of Retirement Income Policies in New Zealand*, by Malcolm Menzies for CFFC, available at <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/The-big-picture/Historic-Review-of-the-Reviews-of-Retirement-Income-Policies.pdf>, pages 9-10.

<sup>16</sup> 'Although most background research has been lost to posterity and there is no longer a single archive, physical or electronic, of all the review reports let alone other documents described in this document. Future processes must give priority to ensuring that relevant documents are fully archived and accessible.'

updated by the Treasury; employment participation rates; housing ownership among older people etc. These could be displayed in a real-time “dashboard” on a website, heightening public awareness, rather than being produced in Review reports every three years. This would leave the Reviews themselves to focus more on engagement and higher-level outcomes ...

There remains a question as to whether Reviews should happen at three yearly, six yearly or some other interval, or whether they should be “rolling” or continuous. If they are to remain periodic, the responsible Retirement Commissioner should be allowed to both start and complete each Review, and to avoid Reviews happening in election years...

Each Review has produced a final report for tabling in Parliament. In 1991-2, 1997 and 2013 one or more interim reports were also issued to provide an opportunity for members of the public to see what was being proposed, and a second chance for submissions. In 2016, the thinking behind the Review process was revealed in real time using a range of digital technologies. Indeed, the 2016 process stood in marked contrast to all those that had gone before, based on a claim that previous Reviews had been exclusive and inaccessible. This 2016 Review set out to engage more widely and certainly achieved greater breadth in terms of numbers of “hits” and other interactions with members of the public. It has however been criticised for lack of “depth”.

Getting the balance right between depth and breadth of Review processes remains a challenge. Possibly the best combined approach is to convene an expert, independent panel which takes representative advice, involves officials at an early stage, commissions research, consults widely through multiple channels and communicates its findings in accessible forms.<sup>17</sup>

The impacts of the various reviews as a whole are summarised:

Retirement income policy in New Zealand had a turbulent history from the 1970s until near the end of the 20th century, with many chops and changes in policy (Bolger, 1998; Consultative Committee, 1988; Periodic Report Group, 1997b). Jim Bolger, Prime Minister between 1990 and 1997, wrote in his memoir that:

“Superannuation has bedevilled New Zealand politics for the past quarter century (Bolger, 1998).”

Starting with the 1991 Task Force on Private Provision, which was set up by Mr Bolger to bring calm at a particularly fractious time, Reviews have gradually built public and political confidence and trust in the Retirement Income Policy Framework. Major choices such as a voluntary approach to private saving have withstood repeated scrutiny and wild “lurches” in policies have stopped happening. Instead of lurches we have seen a more measured, gradualist approach, more akin to “water dripping on stone”. This is appropriate, as retirement income policies should be as stable and predictable as possible, with any changes based on sound evidence and signalled well in advance. As the Retirement Commissioner said in her foreword to the 2007 Review report,

“One of my statutory duties is to regularly prepare an independent assessment on...how effective and stable our government’s retirement income policies are. This Review is important as it brings a non-political, fact-based assessment to a long-term issue that can be too easily driven off course by political, emotive or short-term expediencies.”

Reviews have also been able to adopt a holistic perspective of the whole retirement income system, rather than the narrower view that would inevitably have applied by,

say, a single government department. As befitting their role of periodically “taking the temperature” of the system, Reviews have engaged with members of the public, promoted informed debate and reflected the broad thinking of the time. General acceptance of overall objectives has been strengthened, as has understanding of the need for any changes in policies. In that sense, the process of the Reviews has been as important, if not more so, than the actual outputs.

The Reviews have also been a contact point and repository of leading-edge knowledge about and expertise in retirement income policies and mapped out areas where new knowledge and research are required.

Many New Zealanders either never knew or have forgotten the bitterness and anger that pervaded the politics of retirement income policies in the last part of the twentieth century. This is understandable, and it would be easy to take the success of the Review process for granted. A return to ad-hoc measures would risk reopening Pandora’s Box.

Rather than doing that, it would make more sense to continue with the Review model, and even to consider its application to other seemingly intractable areas of public policy.<sup>18</sup>

We agree with the main assessments in this lengthy quote, particularly that it would be more efficient for future reviews to commission fewer research reports on the underlying issues – which are fairly well known and don’t necessarily change much within a three year window – and instead focus on ongoing research to track changes, and the identification of indicators to measure progress against. We acknowledge the role of past reviews in calming what could be – and often is overseas, with violent riots over changes to pension plans occurring in several countries even as this review is being finalised – a very heated issue that can affect broader economic growth. We also agree that the model of the review could

be applied to other complex public policy issues, and understand that a similar cross-system model is what the current public sector reforms are seeking to enable also, and we agree with the need for a foundational approach to reviews, so that the most useful information is available for reviews, and with consistency in utilisation of expert advice and networks.

We finish this section by noting the process we undertook for this review, then set out which of the specific recommendations for the review process provided in *Titiro Whakamuri* we think are most relevant. We are already turning to implement some of these either through this review or to recommend for future reviews and prioritisation by the Retirement Commissioner and/or government.

## ENGAGEMENT AND RESEARCH PROCESS FOLLOWED FOR THIS REVIEW

We started in March 2019 – later than would be ideal, but as early as possible in the unique context that the Commission for Financial Capability was operating in this year and without the benefit of a permanent Retirement Commissioner for significant phases of the review. A programme director, Kate Riddell, was appointed to help advance the review, and we commissioned a series of research reports to provide new insights to help us respond to the terms of reference. Beyond responding to the terms of reference as the priority, the research also had the threefold purpose of a) enabling broader thought leadership on retirement issues to be harnessed, b) to provide up-to-date information for the interested public to help inform their understanding of the retirement system and issues and opportunities to refine it, and c) to add to the broader retirement income evidence-base more generally. The resulting reports are available online at CFFC’s website, at <https://www.cffc.org.nz/reviews-and-reports/2019-review-of-retirement-income-policies/research-and-reports/>; moreover the research and regular discussion with their lead authors significantly helped shape planning for

<sup>17</sup> *Titiro Whakamuri*, pages 10-12.

<sup>18</sup> *Titiro Whakamuri*, page 12.

and drafting the shape of this review report, and we draw, sometimes heavily, on the commissioned research where appropriate.

In addition to delivering the commissioned research reports, their authors gave further time in providing advice to the review team with their insights across the system. The programme director for the review was also guided by a small number of advisors working directly with her to help ensure consistency with and draw together knowledge from past reviews, as well as to help 'sense-test' future priority work areas. Particular thanks in this regard must go to Associate Professor Susan St John and Dr Claire Dale from the Retirement Policy Research Centre (RPRC, University of Auckland Business School); to Professor Jennifer Curtin from the Public Policy Institute (PPI, University of Auckland); to Dr Kay Saville-Smith of the Centre for Research, Evaluation and Social Assessment (CRESA); to Professor Fiona Alpass and Dr Joanne Allen from the Health and Ageing Research Team (HART, School of Psychology, Massey University); to David Tikao, Executive Director Whai Rawa, Te Rūnanga o Ngāi Tahu; to Geoff Pearman, Managing Director, Partners in Change; to Mary Holm, particularly for support on KiwiSaver aspects of the review; to Dr Simon Chapple, Institute for Governance and Policy Studies (Victoria University of Wellington School of Government); and finally to Alison O'Connell and Malcolm Menzies, both of whom had lead roles in previous reviews and have very generously supported the programme director in this review and with their research.

The intention of the review team was to establish a formal Expert Advisory Group to guide the incoming Retirement Commissioner, considering the sequencing of transitioning between Commissioners and the delayed start to getting the review underway. But as events played out, the new Retirement Commissioner was not appointed in time to take over the lead for this review, so we were not able to move ahead with forming the formal advisory group for this review. The intention remains, however, to establish such a group to provide guidance to the Retirement Commissioner and their

office on options to innovate and evaluate retirement outcomes, to guide the future research programme, and to help ensure there is a strong network of voices independent of the commission and of government on these critical issues for New Zealanders.

One of the purposes of the research was to promote discussion and stimulate submissions from the public on the issues under review. As well as ensuring the terms of reference were readily accessible throughout, we created an initial 'Expression of Interest' form so that the public could start to put forward submissions when ready to do so, and ensure their contact details were on the review database. This expression of interest form was followed with a formal 'Make a Submission' form. We updated this form with revised submission questions to ask more targeted questions by early October, in response to our monitoring of the ease of understanding the questions in the initial form, and to harness further detail from respondents in the final weeks of submissions.

In total we received 774 submissions by 31 October. Of these, 168 submissions were received via the [review@cffc.org.nz](mailto:review@cffc.org.nz) email inbox, 605 submissions were received via the Submission Form on CFFC website, and one submission was received as a hard copy via the post service. Of the 774 submissions, 25 were from organisations and the rest were from individual New Zealanders.

The majority of the submissions we received came through during the latter part of the submission period, with submissions closing on 31 October. However, a review email inbox, [review@cffc.org.nz](mailto:review@cffc.org.nz), has remained open throughout; this has enabled specific questions on the review terms of reference or engagement process to be quickly answered, as well as operating as a door to field questions from the public on the retirement income system more broadly, so that the commission can help the public navigate the system or consider when advocacy within the system is required on specific retirement issues or impacts on individuals.

In addition to the formal submission process, we held a number of forums with attendees from different parts of the system. These were mainly closed door so that discussion could be free and frank. For example, a forum was held on KiwiSaver with a range of financial sector representatives, and we held several forums specifically to bring together researchers and government agencies. In addition, we met with a number of submitters and expert stakeholders to explore their views further. We are very grateful to all those who took time to submit, and to meet or engage in further discussion and we intend for the conversation to be ongoing, both to ensure advocacy for public, and also to keep building and supporting a network of stakeholders and independent voices to help with innovation and evaluation of effectiveness.

### RECOMMENDATIONS FROM *TITIRO WHAKAMURI* AND NEXT STEPS FOR THE REVIEW

We agree with the recommendations from *Titiro Whakamuri* that, for future reviews of retirement income policies, the office of the Retirement Commissioner should:

- 'Seek assistance from an expert, independent advisory panel and take representative advice, involve senior government officials at an early stage, commission research, consult widely through multiple channels and communicate findings in accessible forms.'
  - » Our response, as we've noted above, is that we will be moving to establish an Expert Advisory Group to support the incoming Retirement Commissioner to set aspects of the future work programme.
  - » And we note below that the Retirement Commissioner will be convening a Senior Officials Group to help bring the Government system together more purposefully.
- 'Both groups will be of great assistance in the process that the office of the Retirement Commissioner intends to undertake in 2020 to establish a policy statement on the purpose of New Zealand's retirement income system.'
  - » We agree that the value of and stability achieved through NZS is to be celebrated and promoted; we have endeavoured to reflect this in our assessments and recommendations across the terms of reference and this is captured in the summary of these, as well as in individual chapters of this review.
  - » We agree also that a clearer baseline of benefits and costs of NZS should be established before promoting changes in any one part, and this is why we recommend in the summary and in chapter three on fiscal sustainability, careful and extensive modelling of any changes in any one part of the system before moving ahead with changes, as consequences could unsettle other parts of the system.
- 'Commission fewer reports on repeating and underlying issues such as the employment of older people, housing ownership, longevity and the projected cost of NZS, and instead identify status "indicators" and display these in a real-time "dashboard" on a website so that Reviews focus more on engagement and higher-level outcomes.'
  - » We agree that there could be considerable value achieved for future reviews and for the retirement income system as a whole to move

to a focus on monitoring and reporting on progress towards outcomes, against agreed indicators, rather than risk restating known problems or challenges.

» As set out above, we intend to commence a process from early 2020, with the support of both an Expert Advisory Group and a Senior Officials Group, to agree a policy statement capturing the purpose of New Zealand's retirement income system, and to set indicators to measure progress towards achieving that.

- 'Consult with government departments to determine the best processes for maximising the influence of Review recommendations on departmental policies and programmes. As part of this consultation, consideration should be given to re-establishing a Retirement Income Steering Group (RISC) with a membership of at least Deputy Chief Executives.'

» As above, we will be moving ahead with calling together a Senior Officials Group in 2020.

- Establish a forward programme of research and build New Zealand's community of expertise in Retirement Income Policies.

» With the assistance of the Senior Officials Group and the Expert Advisory Group, we will work to set a forward research programme; this will support and align with the purpose statement we intend to develop, and can be reflected in CFFC's new Statement of Intent, due to be finalised for the 2020-2024 period by June 2020.

*Titiro Whakamuri* includes recommendations for the Government also. These are centred around reviewing data requirements for future reviews, moving the review cycle away from election cycles, and changing the appointment periods of future Retirement Commissioners so

that their terms do not commence part-way through a review period. We endorse these recommendations, as we do for *Titiro Whakamuri*'s call for a specific, ring-fenced budget to be allocated for reviews, and including for research to support reviews.

### NEXT STEPS: CO-ORDINATION AND MONITORING

In addition to the various challenges of the past year with the role of the Retirement Commissioner, there have been some interesting timing alignments and mis-alignments, that mean significant aspects of the retirement income and related policy system are under consideration by parts of government in parallel with this review. These parallel investigations and work programmes include:

- The public sector reforms that have been announced in 2019 and for which legislation has recently been introduced into the House and is currently at Select Committee. These reforms have the potential to be very impactful for retirement outcomes, as they look set to create new cross agency functional mechanisms with establishment of committed, cross government leadership to drive action.
- Publication in the first quarter of 2020 of Treasury's Long Term Fiscal Update modelling; this will provide an update on the projected costs to the Government of meeting commitments such as NZS, compared with the Government's expected tax take, likely cost pressures and demographic trends. It is unfortunate that the timing of this review and the LTFS update have not aligned, and we understand from *Titiro Whakamuri* the timing of the LTFS was initially intended to be available for reviews.
- The Productivity Commission's work into 'Technological change and the future of work'. This programme seeks to address two broad questions asked by government: 1) What are the current and likely future impacts of technological change and

disruption on the future of work, the workforce, labour markets, productivity and wellbeing? And 2) How can the Government better position New Zealand and New Zealanders to take advantage of innovation and technological change in terms of productivity, labour-market participation and the nature of work? There is a clear alignment between these questions and the first and third terms of reference for this review, though again the timing is mismatched, with the final reporting from the Productivity Commission not due until the first quarter of 2020. The Office of the Retirement Commissioner will seek to include the outcomes of that work in CFFC's future work programme, where appropriate.

- The Minister of Social Development's Bill to amend the New Zealand Superannuation and Retirement Income Act is currently before Select Committee and will not be reported back to the House until 2020. This Bill covers a range of matters that are related to aspects of this review and that we received submissions on from the public and expert stakeholders. This is particularly with regard to spousal and direct deduction policies of overseas pensions, non-qualified partner rates, the differences between single sharing and married sharing rates of NZS, and eligibility of New Zealanders for NZS who are resident overseas but paying tax in New Zealand. We have not had the capacity to investigate each of these issues as fully as would be required to make recommendations ahead of the progress of the Bill, so we will instead be following the progress of the Bill and working with MSD to pick up any issues that remaining outstanding on the above or other issues that resonate for the public over the next year.
- Also very relevant is the promised development of action plans in 2020 under the Office for Seniors 'Better Later Life' strategy, and the Government's 'Employment Strategy', being led by MBIE, and in addition to these specific action

plans, there is a broad range of work programmes underway across agencies that are of both general and specific relevance to New Zealanders' retirement outcomes. For example, the Ministry for Pacific Peoples 'Pacific Aotearoa: Lalanga Fou' report and approach to supporting improving outcomes for Pacific communities, Te Puni Kōkiri's Whānau wellbeing and whānau-centred policy approach across their work to deliver better outcomes for Māori, the Ministry for Women's work programme on the gender pay equity gap, as well as a broader work programme to enhance outcomes for women, and the Ministry of Housing and Urban Development's work programme to support every New Zealander to have a place to call home.

- We are also mindful of the partnership between the Government, Council of Trade Unions and Business NZ under the Tripartite Future of Work. This has a focus on technological progress and demographic change as two of its four main focus areas, and both of which are very relevant to preparation for retirement, as well as work programmes on lifelong learning, and on managing risk and impacts of displacement on workers.<sup>19</sup>
- We note also the work underway by the Human Rights Commission exploring in-work poverty and supporting pay transparency to help create a fairer employment environment and improved incomes for vulnerable New Zealanders, and
- Also more broadly relevant is the Government's ongoing evolving response to the recommendations of the Welfare Expert Advisory Group (WEAG) and any further response by government to the recommendations of the Tax Working Group.

The Retirement Commissioner has a clear mandate under the legislation to monitor and coordinate across the Government retirement

<sup>19</sup> see <https://treasury.govt.nz/information-and-services/nz-economy/tripartite-future-of-work-forum>

income system. The list above gives some sense of the reality that coordination across the Government retirement system is currently not particularly strong. We believe this lack of coherence across the system needs to be addressed as a priority.

In addition to the lack of deliberate alignment across the system, we also feel there is a missed opportunity in having the Retirement Commissioner report only into the Commerce and Consumer Affairs portfolio, through the Ministry of Business, Innovation and Employment (MBIE). This makes sense for KiwiSaver and we acknowledge that the innovation and bedding in of KiwiSaver since its commencement in 2007, needed to be a priority focus. But at the same time, the reality is that it is the Social Development portfolio that is most relevant in terms of NZS and related legislation, and also in terms of the other main government support most readily available for New Zealanders as they transition to, and live in, their retirement phase. The significant government intervention that NZS is, together with the other benefits that the Government provides through the Ministry of Social Development (MSD), need to be carefully aligned and monitored alongside KiwiSaver, to ensure impacts from both are as intended. For this reason, we think that the terms of reference for future reviews should be jointly set and agreed with the Retirement Commissioner by the Minister for Social Development and the Minister of Commerce and Consumer Affairs. Having a default reporting line through only one of the two main arms of the Government retirement policy system risks missing opportunities to optimise delivery of both.

To further support alignment between the policy and operational aspects of both halves of the core retirement income system, we believe that the Retirement Commissioner should have regular meetings with both the Ministers of Social Development and Commerce and Consumer Affairs, and that relevant Deputy Chief Executives (DCEs) from both agencies should be co-sponsors of the Commission's work with government agencies, helping ensure an aligned reporting and evaluation approach across government.

More generally, more effective monitoring and coordination of the whole retirement income system is critical to ensuring that all of the various current workstreams noted above – and no doubt other work underway across government – is aligned and is delivering the most efficient and desirable outcomes for New Zealanders. In addition, any issues that risk effectiveness for New Zealanders should be identified in a timely manner, and with commensurate options to address developed in a way that takes into account interactions throughout a complex system. This greater coordination within the retirement system should be implemented immediately rather than wait for wider public sector reforms.

We therefore set out in the remaining paragraphs the actions to be taken by the Office of the Retirement Commissioner, incorporating recommendations from *Titiro Whakamuri*, and our requests on process to government. These actions are to enable a better-aligned and deliberate, whole-of-government, retirement income system that works for New Zealanders, and is based on a firm understanding of their realities:

- The Retirement Commissioner will, as a priority in 2020, work to establish a Senior Officials Group at Deputy Chief Executive level, with representation requested from each of the Ministries of Social Development; Business, Innovation and Employment; Pacific Peoples; Housing and Urban Development; Health and Women, and also from Te Puni Kōkiri, Statistics NZ, the Treasury, and the Inland Revenue Department. This group should commit to meeting regularly, to ensure a collective view of the Government's retirement income programme can be quickly built, and to help inform the research programme to support identification of emerging trends that will require a policy response, and identify gaps and options to address these at least through to the next review period, though ideally on an ongoing basis.

## RECOMMENDATION

GOVERNANCE FOR THE RETIREMENT COMMISSIONER AND THEIR OFFICE IS PROVIDED JOINTLY BY THE MINISTRIES OF SOCIAL DEVELOPMENT AND BUSINESS, INNOVATION, AND EMPLOYMENT.

- To facilitate this, we request that you and the Minister for Social Development write to the Chief Executives of both agencies requesting their support to join up governance arrangements, and to co-sponsor with the Retirement Commissioner the Senior Officials Group.
- In parallel, the Retirement Commissioner will establish an Expert Advisory Group, to ensure ongoing input from experts outside of government. This group will help the Retirement Commissioner test options for improving the system, and will bring their networks to help inform design and to support engagement with specific communities and the broader public.
- With the support of both senior officials and expert advisors, the Retirement Commissioner will work to develop a policy statement on the purpose of New Zealand's retirement income system. This will be supported by CFFC, as the Office of the Retirement Commissioner, as an ongoing programme of engagement with the public, to ensure that a purpose statement articulates what it is about NZS that is most valued by the public and aligns with New Zealanders' values.
- At the same time, recognising that three yearly reviews are not regular enough to advance the most pressing priorities, CFFC will work towards providing regular updates to both the public and to government including a snapshot of highlights, new actions and identified gaps for pressing attention.

## RECOMMENDATION

THE REGULAR REVIEW CYCLE SHOULD BE AMENDED TO FALL IN THE YEAR AFTER AN ELECTION, RATHER THAN PRIOR.

- We make this recommendation as it is clear from the commissioned research into the history of reviews that the intention of previous governments, and across the political parties who collaborated through the 1993 Accord, was that reviews should be purposefully sequenced away from election cycles. Moreover the appointment of future Retirement Commissioners should be timed so that they can cover the full three-year review cycle.

We make these assessments and associated recommendations with the ultimate aim of ensuring retirement income policies are as effective as possible for New Zealanders. At the same time, we see our role as to help the lead government agencies to align and enable delivery of the Government's wellbeing approach across the system and not just within the activity and pressures that individual portfolios inevitably face.

Capturing the opportunity presented by the wellbeing lens will help ensure we stay focused on a sustainable retirement income system that includes fiscal sustainability criteria, but also reflects the social and cultural values of our society and represents the best package of support and systems for all New Zealanders. We want to ensure that, whatever their age now, everyone has clear opportunity to prepare for their eventual retirement, and to enjoy whatever retirement years they attain. We should all be confident that, whether we have months or many years in retirement, a good standard of living is our future.

## APPENDIX

Consistent themes from reviews since the 1990s, *Titiro whakamuri kōkiri whakamua – Looking back to move forward: A Review of Past Reviews of Retirement Income Policies in New Zealand*, prepared for the 2019 Review of Retirement Income Policies by Malcolm Menzies, November 2019

1. The retirement income system depends on there being real economic growth. Economic conditions change regularly, and virtually each Review reports different circumstances;
2. The importance of international comparisons;
3. There is need for better data, monitoring and research of all aspects of income, saving, savings, expenditure, home ownership, long-term care and living standards;
4. Demographic change, particularly the ageing population due to increased longevity (and lower birth rate);
5. Increasing costs of health and other care need particular attention (the need for this has been stated more consistently in the last four Reviews);
6. Fiscal impacts of (4) and (5);
7. A focus on National Saving and Savings and their implications for the economy (what these implications are, is far from settled);
8. The impact of the cost of NZS on public debt;
9. There is need for a regular process of evidence-led Review of Retirement Income Policies. Whether that should be continuous, or periodically every three or six years, is a topic for discussion;
10. Provision of retirement income is based on a public/private partnership. Much of the debate is about what the mix should be;
11. Retirement income policy has multiple objectives (participation, preventing hardship, continuation/maintenance of economic status (“consumption smoothing”) affordability, redistribution etc and as in the 2010 Review report which outlines 8 “models” or objectives;
12. NZS is a simple public pension, particularly when compared with other countries; but
13. The broader Retirement Income “system” is complex and needs to be considered holistically. Interventions need to be integrated rather than piecemeal or carried out in isolation;
14. Technical aspects of NZS (eligibility criteria, different rates, treatment of international pensions etc) are constantly under review;
15. Merits and demerits of targeting/ supplementary benefits as elements of public provision;
16. The “affordability”<sup>20</sup> of NZS and the case for raising age of eligibility, changing indexation, residency criteria, means testing etc;
17. People have different life courses and very diverse, individual needs;
18. Private provision brings advantages of flexibility and “tailoring” to meet individual needs and circumstances;
19. Housing costs are of critical importance in considerations of retirement income;
20. The financial markets need to work well to deliver optimal outcomes for savers and investors;
21. Markets have changed, become more complex and more competitive, and offered more options to New Zealanders. But they need judicious regulation, transparency and comparability of products;
22. It’s essential to have policy consensus, stability, long periods of notice of any changes in the retirement income framework and careful implementation of any transitions;
23. The system must be fair;
24. Many Women, Maori, Pasifika, low income groups and the “Old old” have different characteristics, needs and vulnerabilities when it comes to retirement planning and retirement income;
25. The labour market and patterns of workforce participation are changing for all groups and are a key factor in considerations of retirement income policies;
26. There is a need to upskill workers and address ageism in the workforce;
27. Decisions about whether to focus on individuals or couples/households can affect the adequacy of retirement income;
28. Issues around annuities and reverse mortgages;
29. The law on division of matrimonial property after divorce needs careful attention. Not so much of an issue with the Property (Relationships) Act but things keep changing and in 2019 the law is again under review;
30. Workplace schemes fell away in 1990s, replaced by KiwiSaver in the 2000s and 2010s;
31. Recognition of the role of communities and families in supporting/caring for retirees;
32. The impact of the Global Financial Crisis on financial markets and retirement income provision;
33. The impact of high inflation (only when it was occurring – low inflation hasn’t figured as so much of a problem, though this may change);
34. Younger people face different challenges – intergenerational issues (including the “sandwich generation” of those caring for children and parents, and who would have to pay twice if we switched from a PAYGO to a SAYGO system);
35. The role of the New Zealand Superannuation Fund;
36. Case for and against Voluntary private provision;
37. Case for and against Compulsory private provision;
38. Case for and against Tax Incentives for private provision;
39. Importance of transparent international agreements on pensions;
40. The importance of financial education/ literacy/capability and a well-informed populace;
41. The importance of competent, well-regulated financial advice;
42. The 1993 Accord worked well (until it didn’t); and
43. NZS works well – simple, relatively inexpensive (also meets criteria of adequacy, efficiency, certainty, stability, affordability, sustainability, flexibility, equitability and fairness).

Taxation issues, especially tax neutrality. Discussion of these has diminished since the Todd Task Force – there has been a gradual move to more tax neutrality, but this quest is never ending and indeed, has come into question again recently;<sup>21</sup>

20 ‘Affordability is a matter of judgement and qualitatively different from fiscal impacts (theme 6) which can be measured in retrospect or projected in advance. Within limits, something is “affordable” if it is regarded as a high enough priority. Rather than affordability, percentage of GDP is internationally used for comparison between both countries and time periods.’

21 ‘For example, see the report of Capital Markets 2019, “an industry-led group, sponsored by NZX and the FMA, formed to identify ideas to improve and grow New Zealand’s capital markets, taking a 10-year view” (EY Ltd., 2019).’



┌ REVIEW OF  
RETIREMENT  
INCOME  
POLICIES  
2019

┌ CHAPTER  
**TWO**  
PREPARING FOR  
OUR BEST RETIREMENT

## PREPARING FOR OUR BEST RETIREMENT

### TERM OF REFERENCE 1

An assessment of the effectiveness of current retirement policies for financially vulnerable and low-income groups, and recommendations for any policies that could improve their retirement outcomes.

### TERM OF REFERENCE 3

An assessment of the impact that the following will have on government retirement income policies, including KiwiSaver and New Zealand Superannuation:

- a) The changing nature of work, including the increasing number of people who are self-employed and/or working in temporary and flexible jobs;
- b) Declining rates of home ownership; and
- c) Changes in labour market participation of those 65 and older

We've been asked through Terms of Reference 1 and 3 to provide an assessment on options to improve retirement outcomes for vulnerable New Zealanders of all ages, and to assess the impact on NZS and KiwiSaver from some critical pre-retirement policy areas.

As the Terms of Reference ask that we make an assessment of the effectiveness of current

retirement income policies for financially vulnerable and low-income groups, we think it necessary to understand what realities are faced by these New Zealanders. In this section, we set out the research that we commissioned from Massey University's Health and Ageing Research Team (HART) to understand the lived realities of New Zealanders in retirement, and the results from the focus groups and interviews commissioned through Ipsos to capture the views of vulnerable New Zealanders as they prepare for, or live through, retirement.

### WELLBEING AND VULNERABILITY OF NEW ZEALANDERS IN RETIREMENT

We set out the findings from the HART work at Massey University<sup>1</sup> into lived experiences of New Zealanders transitioning to retirement in chapter one. To recap, that report found that a majority (between 80-85 %) of adults reach age 65 'with good material wellbeing'. Further, this group is generally able to maintain or improve their material wellbeing as they age. However, a smaller group, at least 15%, arrive at age 65 having experienced significant material hardship across their life course.

The HART report observes that the ability of New Zealanders to accumulate assets over their life course, in order to support material wellbeing in later life, are shaped by a range of factors including employment, income, costs of living, and events such as illness, injury, and financial shocks. These cumulative experiences mean that, in reality, some New Zealanders arrive at retirement with accumulated advantage, and others arrive at retirement with accumulated disadvantage.

'Data indicate two major trajectories of material wellbeing as adults approach and pass retirement age. On average, a majority report a good level of material wellbeing prior to retirement, while around 15% of the

ONE OF THE BENEFITS OF NZ SUPER IS THAT IT DOES NOT DISADVANTAGE WOMEN.

<sup>1</sup> 'The wellbeing and vulnerability of older New Zealand adults in retirement: a background paper prepared for the Commission for Financial Capability's 2019 Review of Retirement Income Policy', by Dr Joanne Allen and Prof Fiona Alpass, Health and Ageing Research Team Massey University, 1 August 2019

sample indicated experiences of material hardship prior to retirement. Material wellbeing increased with age for both groups, but increased more rapidly with age for the group characterised by material hardship prior to retirement.<sup>2</sup>

Clear risk factors for the compounded effect of disadvantage include not owning a home, being single or in poor health, being Māori or Pacific, being female, and having experienced redundancy or unexpectedly being unable to work. The report suggests that, in response to these risk factors, the Government should focus on policies which more effectively support accumulation of material wealth across the life course in order to improve health, reduce stress and encourage ongoing training and employment so that New Zealanders have more options to support themselves. They also observe that NZS has a positive impact on those New Zealanders who arrive at age 65 having experienced poor material wellbeing – NZS is effective at lifting living standards for these New Zealanders.

## OUTCOMES OF FOCUS GROUPS AND INTERVIEWS

We commissioned Ipsos NZ to conduct a series of focus groups and interviews for the review, asking what retirement means to New Zealanders today, and what their individual fears and experiences were for their retirement. The response was that the concept of retirement is seen in an overwhelmingly positive light – but that many are worried that there will not be enough support for them or their children or grandchildren when they get there. Some were looking forward to leaving work life behind, while others wanted less strenuous work or to work fewer hours. All wanted to be able to spend more time with family:

*'I've got grandchildren, great grandchildren and I'm happy with my life. It could be better, but it could be worse.'*

But many expressed concerns about the difficulty of getting into a home young enough to pay it off, or even at all. For example:

*'Whether we'll actually be able to afford a house or not because like my Mum doesn't own a house, so like she's 2 years off retirement, she's still just renting now.'*

*'The people that don't own their own home. It must affect them terribly. Each year the price of renting a house goes up and up. If you're not earning money, the amount the Government pays isn't enough.'*

Even if purchasing a home is possible, there were a range of fears expressed that the costs of maintaining home ownership could be crippling. For example:

*'Someone was saying to me yesterday she wonders if it's worth owning your own home anymore because she's having her roof done. It's virtually impossible now for her.'*

Others were concerned about the pace of technological change:

*'But from this point forward, say fast forward 30 years, technology increases, the speed goes like this, it's faster and faster and faster. I think we'll be facing quite a different world in 20-30 years' time. Who knows by that time what your normal average worker is going to be earning or what kind of jobs are available at that time.'*

And others were concerned that financial literacy was low generally, meaning that many were worried that New Zealanders are generally unprepared for retirement. Financial education must be stressed from an early age, participants argued, and yet money wasn't always seen as the most socially acceptable topic of conversation.<sup>3</sup>

There was also significant concern expressed about the lack of ability to prepare for sudden life changes, particularly in health, or in being made redundant, family relying on you for caring support, and relationship break-ups:

*'I planned a lot in my life in financial stability, but a lot of bad things have happened in my life and that just stopped that dead. A lot of things have been very costly in my life. I've not been able to get ahead and like I say, if you get physically hurt in some way, you can't do full-time work and if you're partner gets sick or something, they can't work, so then you just continue struggling.'*

Mobility was considered important to a good retirement – for example, if people aren't able to drive, this would restrict their ability to engage socially with friends and family.

Concerns for Māori and Pacific groups were grounded in fears of poorer health outcomes and experiences, resulting in statistically shorter lifespans, and a fear that these New Zealanders would not get to enjoy retirement, if they made it there at all, due to inadequate housing and income support. For example,

*'My mum suffered a head trauma on Easter Monday and was in hospital for 3 weeks, and then while my mother was in hospital, my father collapsed. He has pneumonia and a collapsed lung, and so he was in hospital as well for 2 weeks and you know like both of them, my dad is 85, my mum is 75, so they are well into their retirement and of course they get the Government Sup, whatever it is, I don't know much about it, because I mean that's sort of that KiwiSaver only came in 10 years ago I suppose, and I don't have it, so they rely on that for their retirement and you know like things like getting the bill from St Johns, can they afford it? Can they afford to live in Auckland on what they are getting from the Government? And that sort of makes me wonder how am I going to cope when I retire?'*

But on the positive side, there was also an overwhelming sense among both the specific Māori and Pacific focus groups, and across all the focus groups in general, that Māori and Pacific communities took a more inclusive and positive approach to older age, both in terms of their individual needs and the needs of wider whānau, and reflecting the role of elders as taonga for their life experience and as the repositories of knowledge and culture:

*'They are Taonga, they are to be looked after and respected. They have what they hold just by being who they are and what they've lived through... Yeah, the knowledge is precious and it is to be looked after and treasured, and also they are paying back of everything they've lived in, for us to be here and it's our chance to give back in a way that is meaningful for them.'*

Others were worried that older New Zealanders are often lonely:

*'I believe some older people are probably lonely from my experience. Isn't the Government's job to say okay, all these people that are retired or about to retire, what are we doing with them? They're sitting around, they probably don't feel worthy because no one's going and knocking on the door.'*

Vulnerable groups described the financial woes of living pay cheque to pay cheque, and how single catastrophes would be difficult to recover from. Of some particular concern to CFFC, the future plans of the most financially vulnerable participants seemed generally predicated on assumptions and hopes, rather than discussion and planning. For them, home ownership is key to sound wellbeing but seems impossible. Nevertheless, they think they should be able to expect a decent retirement after a lifetime of working hard and contributing taxes, and/or a series of challenges in life that had made them unable to work, and were very worried that a decent standard of living was just not going to be attainable for them.

Many commented that they believed that NZS would not be there for them when they were older. For example:

*'At the moment you get Superannuation, will that still be around by the time we get there and the money that I've saved for as part of my retirement scheme, is that going to be enough?'*

*'Will we still get a pension when we retire, because pensioners are now struggling on what they get even now. Our population has grown as well. For me it's like, when I get to 65 I hope they don't change it up and put it up to'*

<sup>2</sup> HART 'Wellbeing and vulnerability of older New Zealanders' report, page 30.

<sup>3</sup> Run by the Sorted team at CFFC, this year's Money Week 2019 was themed 'Now We Are Talking', which encouraged Kiwis to overcome finance as a taboo topic, and start conversations about how to take care of our finances and, by extension, prepare for a good retirement

*70, I'll be gutted. When you get to 65, will I get a pension or will I have enough money in my KiwiSaver or enough money in my savings to still have an enjoyable life.'*

It is clear to us that there is a lot of stress amongst New Zealanders that they will not be able to achieve a decent standard of living in their eventual retirement, and have less support than today's NZ Superannuitants enjoy, while acknowledging some of today's NZ Superannuitants are struggling to make ends meet. This stress is reflected in submissions, as set out below.

### THE IMPACT OF HOUSING ON RETIREMENT PLANNING AND VULNERABILITY IN RETIREMENT

The Terms of Reference ask us to assess the impact of declining rates of home ownership on retirement income policies, particularly on NZS and KiwiSaver. To be able to provide an assessment, we first need to set out how home ownership patterns are changing. We know that having your own home is important to New Zealanders in terms of their standard of living, as well as preparing for retirement. In order to better understand these effects, we commissioned a report from Dr Kay Saville-Smith at the Centre for Research and Social Evaluation Assessment (CRESA) to provide an update on these trends. The resulting report, *Housing, New Zealand's Tenure Revolution and Implications for Retirement* ('New Zealand's Tenure Revolution'), is available on the CFFC's website.<sup>4</sup>

This report outlines a multitude of challenges in the housing sector that will or are impacting on older New Zealanders. We paraphrase fairly extensively from the report in the following paragraphs, as housing has featured so strongly in both the focus group and individual interviews noted above, as well as in submissions we've received from the public. Meanwhile, we encourage readers to review the full report, as with the other research on CFFC website.<sup>5</sup>

It is clear from *New Zealand's Tenure Revolution* that there is a direct connection between adequate retirement income and freehold owner-occupation, with freehold owner-occupation not only minimising housing costs but also offering the option to liquidate housing assets in order to support and maintain living standards. Those who do not own their own home have fewer assets and savings in general, and have much less flexibility and discretionary spending than owner-occupiers without a mortgage. There is also a clear correlation to poorer health outcomes from renting.

The report outlines how housing has been a key form of New Zealanders' pre-saving for their retirement. But alongside this is the decreased number of those owning and occupying their home, which increases the possibility of exposing seniors having to rent in their retirement. This, according to *New Zealand's Tenure Revolution*, means that over the next decade, rental rates amongst 55-64-year-olds will be 40% higher than their predecessors experienced, and more so for Māori and Pacific Peoples in particular.<sup>6</sup>

Many New Zealanders retirement plans involve, or even revolve around, selling their house - 'downsizing' - to free up supplementary income. But it is becoming increasingly difficult and often even unrealistic for homeowners to 'downsize' in order to free up assets - smaller houses are often not available, particularly in the larger urban areas, and smaller houses are not always more affordable at any rate. While some New Zealanders choose to move to a retirement village as their downsizing option, there is also impact in terms of available retirement income from the change in tenure that usually accompanies a move to a licence to occupy, with less flexibility for New Zealanders in this category as to how they can utilise or leverage their housing asset.<sup>7</sup>

None of this is just a 'baby boom blip' either - it is a long-term trend having impact on the tail end of the Baby Boomer generation and likely to continue on generations beyond. According to the report, there are clear signs that there

will be growing future dependency on renting. Will there be adequate supply of rental properties? Will they be appropriate for older New Zealanders? From this report, and anecdotally including views expressed in the focus groups, interviews and submissions, we believe the answer to both these questions is no. But more so, while NZS is valuable and helps lift outcomes for those who were in material hardship prior to age 65, NZS is not designed to cover accommodation costs.

Some additional state support for housing is available for qualifying people, through the MSD-administered Accommodation Supplement, however this is designed to only partially or temporarily subsidise the affordability gap in terms of rent over income, with steep abatements if income increases. Meanwhile, the Income Related Rent Subsidy (IRSS) is only for those eligible for public housing and does not specifically target senior New Zealanders. There are other forms of discretionary welfare available if particular criteria are met, but these offer irregular support on the grounds of hardship. While there is some council housing available for older New Zealanders, the stock of council housing is quickly depleting. As *New Zealand's Tenure Revolution* states, 'most senior tenants are in the private rental market... rents are typically, irrespective of location, unaffordable to older tenants who, for the most part, are reliant on NZS'.<sup>8</sup>

All of this, according to *New Zealand's Tenure Revolution*, is causing a reduction in housing standards, and an increase in the amount of homeless elderly. Older New Zealanders who are renting or seeking rental options, are also likely to suffer negative health consequences and place increased pressure on the public health system. They are also often foregoing medical attention due to concerns about costs. As Dr Saville-Smith points out, 'it is clear that the dwelling condition of rental houses in which seniors live are poorer than owner-occupied dwellings, and this may work to compromise the health status of older renters'.<sup>9</sup> It is important to point out that elderly renters are also more likely to be living by themselves.

We think that the following paragraph from *New Zealand's Tenure Revolution* is a fitting summary of the status and impact of housing issues facing New Zealanders as they prepare for, or live in, their retirement - and of what should be done about this:

'Many of the issues that have emerged in relation to housing access and the exclusion from owner occupation have been tied to the financialisation of houses as investment and the neglect of houses as homes. Retirement income investment should not be heavily coupled with housing except as a form of pre-retirement saving to reduce later life living costs through mortgage free owner occupation. The housing crisis needs to be dealt with through the housing sector/system. Retirement income/savings should not try to use the housing market (in public policy terms) as primarily retirement investment. In other words, housing and retirement income setting should be mutually supportive but not substituting for inadequacies in the other. In the long-term the future lies not in raiding retirement savings for housing or security for retirement. The retirement incomes challenge resides not simply in releasing the current housing wealth residing with older owner occupiers, but how younger households can build both housing equity and retirement savings'.<sup>10</sup>

Supporting the main themes of the *New Zealand's Tenure Revolution* report, CFFC's in-house research shows that non-homeowners are almost five times as likely to struggle in retirement than home-owners. Once we control for home ownership, other variables such as gender, ethnicity and urban/rural location do not appear to be significant.<sup>11</sup> This suggests that supporting home ownership is one of the most impactful ways of reducing financial vulnerability in retirement - and no doubt for supporting younger vulnerable New Zealanders also, and helping them ensure that they can reach and then maintain appropriate standards of living throughout their life course and transition to retirement. Home-owning households, even with a mortgage, have higher

<sup>4</sup> *Housing, New Zealand's Tenure Revolution and Implications for Retirement: A Paper for the 2019 Review of Retirement Income Policies* by Kay Saville-Smith, PhD Director Centre for Research, Evaluation and Social Assessment; available at <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/Home-ownership/CRESA-Housing-NZs-Tenure-Revolution-and-Implications-for-Retirement.pdf>

<sup>5</sup> <https://www.cffc.org.nz/reviews-and-reports/2019-review-of-retirement-income-policies/research-and-reports/>

<sup>6</sup> 'New Zealand's Tenure Revolution', page 9

<sup>7</sup> 'New Zealand's Tenure Revolution', page 30.

<sup>8</sup> 'New Zealand's Tenure Revolution', pages 10-11.

<sup>9</sup> 'New Zealand's Tenure Revolution', page 17.

<sup>10</sup> 'New Zealand's Tenure Revolution', page 39.

net worth than renters. This means that, on average, renters are not substituting property ownership with other assets (such as investments in KiwiSaver). Future Reviews ought to focus on how to lift KiwiSaver balances and investments in addition to housing, as it is obvious that everyone needs a home as well as retirement income. We agree with the *New Zealand's Tenure Revolution* report that the housing system is the best place to lead improvements to housing options. At the same time, noting that fewer New Zealanders are heading towards retirement owning their home or with other assets, growth of savings generally should be encouraged and incentivised through KiwiSaver, as well as ensuring there are appropriate housing options for New Zealanders at all stages of life. We discuss ways to support greater accumulation of savings through KiwiSaver later in this chapter.

We finish this section on housing by noting a suggestion from the Equal Employment Opportunities Commissioner, made within the submission from the Human Rights Commission. This suggests that ways to enable KiwiSaver funds to be pooled together to allow for families and small collectives of friends or communities to obtain first-home loan withdrawals should be explored, even though individuals within the collective might not have enough to leverage for a mortgage. Specifically, the suggestion is that:

'CFFC engage banks to reconsider lending practices to allow collective borrowing for mortgages so that kin groups or friends can collectively invest in a home. This will greatly assist cultural communities such as Pacific, where collective ownership of property and collective caring for elders is the norm. Additionally, while individuals within a family or household may have lower incomes, collectively they have a bigger capacity to afford a deposit and manage mortgage payments to help ensure they have a secure retirement.'<sup>12</sup>

We agree that there is value in exploring new avenues for supporting New Zealanders, and particularly the most vulnerable, to be able to

enter home ownership, considering the better retirement outcomes that those with a freehold home experience over those without. We pick up this suggestion in our assessments section below.

### RETIREMENT OUTCOMES FOR WOMEN – LONGER LIVES BUT LESS INCOME AND SAVINGS

The evidence is clear that women of all ethnicities in New Zealand face a more complex combination of outcomes in retirement, due to longer life expectancy but lower savings and incomes to help them prepare for it. CFFC commissioned research to help us better understand the variabilities in retirement outcomes experienced by women, the result of which is a report from the Public Policy Institute at the University of Auckland, entitled *A Review of Gender Differences in Retirement Income*.<sup>13</sup>

One of the benefits of NZS is that it does not disadvantage women, as many employer contributory schemes around the world can do since women are often out of the workforce and therefore not earning for longer periods than men. However, due to its contributory nature, KiwiSaver can exacerbate differences in employment and income – and so savings – experienced by women. Although women and men contribute at roughly the same rate to KiwiSaver, that doesn't mean savings accumulate the same way, resulting in a gender pension gap. The gender pension gap is influenced by a number of factors, and exacerbated by the gender pay gap through lower workforce participation by women, which in turn means that women are likely to contribute smaller amounts and less consistently to their retirement savings, resulting in a gap at retirement.

Our own CFFC research into KiwiSaver tells us that over half of respondents who are stay-at-home parents in a family owning their own house with a mortgage do not contribute to their KiwiSaver accounts. The majority of these are women. Out of those who are employed, Māori employed on a part-time basis have the highest rates of non-contribution at 28%,

compared to 11% of non-Māori employed part-time. While we cannot be sure of the exact reasons why some people make fewer contributions – individual choice and circumstance are among them – lower contribution rates likely reflect at least in part lower wages and fewer hours worked by women on average.

### TECHNOLOGICAL CHANGE AND THE FUTURE OF WORK

Term of reference three also asks us to assess the impact of the changing nature of work on KiwiSaver and NZS. A recent draft report by the Productivity Commission on this subject *Employment, labour markets and income: Technological change and the future of work* – is relevant.<sup>14</sup>

The report seeks to address two broad questions asked of the Productivity Commission by government:

1. What are the current and likely future impacts of technological change and disruption on the future of work, the workforce, labour markets, productivity and wellbeing? and
2. How can the Government better position New Zealand and New Zealanders to take advantage of innovation and technological change in terms of productivity, labour-market participation and the nature of work?

The report explores how technology has increased the pace of trade and economic growth and created demand for new skill sets, and new ways of working. While it acknowledges that disruption to traditional ways of working is likely to lead to some negative changes such as displacement of workers, this disruption is not likely to be at the scale that many fear or in timeframes that Government can't help New Zealanders prepare for. Overall, New Zealanders should embrace technology going forward.

Gig work was a significant focus for this report. While the Productivity Commission points out that gig work has experienced a 'high-profile

emergence' in recent years, it does not seem to be expanding at the expense of traditional employment arrangements. Most gig workers will take on platform-mediated work for short periods as supplementary to a main source of income. The report goes on to say that insecure work, poor job quality, low wages and equity of opportunities are not limited to gig work platforms – policies should target the issues rather than the underlying platforms or technologies.

The conclusions of the report include that income security may be a better policy goal than job security, and an unemployment insurance system funded by employers and workers, with payments linked to previous earnings, could help smooth out disruption to the incomes of displaced workers:

There is a case to improve income security for displaced workers with income smoothing policies that cushion the financial shock of job loss. Doing so could:

- make workers less fearful about switching jobs and more accepting of labour-market settings that promote dynamism in the economy but reduce job security;
- achieve better labour-market matching – by enabling those who lose their jobs to take more time to search for a better, high-paying job that is a good match for their skills; and
- improve attitudes towards technology – as effective support systems can reduce fears about job loss and so make workers more welcoming of policies that embrace technology.<sup>15</sup>

The report is a draft as the Productivity Commission builds up to a final report by March 2020 covering a series of five issues. We will be interested to see proposals from the final report, and consider how CFFC can help with implementation.

11 <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/The-big-picture/CFFC-Research-Income-Sources-and-Hardship-in-Retirement.pdf>

12 Submission to the 2019 Review of Retirement Income Policies, from the Human Rights Commission, received on 31/10/19 from Saunoamaali'i Dr Karanina Sumeo Equal Employment Opportunities Commissioner/ Kaihau Oritenga Mahi, New Zealand Human Rights Commission/ Te Kāhui Tika Tangata

13 A Review of Gender Differences in Retirement Income, by Professor Jennifer Curtin and Yanshu Huang, available at <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/The-big-picture/Ak-Uni-PPI-Gender-Pension-Gap-Report.pdf>

14 Employment, labour markets and income: Technological change and the future of work Draft report 2 November 2019 <https://www.productivity.govt.nz/inquiries/technology-and-the-future-of-work/>

15 <https://www.productivity.govt.nz/inquiries/technology-and-the-future-of-work/> pages 1-2.

## WHAT THE PUBLIC TOLD US

We asked the New Zealand public whether they felt the Government was doing enough to support the most financially vulnerable and low-income groups to prepare for retirement, and what else they would suggest the Government do to support those who need more, in order to achieve improved outcomes. These questions generated a lot of response by submitters.

Some respondents felt that the Government is doing enough already. These respondents tended to emphasise the value of personal responsibility in preparing your retirement:

*'They are doing plenty for these people. Everyone should work... there are jobs that they can do.'* – Susan

*'Government resources are finite. People will live up to and beyond whatever is provided. Increasing money is not necessarily the answer.'* – Margaret

People who focused on personal responsibility tended to be unsupportive of means-testing, supported the universal nature of NZS and felt that low-income people were too dependent on government support. Also reflected was an implicit fear that NZS may not be around in the future, so KiwiSaver should be compulsory to prepare for that.

However, most respondents thought that the Government could be doing more to support our most vulnerable retirees. The strongest themes that came through in their responses were to: protect NZS, make KiwiSaver compulsory, raise the minimum wage, restart contributions to the Cullen Fund (that is the NZ Super Fund), continue the Winter Energy Payment and make various changes to the tax system, including removing taxes on KiwiSaver contributions, introduce a flat-tax rate or make the wealthy pay more in tax:

*'Compulsory KiwiSaver contributions would help ensure that everyone was contributing to their KiwiSaver fund, regardless of their employment status.'* – Kristal

*'The Cullen Fund should continue to invest such that there is an income stream and assets that can provide for the future outside general taxation'* – Graham

*'Stop taxing employers and employees' KiwiSaver contributions so they can build a bigger nest egg no matter how much they are saving'* – Lawrence

*'Increase government contribution or reduce tax rate by taking some of current tax on wages and put towards KiwiSaver contributions'* – Karen

Submissions generally show a genuine concern for issues faced by low-income groups and a knowledge of the issues facing retirement income policy, but there was no clear consensus on what the Government should do.

Despite asking a specific question about housing affordability later in the survey, housing still came up frequently for respondents in this section:

*'The basic pension needs to be enough to live on and pensioners need guaranteed housing provided, if they do not own their own home outright'* – Sharon

*'Lower house prices so that people have lower mortgage interest payments, so they can save more for retirement'* – Heather

Submissions from organisations also reflected on the issues facing the financially vulnerable. For example, Christians Against Poverty (CAP) suggest building ability to save into criteria for lending and – perhaps more importantly – into income support testing approaches by government, including KiwiSaver contributions from government in lieu of employer contributions for precarious workers. They go on to suggest that 'current consumer debt law reform needs to protect vulnerable borrowers from excessively high interest rates and loan conditions that trap people into high repayments that prevent saving.' They further suggest that establishment of an industry-wide governance group, drawing on representatives from the financial sector, NGOs and relevant government agencies would provide both

lenders and consumers with guidance around affordability assessment, meaning that families would have reasonable allowances to save for future needs and for their eventual retirement.<sup>16</sup>

## ASSESSMENT AND RECOMMENDATIONS

We've been asked under the first and third terms of reference to provide an assessment of effectiveness of current retirement policies for financially vulnerable and low-income New Zealanders, and to assess the impact on retirement income policies, including NZS and KiwiSaver from the critical pre-retirement policy areas of the changing nature of work, declining rates of home ownership, and changes in labour market participation of those 65 years and older. Our assessment in response is several-fold. Noting the different timing of impacts on and from NZS and KiwiSaver, we set out our assessment of each separately below, followed by recommendations to address the challenges.

### 1. Assessment of the impacts on NZS

Firstly, we believe that it is clear from the evidence that currently **NZS is working effectively to support New Zealanders to maintain a foundational standard of living**. For those New Zealanders who were experiencing severe levels of material deprivation (the research says this is around 15% of New Zealanders) prior to receiving NZS, it is clear that NZS has helped to improve their material standards of living, and also has helped improve their mental and social wellbeing. This is significant; the positive impact of NZS should be recognised and celebrated. NZS in effect becomes the backstop intervention to address inequalities that have been exacerbated along New Zealanders' life courses.

Secondly, at the same time as noting the value and positive impact of NZS, **we are concerned about the growing percentage of New Zealanders who are vulnerable to poorer outcomes in their future retirement**. It seems that the broadly accepted profile of today's retirees clouds perceptions of what could be – and we think is – changing rapidly; in other

words, the profile of today's superannuitants should not be assumed to set the template for how future retirees will look even in the near term. We fear that the evidence is strongly suggesting that already more New Zealanders are entering retirement without a freehold home and without adequate savings or other investments to offset this. For these New Zealanders, NZS will not be enough to cover all of their necessary day to day costs, and their standards of living and wellbeing may not lift at 65 as we have observed for those becoming superannuitants up until now. It would be more efficient for both vulnerable New Zealanders and for the public purse that the focus shifted to earlier interventions when individuals still have adequate time to affect their future course. When viewing from a retirement outcomes perspective, there appears to be a lack of effectiveness of policies that should be delivering for New Zealanders earlier in their life course, so that they are well prepared for their retirement.

We note also that there is an inherent tension between terms of reference one and three, with their focus on wellbeing and improving outcomes for vulnerable and low income New Zealanders, with the sixth term of reference with its focus on considering long-term fiscal sustainability. Having said that, fiscal sustainability is not the only aspect to keeping something sustainable; sustainability is also about fit for purpose, efficiency in delivery, priority as a trade-off in terms of value seen by New Zealanders, and offsetting other costs and risks.

We are confident that NZS is effectively supporting a positive standard of wellbeing for New Zealanders, particularly the most vulnerable, once they reach age of eligibility. For wellbeing and standards of living to be maintained for future NZ Superannuitants, particularly those who will be heavily if not solely reliant on NZS, it is necessary to address the effectiveness for retirement outcomes across the policy areas that target critical transitions in an ordinary life course, that is, education and training, employment and income, housing and welfare.

<sup>16</sup> 2019 Review of Retirement Income Policies, submission from Christians Against Poverty, received 31/12/19.

**RECOMMENDATION**

**VALUE AND ENSURE THE ONGOING PROVISION OF NZ SUPERANNUATION.**

Following on from the comments above (which we expand on in chapter three), we believe that NZS is affordable and will remain so for the coming decades. Therefore:

1. The Government should make clear that NZS is valued and will be protected to continue to provide for New Zealanders in future, on current settings.
  - We state this as it was apparent from submissions and focus groups that younger New Zealanders, as well as their parents and grandparents, are feeling very concerned that NZS will not be made available to future retirees, or at adequate levels. We received a lot of comments to the effect that ‘NZS won’t be there for us’.
  - This uncertainty is causing unnecessary stress, and we think should be put to bed so that, at whatever point in their life course New Zealanders are currently at, they can have certainty that NZS will be available to them and will provide a stable level of state support for them to plan around. It is enough for younger New Zealanders to already have to worry about where they will live and how they will earn enough to support their and their families’ current and future wellbeing, without having to face additional uncertainty as to whether they will lose an effective existing government intervention.
2. Aside from securing NZS for future retirees, in addition it is our assessment that the most effective way to support vulnerable New Zealanders to have better retirement outcomes is through improving the delivery of the pre-retirement government policy system. This is particularly through applying a retirement outcomes lens across the education and training; employment, income and welfare; and housing policy systems, as these are the areas of government interventions that are best-placed to

support New Zealanders to prepare across life transitions, including for the transition to retirement.

3. This focus on ensuring a retirement outcomes lens across policy areas should be coupled with greater assessment and monitoring of the Government system as a whole. This is so that New Zealanders can be confident that the most effective and efficient policies are in place, and are delivering optimally for the context of the day – that is, that they are delivering both value for money and reflecting society’s values, and delivering at the right time. (We return to that theme in chapter three, which addresses the purpose and fiscal sustainability of NZS.)

**NEW ZEALANDERS... CAN HAVE CERTAINTY THAT NZS WILL BE AVAILABLE TO THEM AND WILL PROVIDE A STABLE LEVEL OF STATE SUPPORT.**

**2. Labour market implications**

The third term of reference asks us to consider both the changing nature of work and changes in the labour market participation of those over 65. We open this section by stating our clear view that it is good for individuals, their families and community, the economy, and for the sustainability of NZS itself in terms of tax offsets, that New Zealanders can work past the age of eligibility of NZS if they want or need to.

**RECOMMENDATION**

**ESTABLISH A NEW GOVERNMENT ‘EMPLOYMENT CONNECTION’ SERVICE.**

This new service could sit between the Ministry for Social Development and the Ministry for Business, Innovation and Employment, and provide specific job and skills matching for those in need of support to connect to their next job.<sup>17</sup> With the changing nature of work, we think an employment connection service is also needed by employers more than ever, to help them connect with those people in their region or city with the skills and experience that their business needs now, and into the future.

We recommend this because:

- We saw from our research and heard from submitters and members of our focus groups that the current approach is forcing New Zealanders into straitened circumstances from which many do not feasibly have adequate time to recover before they transition into retirement. The requirement for people to have exhausted their ability to support themselves before becoming eligible for state support can affect their wellbeing and that of their families, while putting higher costs on the state long-term.
- We think establishing an employment connection service would help New Zealanders of all ages and with a variety of skills to connect with employment in their

area. The service should include a specific focus on helping young New Zealanders to connect with the workforce, and older New Zealanders to remain connected or to reconnect, as it seems to be the young and older who face particular ‘age-related’ challenges in employment.

- An employment connection service would also make much clearer than the current case that active support from government for all New Zealanders to connect with work is available.<sup>18</sup>
- We think this would help address the concerns we heard in submissions from employer organisations that their workforces are ageing and they need support to develop retention and planned transition options for their workers. At the same time, we note that not enough employers and sector groups are taking a lead in developing pathways to support people to stay in work as they age, so this would help enable their leadership to develop more active transition planning for their industries and employees. CFFC will, at the same time, explore throughout 2020 how we support employers to retain and/or support next employment steps for all of their employees, considering that all employees are ‘ageing’ in the workplace, even if at different transition points.
- A government employment connection service could also be responsible for developing options to support community-level programmes and enterprises in response to local challenges, and utilise local older New Zealanders to mentor and guide younger.
- In addition to this recommendation, we note and support the work underway between MBIE and MSD and others to establish Regional Skills Leadership Groups (RSLG)<sup>19</sup> across 15 regions of the country and think that approach will add much value, but that this work would also benefit from being supported by having specific employment connection services available, that specifically brings aspects of labour

<sup>17</sup> 2019 Review of Retirement Income Policies, Submission from Christians Against Poverty’, received 31/12/19. This should be informed by the experiences and effectiveness of previous government agencies set up to support employment.

<sup>18</sup> While technically MSD’s ‘job seeker’ support can be offered to anyone requesting it, very few people appear to be aware of this.

<sup>19</sup> <https://www.mbie.govt.nz/business-and-employment/employment-and-skills/regional-skills-leadership-groups/>

market and employment support currently spread across MBIE and MSD together in one place. Similarly, we also note and support the recent comments of the New Zealand Productivity Commission (outlined above), that the Government should consider shifting focus of some support to ongoing income security, rather than the current narrow focus on offering support only for those who meet a low-income test.

- Separately, we note the intention to develop in 2020 both an action plan for older workers, as announced under the Government's Employment Strategy, as well as an action plan to lift employment outcomes for Māori. The development of these action plans will be a useful step, and we will proactively support the Ministry to develop these, as we will also continue to support the development of action plans under the recent Better Later Life strategy. Specifically, we think that CFFC can lead the Better Later Life action point to support employers to 'consider and respond to the impacts of the ageing workforce on their business and future workforce needs',<sup>20</sup> by leading activities designed to increase the numbers of employers and businesses with revised workplace policies and strategies that embrace the ageing workforce.
- While we will be offering our direct support and input to the development and implementation of all these related work streams, we will also be ready to take a coordinating role across them, as aligns with the legislated role of the Retirement Commissioner, and as alignment is critical if we are to deliver an improvement in retirement outcomes for New Zealanders.

### 3. Housing impacts

All New Zealanders need a home and an income, and without both, vulnerability is significantly increased and wellbeing is not assured. Until recently, the majority of New Zealanders have owned a freehold home by age 65. But an increasing number of New

Zealanders are already – and the trend is set to continue – reaching age 65 with mortgages and other debts, or having not been in a position to enter the housing market at all. At the same time, while NZS is significantly more generous at 66% of the average wage than other forms of government support, it is not designed to cover housing costs.

- While KiwiSaver will help many middle-income New Zealanders to supplement their retirement income in the future, the full power of accruing compounding value from KiwiSaver will not be apparent for another couple of decades. This means there will be people retiring over the next twenty years who do not have a significant pool of savings, nor other investments, and also do not own their home either at all, or without significant debt levels.
- In addition, while having a freehold house going into retirement is generally positive for helping maintain wellbeing and reducing some costs, it does not in itself guarantee supplementary income if there are no other income or assets available. Many New Zealanders assume that selling their houses in retirement and downsizing will enable them to free up income. But the question then arises as to whether a more affordable house can be found to still provide a secure place to live and deliver supplementary income.
- Put bluntly, there are low and middle-income New Zealanders who will be retiring into situations over the coming twenty years who either are reliant on selling their houses to supplement their income in order to maintain standards or living, or who don't own a house and have inadequate levels of savings or other assets to offset this. Either way they will still need somewhere to live.
- This means that **additional forms of housing support** will need to be considered as a priority for a broader range of New Zealanders than currently qualify for state housing support. This is important if we

want to avoid risking declining living standards for those New Zealanders who retire without a freehold home and without significant levels of savings.

- We think the reality of the decline in home ownership without a commensurate lift in savings also means more New Zealanders will need to keep earning over the age of 65 to be able to pay for their accommodation. That is, as NZS is not enough to pay for accommodation costs more – perhaps many – will be reliant on additional income from employment and NZS in order to maintain their standard of living. Raising the age of eligibility for NZS would have significant impact on the ability of these New Zealanders to be able to maintain the standard of living and wellbeing they may enjoy prior to 65.

### NZS AND IMPLICATIONS FOR MĀORI

Longevity and life expectancy rates for Māori are rising, though are still behind the New Zealand average. For those Māori over 65 now, we think NZS does an effective job at smoothing out failures of pre-retirement policy to deliver for Māori. Until these other areas catch up, NZS should be secured on current settings so that more Māori can benefit from it more fully and at an equitable level to other New Zealanders.

- In terms of impact on NZS and the terms of reference put to us to consider vulnerability and options to improve retirement outcomes, it seems to us that it wouldn't be consistent with the Treaty, or fair or efficient by other measures to put NZS further out of reach by raising the age of eligibility just as more Māori start to be able to access NZS.
- The latest data we have suggests that only 5.6% of today's superannuitants are Māori, but Māori make up 16% of the overall population.<sup>21</sup>

In terms of other parts of the retirement income system, we think this reflects past failures of major policy areas of government.

It is disheartening to look back over the last 25 plus years of retirement income reviews and see that lifting outcomes for Māori has regularly been commented on as a priority for action, but without much apparent resulting prioritisation of effort, at least in terms of retirement outcomes.

- Saying that, we are confident that there are considerable efforts underway across the Government system to lift delivery in outcomes for Māori, and we acknowledge also that it is much easier to criticise past efforts than to find positive ways to improve on outcomes. It is promising to see the focus in the current Public Sector reforms (through the Public Service Legislation Bill currently before the House), aimed at ensuring that the public sector has the capability to engage effectively with Māori and to understand – and presumably design – policies with Māori perspectives front of mind. We will be monitoring the passage of this legislation with great interest, and above that, will be ensuring we regularly ask questions and monitor impacts on Māori from programmes across the retirement income system and particularly in employment and income, housing and residential care. As well as the obvious Treaty implications in terms of inequitable outcomes, particularly considering Article 3 rights and obligations of citizenship promised to Māori, in addition we don't think that the country can afford from a social, cultural, fiscal or ethical perspective for Māori to be experiencing poorer outcomes in retirement or in their life pathway to retirement.

### KIWISAVER: ENHANCING SAVINGS OUTCOMES FOR NEW ZEALANDERS

We think it is necessary to shift next steps with government supported-savings in two main directions, and our recommendations set out in the remainder of this section focus on these two possible paths:

20 Better Later Life - He Oranga Kaumātua 2019 to 2034, page 27.

21 <http://archive.stats.govt.nz/Census/2013-census/profile-and-summary-reports/quickstats-65-plus/culture-identity.aspx>

1. to ensure KiwiSaver is working as effectively as possible for its target savers, ie, those New Zealanders who would otherwise not save enough to maintain standards of living, and are not maximising the compounding benefits of KiwiSaver, and
2. to consider options to support the ability of the lowest income and most vulnerable New Zealanders to save.

### INCREASING THE COMPOUNDING BENEFIT OF KIWISAVER

Before setting out our recommendations specific to refining KiwiSaver, we set out our position on KiwiSaver and the role it plays in the retirement income system.

We think of KiwiSaver as a compounding engine: contributions from members, employers (at least for employees) and the Government are inputted, and then after the savings period, emerge 'compounded', having been invested and earned returns upon returns. The savings period could, on current settings, be from a few years through to 47 years (for those in the scheme from age 18 through to 65). While the majority of results for retirees will come from returns on investment, these are contingent on contributions attracting those returns. In short, the more contributions put in, the more potential returns can be generated in the long term.

Historical incentives to join KiwiSaver, primarily the \$1,000 kickstart that used to be offered by the Government, largely accomplished the goal of extending membership. This did not achieve, however, the subsequent and potentially more important task of incentivising members to make regular contributions. We know that close to 1.8 million KiwiSaver members contribute regularly - but that 1.2 million do not. This highlights the reality that many savers are not taking advantage of the compounding benefits that KiwiSaver can deliver.<sup>22</sup>

We also know that those who can afford to put in more will benefit more over time, reflecting the reality that KiwiSaver was always likely to

amplify inequalities in income and ability to save. Even if contributing, three percent of a lower income (all else being constant), will lead to greater difference in what is returned over the long term, compared with three percent of a higher income. That said, there are levers that can be pulled to help achieve more equitable results over the long run. One of these is to support members to lift their contribution levels to higher percentages, to incrementally increase contribution levels over time, and also to maximise contributing time, as starting with even modest contribution - but as early as possible - will deliver better returns for the saver.

The initial design of KiwiSaver was optimised for employees. For many others, the scheme is somewhat deficient - independent workers such as freelancers, gig workers and sole proprietors; those between roles and temporarily not employed; those unable to work; and carers and parental leavers who also find themselves outside the workplace for valuable, yet uncompensated work at home likely wear a savings penalty from suspended contributions. Again, there are options that could be considered to address this, such as 'care credits' from the Government to match what would have been employer contributions for people who have stepped aside from their regular employment to undertake caring responsibilities, or a return of the 'kickstart' or an alternative government contribution for New Zealanders who can't afford to start or continue saving, and so miss out from the compounding value of even small, early savings.

### THE 'WHY' OF KIWISAVER

As clearly stated in its establishing legislation,<sup>23</sup> Kiwisaver was set up 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' wellbeing and financial independence, particularly in retirement, and to provide retirement benefits'. Incentives have been used to provide the promised encouragement for 'a long-term savings habit'.

Meanwhile creating a habit requires more than one-off action, but rather is formed from the consistent action of saving. As well as creating a habit, consistent saving also compounds the intended retirement benefits. Moreover, in our view it is the inclusion of 'asset accumulation' in the legislation's purpose statement that covers the use of KiwiSaver for a first home (despite this remaining controversial in the eyes of many), but also can be interpreted as intending other assetisation also.

It is also worth reflecting on who is covered by the focus on 'individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement.' This can be interpreted as indicating a 'floor'. That is, targeting those who would risk declining living standards without KiwiSaver, as their income would be significantly reduced compared with income levels when they were earning. It can also equally be interpreted as a 'ceiling'. That is, we do not believe that KiwiSaver was intended for those New Zealanders at the more affluent end of the income and asset scale, as these New Zealanders are more likely to be able to maintain standards of living without KiwiSaver. It is with this intention in mind that we have purposely avoided proposing tax incentives for KiwiSaver, as tax incentives tend to be regressive, with the benefit going primarily to those at the upper end of the income scale. Moreover, considering the first term of reference for this review asks us to focus on improving outcomes in retirement for the most vulnerable New Zealanders, we think the KiwiSaver focus should be on New Zealanders who could, or could be supported to, invest more in their long-term wellbeing than they currently are.

As a final introductory comment to our recommendations on KiwiSaver, we note our CFFC bias towards the merits of KiwiSaver, which we view as a valuable and now foundational tool in New Zealand's retirement income system. We think the significant contribution made by the Government in establishing the infrastructure for KiwiSaver, as well as through regular contributions to

members, should be acknowledged and celebrated. We are also very mindful that any signalling of changes to KiwiSaver could reduce certainty for savers. Having said that, we think constructive adjustments can be made within KiwiSaver that will help improve outcomes for vulnerable New Zealanders and for New Zealanders who are likely to be impacted by the changing nature of work, and by the changing participation of New Zealanders in the labour market, as well as the decline in home ownership. As requested in the first and third terms of reference for this review, that is where we focus our following recommendations.

### RECOMMENDATION

**'SMALL STEPS': INTRODUCE A DYNAMIC STEPPED EMPLOYEE CONTRIBUTION AS THE DEFAULT FOR NEW MEMBERS, AND AS AN OPTION FOR CURRENT MEMBERS.**

This proposal would see new members being automatically defaulted into 'Small Steps', with contributions rising 0.5% each 1 July, until they either reach 10% or they opt out. Existing members should be enabled to choose to opt into 'Small Steps'.

An outcome we see occurring as a result of the current default KiwiSaver setting of a 3% contribution rate is that some savers assume that 3% is being signalled as the 'right' level required to prepare for retirement. We see this with independent workers who are not required to contribute a minimum amount like employees do - many end up contributing at 3%. This can have the perverse effect of reducing overall accumulation of savings for those who may have been prepared to save at a higher rate than the default. At a 3% contribution rate, they risk arriving at age 65 with a shortfall in accumulated savings to fund their intended lifestyle.<sup>24</sup>

The default settings continue to be a powerful tool in terms of delivering automatic enrolment

22 <https://www.fma.govt.nz/assets/Reports/20191004-FMA-KiwiSaver-Annual-Report-2019.pdf>

23 <http://www.legislation.govt.nz/act/public/2006/0040/151.0/DLM378372.html#DLM378826>

24 Madrian BC, Shea DF. 2001. The power of suggestion: inertia in 401(k) participation and savings behavior. *Q. J. Econ.* 116:1149-87; Choi JJ, Laibson D, Madrian BC, Metrick A. 2004; For better or for worse: default effects and 401(k) savings behaviour. In *Perspectives on the Economics of Aging*, ed. D Wise, pp. 81-121. Chicago: Univ. Chicago Press.

to KiwiSaver. 'Small Steps' would augment this tool. After an employee has been contributing at 3% for at least one year, their contribution rate would automatically increase by 50 basis points each 1 July, culminating after 14 years at 10%. 'Small Steps' would therefore promote contribution escalation, but without causing significant financial discomfort for savers as the steps each year would be small.

'Small Steps' would become the default setting for all new KiwiSaver members, including those who choose their own provider, with the option to opt out at a certain rate ceiling, or to opt out of 'Small Steps' altogether. If they chose to do so, opting in again at any time would be an option. Existing members could sign up for 'Small Steps' also. As is the case now, all KiwiSavers could also reduce their contributions at any time.

Taking inspiration from the successful Save More Tomorrow<sup>25</sup> programme in place in some countries, which links contribution increases to salary increases, 'Small Steps' focuses on annual increments that are gradual and relatively painless in the short-term. For an employee earning \$50,000 a year, contributions would rise by \$250 a year, or less than \$10 per fortnightly pay. But these small annual increases could deliver significant results in the long-term. Above a baseline result of \$194,000 from 3% contributions (in today's dollars), Small Steps could result in \$369,000 (today's dollars) by age 70, thereby achieving a significant lift in savings for utilisation in retirement to maintain standards of living.

**RECOMMENDATION**

**TARGET THE GOVERNMENT CONTRIBUTION TO INCENTIVISE VOLUNTARY CONTRIBUTIONS BY NON-EMPLOYEES.**

This suggestion is to increase the Government match of voluntary contributions by KiwiSavers to an amount that is significantly more likely to incentivise saving behaviour, for example, \$2 for every \$1, up to \$2,000 per annum. This could replace the government contribution currently given annually on employee payroll contributions.

**THE GOVERNMENT CONTRIBUTION - AN INCENTIVE?**

Any incentive, financial or otherwise, should drive desired behaviours, encouraging recipients to take action. If what we are fundamentally after in KiwiSaver is a long-term savings habit (as per the founding legislation), the government contribution should be driving that outcome.

Unfortunately, its current structure of 50 cents on the dollar, up to \$521.43 per year, means it is being perceived as more of an entitlement than an incentive. The majority of employees, for example, are no doubt more motivated by their employer contribution, which tends to be significantly higher than the annual government contribution. They receive the government contribution automatically, without having to take any additional saving steps. Without it, most employees would still contribute as the employer contribution is an effective incentive.

According to our regular CFFC surveys,<sup>26</sup> 25% of those who are in KiwiSaver have not received the Member Tax Credit/government contribution<sup>27</sup> in the past 12 months. A further 27% do not know if they received it - either because they have not checked their KiwiSaver account or because they are not aware of the incentive. That suggests that for more than half of KiwiSaver members responding to our surveys, the government contribution incentive is not working.

GOVERNMENT CONTRIBUTION RECIPIENTS		
Received Member Tax Credit (Past 12 Months)	%	123
Total (qualified)	100%	9,529
Yes	48%	4,566
No	25%	2,388
Don't know - Have not checked KiwiSaver	17%	1,654
Don't know - Not Aware of Member Tax Credit	10%	921

Furthermore, each year hundreds of thousands of non-employee members, for whom the Government money is their primary incentive, do not engage and receive it. This happens despite significant efforts and cost to providers and government agencies such as CFFC aimed at persuading members to not miss out. It appears that many of the flows of money linked to the government contribution are inefficient.

**MAKING KIWISAVER CATER FOR MORE**

KiwiSaver has always been employee-focused. In fact, full-time and part-time employment - ie, not self-employment, contracting or working in own business - is the strongest predictor of being a contributing member (more than age, gender, or ethnicity). Of those employed, 75.3% were in KiwiSaver and making contributions, compared to 29.1% of those not in employment.<sup>28</sup>

KIWISAVER CONTRIBUTORS			
Situation	Not Employed	Employed	Total
Yes, I'm in KiwiSaver and I'm making contributions	29.1%	75.3%	59.2%
Yes, I'm in KiwiSaver, but I am not making contributions	36.3%	8.6%	18.2%
No, I'm not in KiwiSaver	34.6%	16.1%	22.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Auto-enrolment, automatic contributions and employer contributions are available only for those who are employed. Independent workers, business owners, stay-at-home parents, students and beneficiaries are excluded from these features, although they can choose to make voluntary contributions. Data suggests that many of them do not, either due to insufficient income, lack of information or lack of motivation (for employees, the lack of motivation is effectively addressed by the automation of enrolment and contributions). Not only are many more non-employees not members (34.6% versus 16.1% of employees), but more than half the non-employees who are members are not contributing. KiwiSaver is not working for them.

Those excluded from KiwiSaver's main focus can, and should, be targeted with specific initiatives that promote engagement and drive a long-term savings habit. The self-employed deserve particular attention: they are close to 15% of the New Zealand workforce, yet nearly two-thirds are not contributing and are at risk of not engaging adequately to prepare for retirement. This is due to: the lack of strong incentives, with many not seeing it as a valuable investment scheme; a lack of awareness of the existing incentive, or even that they are able to

25 Save More Tomorrow is a trademarked programme, for which we received a submission from Jonathan Parsons (AFA, Spratt Financial), Ali Bazaaz (One50 Group), Joseph Darby (AFA, Milestone Direct) and Clive Fernandes (AFA, National Capital) on 20/08/19, recommending its adoption in New Zealand, and enclosing the Victoria University of Wellington report 'The Save More Tomorrow' plan can boost retirement savings in New Zealand' by Dr Jan Feld; and Shakked Noy, available at <http://researcharchive.vuw.ac.nz/handle/10063/8245>.

26 Results of CFFC barometer surveys available at <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/KiwiSaver-CFFC-Data-Report.pdf>

27 The name was changed from Member Tax Credit to Government Contribution during the survey which was conducted over 2018 -2019 in subsequent waves. The name change was reflected in the question respondents see in the survey.

28 Employment is defined as full-time or part-time employment and does not include self-employment, contract work or working in own business.

voluntarily pay into the scheme; and a 'set and forget' attitude that leads most of those who do contribute to put in just a base of close to 3% – with little variation based on income level, age or career trajectory.

### FRONT-LOADING THE INCENTIVE

Research suggests that financial incentives work best at motivating behaviour change if they are simple, tied to controllable outcomes, used when the outcome matters, and reinforce what individuals already want to do. They tend to work less well when their structure is complicated (thus New Zealand's avoidance of tax incentives), or the link between the effort required and the outcome is not clear. They can also backfire when they are too low – lower matching contributions will increase participation by only a correspondingly small shift.

Which brings us to the proposal of tilting the government incentive towards voluntary contributions (that is, away from employee contributions) and increasing it to a meaningful amount (as, for example, the original \$1,000 kickstart evidently was). The amount chosen should be tested for its effectiveness. But given that individuals perceive an outcome as a gain or a loss – and they are twice as sensitive to losses as they are to gains of an equal magnitude<sup>29</sup> – we believe that the amount will need to be at least twice what the saver contributes. Thus, the proposed amount of \$2 for every \$1 contributed from members, to a maximum of \$2,000 per year from the Government. This would apply to all contributions from non-employees and all non-payroll contributions from employees, made directly to their provider.

When people don't know how their actions affect outcomes,<sup>30</sup> feedback is less effective. So we also propose engineering the incentive to give feedback to savers more often. Instead of a once-a-year payment, we recommend a monthly payment, with whatever voluntary contribution is made attracting the matching funds at the end of that month. Visibility should reinforce behaviour.

Resistance to this proposal is bound to emerge because of the cost to taxpayers. However, employees who don't make voluntary contributions would no longer receive the government money. What's more, the cost can be kept down by adjusting the amount of time the Government contribution is available to each member. Instead of offering the current \$521.43 for up to 47 years, it could be made available for the first 12 years in which the member is eligible. After that, the member would have become used to contributing, and would likely continue even though the government incentive has ended.

Front-loading in this fashion not only keeps total costs down, it also takes advantage of compounding returns over time from a larger investment earlier on. Running the numbers, we can see that using the baseline scenario, a member receiving the current \$521.43 for 47 years (age 18 to 65) would achieve a final balance of \$78,000. Under the proposed front-loaded government match for 12 years, that same member would instead have an end balance of \$96,000. This improved result would come from harnessing the power of time in the market.

It should also be noted that the establishment of KiwiSaver has resulted in an expanded revenue stream for the Crown in the form of tax on KiwiSaver investment returns. We project through 2050, for example, that the Crown will receive close to \$2 for every \$1 it puts into the scheme under the current incentive system. This, however, does not take into account tax revenue from investments that would otherwise have taken place if KiwiSaver did not exist.

To the extent total tax revenue is increased because of KiwiSaver, it may also be appropriate to evaluate whether some of this increased revenue would be better targeted towards extending the proposed match. The revised incentive will also have a redistributive effect towards more vulnerable groups, such as students, parental leavers, the unemployed and other beneficiaries, and therefore be in line with the Government's wellbeing approach, and to the terms of reference for this review.

### RECOMMENDATION

PHASE IN EMPLOYER CONTRIBUTIONS FOR MEMBERS AGED OVER 65, AND CONSIDER THE IMPLICATIONS OF DOING SO FOR THOSE AGED UNDER 18.

The 2016 Review of Retirement Income Policies recommended KiwiSaver be opened so that those over the age of 65 could join; this change has subsequently been successfully implemented. The next step is to require contributions from employers to continue for all employees, as without this the current practice is discriminatory. A phased approach may require an employer tax credit initially.

This suggestion stems from fairness. For someone to turn 65 and suddenly receive what is effectively a pay cut is financially cruel, and blatantly discriminatory. Employer contributions should be considered independently of the fact that NZS starts at 65, as NZS has no impact on employers and is not intended to offset wages or salary if employed.

Some employers voluntarily continue to contribute to employees after they turn 65. This adds to the unfairness for workers whose employers stop contributing.

We would like to make the same change for young employees also, as there is real value in engaging with the scheme early, and again on a strong basis we can see for discriminating on age at either end. It is an opportunity for teens to raise their financial capability that much earlier. However, we realise that youth face some different challenges when starting their employment pathway, and we would not want to recommend action until there was clear understanding on how this could impact youth employment outcomes. Therefore we recommend that consideration is given to requiring employer contributions for under 18 year old employees, as a next step from introducing it in the near term for those aged 65 and older.

When KiwiSaver was initially established, the employer contribution generally became accepted by employers because a corresponding tax credit meant employers were not out of pocket. We imagine that in order to install these additional incentives, a similar approach will be required to phase in this change.

### RECOMMENDATION

PHASE OUT THE INCLUSION OF KIWISAVER IN 'TOTAL REMUNERATION' PACKAGES.

We wish to see the option for employers to apply a 'total remuneration' approach to KiwiSaver employer contributions removed, as the employer incentive should be separate from agreed wages or salaries.

As noted elsewhere in this report, the employer contribution is probably the strongest incentive for many employees to participate in KiwiSaver. But under total remuneration, employees effectively pay their own employer contribution. The absence of a genuine employer contribution incentive weakens the effectiveness of the scheme, increasing the risk that the demands of the day will drown out the demands of the future. There is also unfairness when employees compare their situations with their peers in other workplaces, with one receiving a match from their employer while the other does not.

Total remuneration can be appropriate in senior management roles, where the employee has far more bargaining power. But the practice is by no means limited to the higher levels of management. We recommend amending legislation to prevent total remuneration applying to KiwiSaver, or to restrict it to employees in senior management roles with higher salaries.

Employers who use total remuneration often say it means equal treatment for their employees in and out of KiwiSaver.

<sup>29</sup> Kahneman D, Tversky A. 1984. Choices, values, and frames. *Am. Psychol.* 39:341-50

<sup>30</sup> For example, energy consumers may not know what changes in behaviour will be most effective in lowering their energy bill. Studies suggest that direct feedback (eg, a real-time energy use display monitor) reduces energy consumption by 5-15 percentage points. Darby S. 2006. *The effectiveness of feedback on energy consumption: a review for DEFRA of the literature on metering, billing, and direct displays.* Work. Pap., Environ. Change Inst., Univ. Oxford, UK.

But the scheme designers intended employees in the scheme to be better off, to encourage membership.

Again, this change will probably require initial funding from the Government and subsequent phasing in.

### RECOMMENDATION

MODEL THE POTENTIAL RANGE OF IMPACTS IF THE OWNER-OCCUPIED REQUIREMENT FOR FIRST-HOME WITHDRAWALS WAS TO BE REMOVED.

We considered recommending removing the existing six-month residence requirement when using KiwiSaver to purchase your first home, in part because a number of people have asked why there is this six month hold up to them renting out their first house and in part because we hear anecdotally some are ignoring it anyway.

This question generated quite a deal of publicity and heat. On the one hand, the sounding received significant support from particularly young, urban New Zealanders, who fear they will never be able to buy a house to support their retirement in their city, and also from participants in some of our focus groups who noted a desire to be able to purchase a house 'back home' using KiwiSaver, with the intention of retiring there in due course. On the other hand, we received quite a lot of opposition in fear of the impact this could have on a sensitive housing market across the country, and the impact on smaller communities and rural areas where affordability issues are already impacting on those populations' ability to house themselves appropriately.

We have been convinced that this suggestion should be approached from a housing policy lens, rather than from a savings perspective as the entrance point. Moreover, we think that the impacts likely to be caused by such a change should be extensively modelled before being

confirmed. We will work with the Ministry of Housing and Urban Development to explore this option further.

Meanwhile, we believe there is merit in the suggestion from the EEO Commissioner at the Human Rights Commission to explore options for collective borrowing to enable whānau/ family and other collectives to create more purchasing power. They suggest that:

'CFFC engage banks to reconsider lending practices to allow collective borrowing for mortgages so that kin groups or friends can collectively invest in a home. This will greatly assist cultural communities such as Pacific, where collective ownership of property and collective caring for elders is the norm. Additionally, while individuals within a family or household may have lower incomes, collectively they have a bigger capacity to afford a deposit and manage mortgage payments to help ensure they have a secure retirement.'

We would be interested in exploring other avenues to this end also. Is there potential for a 'side car' to KiwiSaver that could allow family members to combine their individual accounts in KiwiSaver into a collective pool? We have not had the time or capacity to explore such ideas through this review, but agree that the challenge and opportunity is to lift the ability of Pacific, Māori and women to work towards home ownership in concert with their closest networks.

'One of the major risk factors identified for hardship in retirement is not owning a home in later life, or owning a home with a mortgage...It is crucial that groups with low rates of home ownership, including Māori, Pacific and women who are single or have had relationship breakups, are also supported to own a home to increase their security in retirement.'

### RECOMMENDATION

ESTABLISH A CENTRALISED FINANCIAL CAPABILITY HUB FOR HARDSHIP APPLICATIONS.

We recommend transferring the management of hardship applications to a centralised hub within the financial capability ecosystem, to ensure a consistent approach, improve fairness and trigger budgeting, counselling and other wrap-around assistance from relevant agencies.

KiwiSaver withdrawals for financial hardship totalled \$107.9 million in 2019, up 7% from the year before.<sup>31</sup> One of the key pieces of feedback we received from a KiwiSaver review forum held with KiwiSaver providers and government agencies was that hardship applications bring a wide range of wellbeing and other considerations with them. Providers tell us they are ill-equipped to deal with some situations, such as when a hardship applicant shows signs of severe stress, or for example, threatens to take their own life. A survey of budget advisers who currently work with hardship withdrawal applicants reports a 20% rate of avoided withdrawals due to identifying alternatives. For more experienced advisers in this KiwiSaver hardship area, that rate can rise as high as 50%.

There is growing support for creating a centralised hub for hardship applications. FinCap, which represents 200 budgeting services nationwide who deliver financial capability services from 330 locations, agree with the merits of this proposal, and have indicated that, if the Government supports this recommendation, they are prepared to form the centralised hub. We believe that they are the best-placed organisation to coordinate hardship cases, and can offer practical wrap-around support for applicants, as they are able to draw on a number of financial capability services that could work with hardship applicants to avoid the need for withdrawal of some or all of their KiwiSaver funds.

The hub process could look like this:

- A KiwiSaver provider receives a withdrawal request on hardship grounds.
- The MoneyTalks team in FinCap engage a local financial capability and budgeting service.
- The local service would set up a face-to-face interview within an agreed timeframe.
- The local service would, within an agreed timeframe, prepare a report with recommendations for the KiwiSaver provider, to accompany the completed application form.
- The provider would then process the application, and forward it to the Statutory Supervisor (who is regulated by the Financial Markets Authority). There would be no assumed impact on the current independence of the supervisor.

Alternative solutions that budget advisers could pursue with hardship applicants:

- Approach creditors for hardship options (advocacy)
- Bring spending under control or reduce expenses (financial mentoring and budgeting advice)
- Declare insolvency (advocacy and financial mentoring)
- Consolidate debt into a micro-credit loan (advocacy and financial mentoring)
- Enlist support from friends and whānau.

We think that the advantages of this process are clear, and include better agency skill fit, application consistency, cost-effectiveness, and raised financial capability. As importantly, this approach could help deliver the double benefit of a) improving long term outcomes for vulnerable savers through keeping their KiwiSaver accounts more intact, and b) a significantly reduced fund withdrawal rate and a reduction in repeat withdrawals.

<sup>31</sup> <https://www.fma.govt.nz/assets/Reports/20191004-FMA-KiwiSaver-Annual-Report-2019.pdf>

It is estimated that as much as \$100 million annually could remain in KiwiSaver as a result of instituting this centralised approach. That money would be left to continue to accumulate for the future needs of vulnerable New Zealanders.

Moreover, we believe that once the centralised hub model is proven, it could be extended to a broader range of New Zealanders in recognition that low and middle income KiwiSavers can also be at risk of slipping into vulnerability if hit by a set-back such as redundancy or a relationship break up. It was clear from many of the submissions received, as well as through the focus groups, that there is a general need and demand for financial support and advice from trusted sources but many people don't know where to turn for this, or don't think they can afford it. We think there is a need to identify options to bring access to financial advisors into reach for more New Zealanders. The provision of financial information, guidance and individualised planning for those at risk of becoming vulnerable to having only NZS to rely on in retirement is a logical step to us, and one that we think is also good for the fiscal sustainability of the retirement income system more broadly.

**RECOMMENDATION**

**ADD A 'SIDECAR' SAVINGS FACILITY TO KIWISAVER FOR SHORT-TERM EMERGENCIES.**

We propose that the default creation of a side account to the main KiwiSaver account is explored by Government. This could be achieved through setting aside an extra 1% employee contribution, so that every saver who chooses not to opt out has an 'emergency fund' of up to \$3,000 available, thus protecting their main savings while enabling access for shorter-term needs. Once the \$3,000 is reached, contributions above that would then tip into the main KiwiSaver account.

This could operate as a safety valve in emergencies such as car repair, dental work, whiteware replacement or other crises. Having a 'sidecar' that was more accessible than main KiwiSaver funds could therefore protect the long-term KiwiSaver balance, which is already being used by some in hardship as an emergency fund, eroding the core purpose of their KiwiSaver.

Withdrawing funds from the sidecar would also lead to the member being offered financial guidance through the centralised hub. This could provide alternatives that would set the individual down a more secure path in the future.

Such an approach has been shown to be successful overseas. In a trial in the Philippines, for example, customers who were offered a commitment account had bank balances that were 82% higher 12 months later compared to customers who were not offered a commitment account.<sup>32</sup>

Why not let members set up their own separate emergency fund through a regular bank account? This proposal has an opt-out setting – so they certainly could. But the default would be there in case they do not.

**RECOMMENDATION**

**AUTO-ENROL BENEFICIARIES IN KIWISAVER THROUGH A GOVERNMENT CONTRIBUTION.**

This proposal is to enrol all beneficiaries in KiwiSaver through a 3% government contribution each week, on top of their current benefit, paid directly to the beneficiary's KiwiSaver fund (and without an expected beneficiary contribution, considering that beneficiaries are unlikely able to make regular contributions to KiwiSaver, or without being means-tested if they could do so). We think that this 3% contribution would be fairly modest in cost terms to the Government, as at jobseeker rates of \$245 per week, or \$12,740

per year, 3% would be in the order of \$382 per year per member, at a total annual cost to the taxpayer of around \$114 million.

We know that KiwiSaver exacerbates the wealth gap over time, as some New Zealanders can't afford to save and so miss out on the compounding benefit of saving even a small amount of money, but over time. Our terms of reference stress the importance of providing options to lift retirement outcomes for the most vulnerable. We believe that targeted incentives would improve the chances of some of the most vulnerable New Zealanders being able to have a pool of savings to supplement their income in retirement.

It is sometimes argued that beneficiaries are not the target for KiwiSaver, considering the KiwiSaver purpose of supporting New Zealanders who would not otherwise be in a position to support standards of living experienced prior to retirement, and reflecting that at 65, when beneficiaries move from a benefit to NZS, they usually receive a rise in income. Some argue that they are used to living on a low income, and so don't need extra retirement income above NZS.

However, many beneficiaries don't stay on a benefit permanently, and should not be constrained from participating in the full range of benefits when they are working, even if short-term or irregular. For those who do remain on a benefit throughout, it seems reasonable regardless that they are provided full opportunity to benefit from KiwiSaver's compounding effect, and in line with the request of this review to provide options to improve retirement outcomes for low income and vulnerable New Zealanders.

A letter passed to us for the review illustrates the depth to which some feel excluded from KiwiSaver through being on a benefit:

*I opted in to KiwiSaver when the scheme began and accumulated a few grand, which I never noticed was missing from my income. Nearly a decade ago, I suffered a complete emotional breakdown and was diagnosed with PTSD and agoraphobia – the term debilitating fits well.*

*I am now a recipient of supported living payment from WINZ, due to the fact that my disorder is severe, degenerative and permanent. I am unlikely to ever be an active participant in the economy again. WINZ do not make KiwiSaver contributions and I've been advised that, if I were to make voluntary payments, it would be seen as an unnecessary expense and would be assessed as a cash asset. This would result in a disproportionate reduction in my benefit, which is not enough to survive sustainably on.*

*WINZ benefits are too low to support a healthy and fulfilling life in the short term. For the thousands of NZers who face a lifetime of subsistence on the dole, even a few dollars a week is a lot of money, when you consider that many of us never visit a doctor, go hungry for days each week, never leave the home for recreational purposes and basically live in economic purgatory..*

*I'm sure it's lovely to have a growing KiwiSaver account but they do not exist in my world. I get it, I have no value to NZ society. That's what discussions of KiwiSaver remind me – Kiwis value financial security but not those with disabilities and chronic illnesses. 'We' are lucky to have KiwiSaver – I'm not part of that 'we'. – Jan<sup>33</sup>*

As a final comment on this topic, we note that there are alternatives or additional ways to support low income families to save for their retirement. For example, we think that it could be a similarly useful suggestion to restart the KiwiSaver kickstart for children of families below a set income, so that some of the most vulnerable to poor retirement outcomes – children of low income and beneficiary families – can benefit from compounding interest, even if they are not able to save regularly throughout their life course. This would also create an incentive for some to save more if and when they are able to set aside something from their incomes. Policy work would be required as to where the level should be set for both low income and no fees. But we are mindful of the Government's statements that it is working to respond to the recommendations of the Welfare Expert Advisory Group, and so

<sup>32</sup> Ashraf N, Karlan D, Yin W. 2006. Tying Odysseus to the mast: evidence from a commitment savings product in the Philippines. Q. J. Econ. 121:635-72.

<sup>33</sup> This letter was sent to Mary Holm's Weekend Herald personal finance Q&A column. The writer has given permission for it to be included in the review. The letter writer's name has been changed to protect privacy. We noted in chapter one and in our summary that Mary Holm has provided some guidance and advice through this review process.

recognise that responses under that may need to be implemented before new ideas to support savings for low income and beneficiary New Zealanders can be advanced. We will watch progress with the response to WEAG carefully, as to how we can assist or adapt proposals to support that response.

## RECOMMENDATION

INTRODUCE CARE CREDITS TO REDUCE THE RISK OF BEING PENALISED FOR TIME OUT OF EMPLOYMENT CARING.

We recommend the Government consider the introduction of care credits for New Zealanders having to stop or minimise their contributions to KiwiSaver due to caring responsibilities requiring them to leave or suspend employment. This is so that those who are no longer receiving employer contributions because they are undertaking unpaid caring roles, that are often so valuable for families and the community, should receive a specific contribution from government to make up in part for the loss of employer contributions. We think this could make a significant difference for many New Zealanders, many of whom are women and also Māori and Pacific New Zealanders with significant family caring responsibilities, and who prioritise care for others over their own future wellbeing by foregoing income and employer contributions. Because they have had to, or chosen to undertake caring roles for others, they can risk a long-term unintended consequence of reduced KiwiSaver totals, and poorer outcomes in retirement.

The submissions we received from the public in response to this suggestion generally supported the idea of care credits - but for both men and women. One submission, from the EEO Commissioner at the Human Rights Commission suggested that 'the CFFC adds its voice to policy development on... The entitlement of women and primary carers on parental leave to the maximum member tax

credit whatever their level of contribution to KiwiSaver, as recommended by the Tax Working Group'.<sup>34</sup>

While acknowledging that comprehensive policy work would be required by the appropriate government leads to advance the design of care credits, including further consultation with the public, we think there is value to this suggestion, and particularly considering the first and third terms of reference for this review.

## KIWISAVER AND IMPLICATIONS FOR MĀORI

In addition to securing NZS, for Māori to catch up and experience equity of access to NZS as we've stated above, we think it is critical that Māori are supported to save more. Māori feature far too evidently among low income cohorts of New Zealanders, and we believe that all actions to lift income and therefore ability to save should have a specific lens of lifting incomes for Māori at the forefront. But in addition to this perspective in policy design, we think more specific support is needed to advance opportunities for Māori to save, including through supporting Iwi to establish the infrastructure for savings schemes for their beneficiaries. We have been observing the progress of Ngāi Tahu's Whai Rawa saving and financial education scheme and think there is considerable merit in the approach, though noting it comes with considerable resourcing and commitment of Iwi resources.

Our recommendation is that the Government consider providing infrastructural support to Iwi who wish to establish savings schemes for their beneficiaries, similar to the infrastructural investment that the Government made in establishing KiwiSaver itself. To enable discussion and exploration of what shape this support could look like, the Retirement Commissioner is interested in facilitating a conference to bring interested Iwi together to set the process and options for consideration. This is an action we intend to advance through our Statement of Intent and 2020 work programme.



THE PUBLIC GENERALLY SUPPORTED THE IDEA OF CARE CREDITS FOR BOTH MEN AND WOMEN.

34 NZ HRC Submission to the 2019 Review of Retirement Income Policies, page 2.



CHAPTER  
**THREE**  
NEW ZEALAND SUPERANNUATION  
- VALUE FOR MONEY

REVIEW OF  
RETIREMENT  
INCOME  
POLICIES  
2019

## NEW ZEALAND SUPERANNUATION - VALUE FOR MONEY

### TERM OF REFERENCE 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

### TERM OF REFERENCE 7

Information about the public's perception of the purpose and principles of New Zealand Superannuation

It will be no surprise that our view – already set out in the summary and in chapter two – is that NZS is good value for money, and delivers positive impact for current NZ Superannuitants. It should be reinforced to do so for future generations, some of whom will need it even more than many current NZ Superannuitants. We think that NZS is affordable on current settings, at least for the medium term, but if the Government does not agree with this assessment, our view is that, while raising the age of eligibility is always an option for government, there are other options that should be considered at the same time, specifically considering how tax settings can help manage NZS. We explore some considerations for this option in this chapter, as well as what we think are next steps for capturing the public's strong view on the value of NZS.

### FISCAL SUSTAINABILITY OF NZS - CONTEXT

Along with the rest of the OECD, New Zealand is undergoing a complex demographic change, with an increase in the number of older people, together with an increase in the proportion of older people in the population, and an increase in longevity. This means that in the future, more people will be receiving NZS and for longer, if the current policy settings do not change. According to Statistics New Zealand (and as noted in chapter one):

The number of people aged 65+ doubled between 1988 and 2016, to reach 700,000. The number is projected to double again by 2046. It is expected there is a 90 percent probability that there will be 1.32-1.42 million people aged 65+ in 2043, and 1.62-2.06 million in 2068.

By 2032, it is expected that 20-22 percent of New Zealanders will be aged 65+, compared with 15 percent in 2016. By 2050, this proportion is expected to reach 21-27 percent and reach 24-33 percent by 2068.

This means that for every person aged 65+, there will be about 2.8 people aged 15-64 in 2035, 2.4 in 2055, and 2.0 in 2068. This compares with 4.4 people in 2016 and 7.1 in the mid-1960s.<sup>1</sup>

Statistics New Zealand offers several scenarios with differing assumptions. In all the scenarios there is substantial growth in the numbers and percentage of people aged 65+ in the population and increase in the average lifespan.

The Treasury uses Statistics New Zealand's population projections in its statements on New Zealand's long-term fiscal position. According to He Tirohanga Mokopuna<sup>2</sup> - the 2016 Statement on New Zealand's long-term fiscal position - the spending on NZS was projected in 2016 to increase to 7.9% of GDP (gross), or

<sup>1</sup> [http://archive.stats.govt.nz/browse\\_for\\_stats/population/estimates\\_and\\_projections/NationalPopulationProjections\\_HOTP2016/Commentary.aspx](http://archive.stats.govt.nz/browse_for_stats/population/estimates_and_projections/NationalPopulationProjections_HOTP2016/Commentary.aspx)

<sup>2</sup> <https://treasury.govt.nz/sites/default/files/2016-11/Itfs-16-hm.pdf>

LONG-TERM  
PLANNING  
FOR FUTURE  
CHANGES TO  
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FOR PUBLIC  
CERTAINTY.

6.6% (net), by 2060, from the current 4.8% of GDP. As importantly, the costs of financing debt will increase from 1.6% of GDP to 11% of GDP in the same time period, driven in part by increased expenditure on NZS and health, due at least in large part to the ageing population (assuming taxes are not increased). The 2016 statement specifically links future fiscal pressures to the ageing population:

While current government finances remain relatively strong, fiscal pressures are projected to build over the next 40 years. Population ageing is projected to apply pressures through slower revenue growth (resulting from less participation) and increased expenses (primarily through New Zealand Superannuation and healthcare).

Treasury projections are sometimes criticised for not including the income tax paid from NZS - providing gross rather than net figures for the proportion of NZS to GDP, when it is the net figure that actually represents the true cost that New Zealanders pay for NZS through their taxes, with the tax on NZS in reality a transfer from one government department (MSD) to another (IRD). Treasury projections are also sometimes criticised for a lack of adjustment of tax thresholds due to inflation, and for not including contributions from the New Zealand Super Fund (NZSF - see chapter one for a description of the role of the NZSF). There is also considerable public confusion about the role of the NZSF, reflected in the submissions received on the review, and in CFFC's other regular surveys around the costs of NZS and how they are paid for, with many assuming that NZSF has been paying for NZS for some time. The NZSF will not start paying for any of the increase in NZS costs until 2035/36 and its contribution will peak at 12.8% of the cost of NZS by 2078. The projected proportion of the rise of costs in NZS is also contested, with a calculation by the Council of Trade Unions, included in their submission to the review, suggesting that the net fiscal costs of NZS rise to only 5.9% in 2060, not to 6.6% (net), or 7.9% (gross) as reflected by Treasury in this year's HYEUFU.<sup>3</sup>

The CTU argues that: 'recipients are taxed on their NZS income - so it is actually the net cost after the claw-back of superannuitants' tax payments that is important. The net cost to the Government in 2019 drops to 4.1 percent of GDP or \$12.3 billion. In 2060 it would cost 6.6 percent of GDP'. In addition there is the direct contribution of the NZSF: 'By 2060, when the Fund is projected to be contributing \$7.1 billion to that year's New Zealand Super costs, the net cost to the Government of the day amounts to 5.6% of GDP.'

So while views differ on the precise figures - and we look forward to seeing the updated figures in Treasury's 2020 Long-Term Fiscal Update (LTFU) and for the 2020 Budget - it seems clear that the rise in proportion of NZS to GDP will likely be in the order of 6% to 7% net by 2060. But at these projections, as even with the 7.9% gross, this is still well below the proportion of GDP that many OECD countries already pay for their state pension schemes. Moreover, income tax paid from NZ Superannuitants on all income received, including but not only NZS, is significant and will grow.

Still, expenditure on NZS will rise both in terms of absolute numbers and proportions. This of course raises the question of where the extra money will come from. The current indexation of NZS to 66% of the average wage means that economic growth will not specifically solve the problem, though economic growth will provide more choices. Other avenues are always possible, such as raising taxes, but each brings its own trade-offs:

'We can pay for any level of NZS if taxes are raised, or we take on more debt or government spending is redirected from other areas. But such measures would sooner or later exacerbate economic and fiscal problems or create resentments which threatened the political sustainability of NZS.'<sup>4</sup>

### NZS SUSTAINABILITY - THE RESEARCH

In their research report commissioned for the review, *Intergenerational impacts: the*

*sustainability of New Zealand Superannuation*, Susan St John and Claire Dale of the Retirement Policy Research Centre (RPRC) outline how 'NZS appears to have been outstandingly successful to date in preventing poverty among most of those over 65'.<sup>5</sup> But - as we've seen in chapter two - due to changes in home ownership and the increase in the number of people renting, as well as an increase in more precarious work arrangements, the picture of hardship in retirement is changing as more New Zealanders look likely to transition to retirement less well prepared than previous generations.

Raising the age of NZS is therefore not going to help improve retirement outcomes for these New Zealanders, particularly considering CFFC's own research on income sources in retirement shows the heavy reliance of many of today's NZ Superannuitants on NZS as their sole source of income, with the data showing that close to 80% of retired respondents rely on NZS as their main source of income (78.5% of retired respondents who are 65 or over).<sup>6</sup>

Those with NZS as their only source of income (21% of CFFC's sample) are much more likely to report that they are struggling (19.5%) compared to those who do not rely on NZS as their only source of income. They are also likely to have a lower rate of home ownership (58%) than those who have other sources of income (87%).

Instead of defaulting to raising the age of eligibility as the answer to sustainability of NZS, but meanwhile risking growing poverty and inequity in future

NZ Superannuitants, the 'Intergenerational impacts' report suggests there is instead the option to realign aspects of the settings within NZS to reduce overall expenditure. St John and Dale particularly believe that realignment of the net married rate and the single sharing rate should be undertaken as a priority (the single sharing rate is currently 60% of the married rate, meaning that two people sharing a house

who both receive the single sharing rate receive more in total than a married couple; this is due to the system assuming married couples benefit from economies of scale that single people living in the same house do not): 'There is a case therefore to pay the same flat rate to everyone, set somewhere between the married person and single sharing rate'. They have modelled some scenarios in changing to a flat rate for all sharing, regardless of relationship status and believe that if a new sharing rate was to be set at the married couple rate, this could save around \$1.3 billion gross per annum.<sup>7</sup>

At the same time, there are other inequity challenges to be managed across the welfare system, particularly as over time, 'as relatively more is spent on ageing cohorts, there will be relatively less for the working age cohorts'.<sup>8</sup> St John and Dale believe that, as a nation, we need to work towards being able to address this imbalance before it becomes a crisis and drastic action is required. Long term-planning for future changes to NZS is also very important to allow for long lead-in times so that the public can have certainty as to what current and future settings will be so they can base their retirement planning around this, as well as retain confidence that NZS will be there for them. St John and Dale therefore propose that, in addition to changing the sharing rates, NZS cost rises could be managed through more progressive taxation.

Considering that NZS is currently mildly progressive (mildly, as even the highest income NZ Superannuitants in the top tax bracket still retain 77.5% of the net pension), they suggest that a more progressive system is not too radical a shift as the tools to implement it already exist. The proposal would simply mean shifting the top tax rate up for the highest income NZ Superannuitants (noting no asset test is suggested). Where this level should be set would be the challenge to get right, as it is important that it would not impact on the close to 80% of NZ Superannuitants with limited additional income to NZS. The intention is not to reduce wellbeing of NZ Superannuitants, but to keep the system fair and sustainable for the long-term.<sup>9</sup>

## NZ SUPER COST RISES COULD BE MANAGED THROUGH MORE PROGRESSIVE TAXATION.

<sup>3</sup> Submission of the New Zealand Council of Trade Unions Te Kauae Kaimahi to the Commission for Financial Capability on the 2019 Review of Retirement Income Policies, received 31 October 2019, page 5; and <https://treasury.govt.nz/publications/model/new-zealand-superannuation-fund-contribution-rate-model-hyefu-2019> - see 'New Zealand Superannuation Fund Contribution Rate Model - HYEUFU 2019' excel sheet, 'NZS expense - History & Future' tab.

<sup>4</sup> Quoting Retirement Commissioner Diana Crossan, from 2013 Review of Retirement Income Policies.

<sup>5</sup> Intergenerational Impacts: The Sustainability of New Zealand Superannuation (Retirement Policy Research Centre at The University of Auckland), page 18.

<sup>6</sup> Available at <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/The-big-picture/CFFC-Research-Income-Sources-and-Hardship-in-Retirement.pdf>

<sup>7</sup> Intergenerational Impacts, pages 42-43.

<sup>8</sup> Intergenerational impacts, page 43.

<sup>9</sup> Intergenerational Impacts, Pages 47-55.

## A PROGRESSIVE TAXATION OPTION TO KEEP NZ SUPER FAIR TO ALL NEW ZEALANDERS, FOR TODAY AND TOMORROW

In their report for the review, 'Intergenerational impacts: the sustainability of New Zealand Superannuation' Susan St John and Claire Dale of the Retirement Policy Research Centre (RPRC) suggest NZS could become a universal basic income (UBI), with 'a tax-based clawback to improve sustainability with modelling to show approximately how much revenue could be saved... A basic income approach might offer this possibility and align with the Government's future of work programme, led by the Productivity Commission (2019), where the 21st century workplace no longer provides certainty of employment or sufficient hours of work for many workers.' (page 47).

St John repeated this suggestion in her Owen Woodhouse Memorial Lecture<sup>10</sup> in October this year, where she suggested that NZS could be extended to other financially vulnerable groups such as sole parents and disabled New Zealanders, and that one of the greatest advantages changing NZS into a UBI could offer is to help the long-term sick and disabled who are under 65, so that these groups do not reach retirement in such severe material hardship as many of these cohorts do now.

The idea of a UBI is gaining traction in some countries, and while the idea seems ambitious in the context of keeping NZS affordable on current, let alone extended, settings, it was suggested in New Zealand as far back as 1977 by Sir Geoffrey Palmer. He said then that National Super could become a basic income using the tax system to claw back from wealthy superannuitants.

Of course, extending NZS would cost more. The RPRC report suggests that we can help make NZS more affordable overall, and to allow for such innovations as providing it as a basic income, through raising the progressivity of our taxation system. This would mean that wealthier NZ Superannuitants would in essence pay back a higher proportion of their NZS than they do currently, through income tax:

'In a basic income approach, each person has a universal grant that is not part of taxable income. When additional income is earned, it is taxed under a progressive tax regime so that the tax system does the work of providing a claw back of the universal grant for high income people. Extra income is not unduly discouraged. The attraction for using this approach for NZS is that it retains simplicity and universality while reigning in the expenditure at the top end and providing some useful additional revenue to balance intergenerational concerns and to reduce the inequality within retirement.'

This, St John and Dale say, will help younger people to feel confident that the country can continue to afford NZS and that it will be available for their eventual retirement. Together with the alignment of single sharing and married sharing rates, this could ensure significantly more resourcing for NZS in the future:

'The proposed change would decrease the fiscal cost of NZS through reductions in payments to high income superannuitants and thus allow more spending or lower taxes for younger New Zealand taxpayers. It may therefore lead to improved perceptions of inter- and intra-generational equity, making the NZS system more affordable and durable for future generations'.

Submissions from the public in response to this proposal were generally supportive (if wary of the detail of how to actually implement). For example, John told us: 'New Zealand needs to change NZS, not by raising the qualifying age or reducing the payout, as is endlessly advocated by successive highly salaried retirement commissioners who themselves will never hear the wolf at the door... but by taxing all the wealth of those who do enlist to receive it, so effectively those who need it, get it'. More examples of submissions on this idea are provided in the next section.

## WHAT THE PUBLIC TOLD US

### NZS SUSTAINABILITY

As part of our public engagement for the review, CFFC posed a number of questions within Terms of Reference 6 and 7. This included asking for views on whether NZS should be means-tested, whether the age of eligibility for NZS should be changed, other suggestions to keep NZS affordable, and what the purpose of NZS is.

#### 1. Means-testing for NZS

We asked people whether they think NZS should be means-tested by income and/or assets, and if so, what the most fair and efficient form of means-testing would be. Most respondents were strongly opposed to means-testing by assets, because they saw it as punishment for having paid taxes and having worked hard to support accumulation of assets:

*'[means-testing] disincentivise[s] people from saving for their retirement'*  
- Natasha

*'We all contribute during our working lives, we should all benefit equally'*  
- Andrew

Others agreed in principle with means-testing, but felt it would be impractical and not worth the complexity because of the administrative burden and inefficiency:

*'This adds complexity and costs to the system and is likely to create unfairness in those who have used the presence of Super in their retirement planning'*  
- Graham

Others pointed out that the wealthy could exploit loopholes because they have the

cultural capital and financial access to accountants and financial advice:

*'The only people who benefit are the accountants who make a lot of money helping people get around the rules. Those that have the means to employ an accountant will be ok, ordinary people won't'* - Katie

*'Costly and complex option. The richer you are, the easier it is to "hide" your wealth'* - Juan

Some did favour means-testing however:

*'It needs to either be means tested, the age needs to raise or something else to change it substantially otherwise it will become a serious burden on the budget'* - Nick

Those who did favour means-testing tended to support income testing of wealthier NZ Superannuitants only, with some saying that it is unfair how wealthy New Zealanders are entitled to the same as those of limited means:

*'Multimillionaires do not need NZ Super'* - Lee

A few suggested that NZS should be topped up for those who do not have enough income or assets going into retirement:

*'If they are working full-time, they should not be able to receive Super. It may be necessary to allow part-time workers to receive some Super top up'* - Ron

*'I would rather it not be means-tested. However, it could be reduced in value but kept universal for efficiency and those who are in need (ie, means-tested to be low income / low assets) can have a targeted approach to top up Super'*  
- Dave

<sup>10</sup> <https://www.wgtn.ac.nz/law/about/events/annual-events/the-sir-owen-woodhouse-memorial-lecture>.

## 2. NZS - Age of eligibility

We asked respondents whether the age of eligibility for NZS should change, and what they thought the flow-on implications might be of doing so. Unsurprisingly, the question of the age of eligibility was a contentious topic in submissions, with a variety of perspectives expressed. We outline some of these below.

Those who want to keep the age at 65 years had an implicit fear of increasing poverty rates for those nearing retirement:

*'To increase the age again would be disheartening to those approaching this age as it would seem like the bar is being continually raised'* – Alex

*'Those in physically demanding jobs are likely to have lower earning potential in their latter years as their body deteriorates. Do not raise the pension age'* – Andrew

Others accepted that a change in the age of eligibility may be inevitable given increasing longevity and numbers of older New Zealanders:

*'People are healthy for longer, some people work into their 80s'* – Alison

*'Life expectancy has increased, why not also the retirement age?'* – Rachael

*'We can't afford to pay for the scheme with the ageing population and people living longer'* – Emma

While some wanted the age to increase in line with life expectancy, there were various ages proposed including 67, 70 and even up to 80 years. But some thought the age of eligibility should decrease, due to the impact of having to keep working to 65 for manual workers, a category in which some submitters observed Māori, Pacific and low-income New Zealanders are disproportionately represented. These submitters thought the age of eligibility should be lowered for such groups, if not for all New Zealanders:

*'Labourers shouldn't be expected to work to 60 or beyond'* – Katarina

Even those who wanted to increase the age felt that exceptions could be made for those employed in manual labour:

*'There should be an allowance made for people who have worked physically hard... some kind of early retirement allowance... there has to be room for varying situations and looking after vulnerable people.'* – Nicola

## 3. NZS - Affordability

The same variation in views was apparent when it came to submitters considering whether or not NZS is affordable. Some thought current settings could lead to bankruptcy for the country, while others said that we 'can't afford not to' provide NZS on current settings, or costs would likely go up elsewhere anyway.

*'I hope so, but I doubt [we can afford it]'* – Ian

*'I would hope the Government continues to commit to paying pensions at age 65'* – Rebecca

KASPANZ<sup>11</sup> described the costs of NZS as 'often exaggerated', arguing that New Zealand is a world leader with our universal NZS and it should be kept as it is. The Retirement Income Interest Group (RIIG) of the New Zealand Society of Actuaries, summarised their views with regard to the cost of NZS as 'there is no apparent cost crisis'. They argued that New Zealanders generally do not want the NZS system reformed, as NZS 'resonates with New Zealand values and the sustainability of that resonance should be considered alongside fiscal sustainability'. As for increasing the retirement age, should the Government not agree that the age of eligibility does not need to rise, RIIG favour the use of an 'objective formula to keep the average proportion of life spent on NZS roughly the same for each cohort'. In fact their view is that NZS is likely to be needed more in the future, not less:

*'It is quite possible that despite the introduction of KiwiSaver, younger cohorts will need NZS just as much as, or more than, older cohorts do, due to lower home ownership, lower wage growth, less stable jobs and lower savings rates.'*<sup>12</sup>

In their joint submission, Michael Littlewood and Michael Chamberlain argue strongly that NZS is affordable on current settings. Moreover they point out that it is actually the taxpayers of the future who will decide how much is spent on NZS and what changes are made to the age of eligibility and other factors, not the Government of today.<sup>13</sup>

Others said we should be careful not to frame the cost in terms of daily expenditure, because that approach doesn't put NZS in perspective compared with other government spending:

*'The public should be advised of the percentage of GDP this is costing instead or some better way of being able to assess how much Super is costing. The way it has been presented as a per day figure rising to a greater per day figure in future is not helpful and somewhat alarmist.'* – Carla

Others believe that the growing New Zealand economy and rising income levels will help keep NZS sustainable:

*'Our economy is growing steadily, and we are more flexible and outward-focused as a society and much more adaptable to change'* – Ross

*'Incomes will grow across the population'* – Andrew

Some felt that we need to change other aspects of the system, such as residency criteria both for length of time in New Zealand in order to receive NZS, and in terms of being able to take their NZS offshore with them, where they felt they could live more cheaply, while others feared that the burden of paying for NZS was because governments have diverted taxes to other areas:

*'Yes [we can afford it], as long as you stop governments taking the tax take and essentially thieving it from NZ Super'* – Jess

## 4. NZS - Purpose and principles

Respondents in public submissions expressed diverse views on the purpose of NZS. Most centred around one or a combination of the following:

- To give the elderly dignity in retirement
- To prevent poverty among the elderly
- To provide a basic standard of living
- To support those who have retired from work
- To care for ageing New Zealanders
- To give a living wage for a more comfortable retirement
- A citizen dividend - reward for working hard and paying taxes

Many respondents focused on NZS as a 'dividend' for their contribution to New Zealand:

*'To help those who retire to live particularly when they've had to go without for a long time. It's like finally reaping the rewards that were sacrificed before you retired'* – Malta

*'To reward taxpayers for years of contributions. Quality of life for keeping the country going'* – Stephanie

*'To help give those past retirement age an income to support them in old age and reward their support for NZ economy in the past'* – Cheryl

*'To provide older people with a stable income as they age, so they can continue to contribute to society both socially and economically'* – Helen

KASPANZ describes NZS as 'the safety net for all retirement income planning', the model for

<sup>11</sup> KASPANZ = 'Kiwi Saver, Annuities and Superannuation Protection Association New Zealand Incorporated', see [www.kaspanz.com](http://www.kaspanz.com).

<sup>12</sup> The NZ Society of Actuaries have made their submission publicly available on their website at <https://actuaries.org.nz/wp-content/uploads/2019/11/2-Longevity-RIIG-FINAL-Oct-19.pdf>

<sup>13</sup> The submission of Michael Littlewood and Michael Chamberlain is publicly available at <https://alt-review.com/>

which is 'sound, efficient, effective, has reasonable costs, is excellent for women, and keeps the elderly from poverty'.<sup>14</sup>

The need for dignity for the elderly was strongly expressed also:

*'It [NZS] is cornerstone support for personal dignity and safety – New Zealand would be a much harsher place without it' – Tony*

*'To ensure people can lead a life of dignity and enjoyment as they age, and do not fall into poverty or a life that does not meet their basic requirements for wellbeing' – Sarah*

*'A back up base income to support retirees through the later years of retirement' – Denny*

We close this section on the purpose and principles of NZS with a quote from the submission of the Retirement Income Interest Group of the New Zealand Society of Actuaries, giving their views on the purpose of NZS:

*'Our view is that the primary purpose of New Zealand Superannuation is to protect the population against longevity risk (living longer than expected) and that it should do so in a way that is consistent with the principles of equity, adequacy, empowerment, sustainability and access.'*<sup>15</sup>

We chose this submission to close our section on the views of New Zealanders as to the purpose and principles of NZS, as we feel that it sums up much of what submitters told us in general as to the purpose and principles of NZS, even if in a diverse array of language and terms. Next we provide an outline of what we mean by longevity and how it is an opportunity for New Zealand to explore as we face up more fully to the impact of the demographic changes our society is experiencing and that mean the future is of course not going to look exactly like the past.

**NZ SUPER  
IS A SAFETY  
NET THAT  
KEEPS THE  
ELDERLY  
FROM  
POVERTY.**

<sup>14</sup> KASSPANZ: Top 15 retirement income issues NZ: 2019, see [www.kaspanz.com](http://www.kaspanz.com).

<sup>15</sup> Submission on 'Retirement income policy in New Zealand: A discussion of context and principles' by the Retirement Income Interest Group of the New Zealand Society of Actuaries, as part of their submission to the 2019 Review of Retirement Income Policy, together with a research report 'Longevity in New Zealand: Implications for Retirement Income Policy', available at [https://actuaries.org.nz/nz-super-works-well-but-increasing-longevity-puts-kiwis-retirement-savings-at-risk/?tribe\\_event\\_display=past](https://actuaries.org.nz/nz-super-works-well-but-increasing-longevity-puts-kiwis-retirement-savings-at-risk/?tribe_event_display=past)

## THE QUESTION OF LONGEVITY

### WHAT IS LONGEVITY AND WHAT IS ITS RELATIONSHIP TO NZS?

Put simply, longevity means long life. And New Zealand's population is not only ageing, but people are living longer. So we have more people reaching age 65, and eligibility for NZS, and more people living well beyond 65. That is, there is increasing diversity in the over 65 population, there are more people drawing NZS and drawing it for longer.

Longevity should not just be thought of as more years in older age (though it is that), but also potentially the lengthening of all stages of life, and the opening-up of more transition points to the next - and potentially new, rather than just slower - phases of life. We quoted in the summary that we like the description of longevity as enlarging 'the canvas of our lives'.<sup>16</sup>

At the same time, New Zealand is experiencing a delay in the average age of first children and a delay to when - or if - we are able to purchase our first home. Such delays can, and we are observing in New Zealand already are, meaning more people are reaching the age of eligibility for NZS with higher debt levels than previous generations, and increasingly without having purchased a house or with the commensurate level of savings or other assets needed to balance out not being an owner-occupier of a home. These trends are set to continue. Without these independent assets, more New Zealanders will need to be supported by the state for longer.

There are some obvious benefits from an increase in longevity both to individuals and to the state, including benefits to the economy from taxation and expenditure. The changes that longevity offers or threatens deserve attention from policy leads and a willingness to innovate to ensure that we maximise the benefits from longevity for New Zealanders, as well as are best placed to manage the costs.

Age of eligibility for NZS should be approached in this context also - more thought needs to be given across the system for the implications of changing one part of it, when more people are dependent on it, and where that might shift costs to. Therefore, we believe longevity should be a stronger policy focus for government, and that implications should be thoroughly modelled before actions that could be hard to reverse or that send particular signals to New Zealanders in their planning for retirement are set too strongly.

The question of longevity is discussed comprehensively in one of the Retirement Income Interest Group's (RIIG) two submissions to this review. In 'Longevity in New Zealand: Implications for Retirement Income Policy', raising the age of eligibility is described as always a valid choice for governments to consider; however RIIG does not consider this to be the best or most effective change for New Zealand currently: 'Many New Zealanders do not want a change to NZS, and the arguments for change are not one-sided'. RIIG provides an alternative through using a proportional approach, as this would be fairest to a range of cohorts, including for Māori and Pacific New Zealanders who have not to date benefitted from NZS proportionally:

'Our favoured approach on age of eligibility is to use an objective formula to keep the average proportion of life spent on NZS roughly the same for each cohort, with gradual planned increases, tempered by assessment of trends in population health, work patterns and the economy.'

<sup>16</sup> The Conversation, 25 November 2019, Australian edition, in an article on the recently announced review of retirement incomes by the Australian Federal Government. Longevity is an emerging topic receiving considerable attention overseas. For example, there is a Stanford Centre on Longevity with the tagline, 'Redesigning Long Life', and the BBC has recently run a series of articles on the 'longevity bonus'.

## NZS SUSTAINABILITY AND PURPOSE - OUR RESPONSE

It should be no surprise that our assessment is that NZS is effective in delivering a standard of living and wellbeing for vulnerable New Zealanders that they may not have been able to achieve prior to becoming eligible for NZS. It is valued by New Zealanders as reflecting core values of our society in terms of being universally applied, preventing and ameliorating poverty, being transparent and efficient to administer. This sentiment is mirrored in the public feedback we received for the review – we take pride in the universal nature of NZS and while our opinions differ as to its exact purpose, NZS is generally seen as a critical government support for New Zealanders from age 65, when some are unable to independently earn additional income sufficient to maintain appropriate standards of living.

We believe that NZS is affordable, and perhaps as importantly, that it reflects good value for money to New Zealand. The projections seem clear that NZS should remain affordable for at least the next couple of decades, barring major economic shocks. This is both from an objective point of view (at 6.6% net or 7.9% gross of GDP by 2060, and potentially less, the ratio will still be less than that of many countries in the OECD), and from a subjective point of view – the majority of today's 65-plus New Zealanders rely solely or mainly on NZS now, and it is clear that more of tomorrow's NZ Superannuitants will do so also. Moreover, on current rates indexed to average wages, NZS likely offsets cost pressures that would otherwise rise in other parts of the system.

It follows that lifting the age of eligibility for NZS is not the most promising way to keep NZS sustainable, at least in the medium term. Indeed a rise in the age of eligibility would have been best implemented when the cohorts transitioning over the coming decades to retirement had high levels of home ownership and low levels of debt. This time is behind us. The wealth level of some of today's NZ Superannuitants is not going to be a strong feature of the profile of as many NZ Superannuitants of the future, unless pre-retirement policy areas are able to deliver a significant lift in incomes, savings and housing levels.

While raising the age always remains a valid option for future governments to choose, it is not likely to be a positive step in terms of outcomes for New Zealanders transitioning to retirement over the coming decades. Our assessment is that it should not be the chosen tool to manage costs until there is greater equity in both life expectancy and living standards for all New Zealanders. We say this knowing that some groups of New Zealanders currently do not get to benefit from NZS fairly, particularly Māori and Pacific New Zealanders, and the goal posts for when they can access NZS should not be moved until they have equity in benefit and outcome.

In addition, we believe that government should always be alive to a broader range of options to manage these complex realities. There is no one tool to approach the sustainability of NZS. This is reflected in the submissions we received that were clear that New Zealanders also have views on taxation, continuing employment and income post eligibility for NZS, higher levels of NZS, new housing support mechanisms for superannuitants, cohort-specific support, valuing unpaid work, means testing, individual sharing and couple rates, and many more aspects that could be changed but all of which have cost implications. However, we are yet to find consensus on these issues. More evidence will be needed beyond this review to model and understand the implications of changing any one part of the system. That said, one point is clear to us – the costs and benefits of the system as a whole have to be taken into consideration, and we should recognise the return on expenditure through NZS in terms of value for money and what it will offset.

Fortunately we believe that even if the Government does not agree with this assessment as to affordability of NZS in the medium term, we still have the advantage of adequate lead time to undertake the extensive modelling that we believe would enable us to know with considerably more certainty what the effect of raising the age of eligibility or of other changes would be. This would need to include modelling the impact on those New Zealanders who are most vulnerable to poor outcomes in retirement, and before taking decisions that risk the stability and positive impact of NZS in the meantime, or that

increase stress for younger New Zealanders who already worry they will miss out on NZS. The next reviews of the retirement income system should be resourced in order to lead this work.

Accepting the above, and that New Zealanders need certainty for their planning and preparations for their eventual transition to retirement, and while also accepting that the Government of today cannot bind future Governments, we recommend that a purpose statement for New Zealand's retirement income policies be developed as a priority, with the role of NZS clearly articulated within that.

This is so we have a clearly mapped pathway that:

- a) helps New Zealanders navigate through their retirement preparation journey, and
- b) so we can understand the contributions to retirement outcomes made by a broad range of agencies, and to help test and guide what changes in that system are needed, which are the immediate priorities, and when they should be actioned.

As a priority action, therefore, the Retirement Commissioner will lead the development of a purpose statement for New Zealand's retirement income system:

- Reflecting the Retirement Commissioner's coordination role, this will be developed in consultation with senior government officials, through a DCE group that will be convened by the Retirement Commissioner, and with advice and guidance from an Experts Advisory Group to be established by the Retirement Commissioner in 2020.

We request that Ministers for the relevant portfolios write to their Chief Executives requesting their support for the Retirement Commissioner's work to develop a purpose statement for New Zealand's retirement income system.

- These two groups will be well-placed to, in addition to supporting the development of a purpose statement for the retirement income system, help agree a collaborative research programme to ensure that we know what progress we expect to see towards achieving the agreed purpose, to assist the Retirement Commissioner to monitor how government interventions are delivering and what changes to policy and implementation should be trialled to address gaps, and under what priority.

Meanwhile, we encourage the Government to remain alive to the range of options that could be considered alternatively to raising the age of eligibility, and to ensure greater equity in benefitting from NZS for all New Zealanders of today and tomorrow. We think there is considerable merit in the suggestion of considering a more progressive tax scale, and in exploring options to develop innovation leading to economic growth from the increase in longevity. Both of these steps require considerable design work, with leaders from across a range of government agencies. While the Retirement Commissioner may not be the logical lead for this work, through the Senior Officials Group, and in regular discussion with the Minister for Social Development and the Minister of Commerce and Consumer Affairs, the Retirement Commissioner will be ready to provide whatever support and guidance is helpful to advance practical options, including whether the next review should focus on these topics.

REVIEW OF  
RETIREMENT  
INCOME  
POLICIES  
2019

CHAPTER

# FOUR

KIWISAVER/KIWISPEND

ACCUMULATING SAVINGS AND SPENDING SAVINGS ARE TWO SIDES OF THE SAME COIN.

## KIWISAVER AND KIWISPEND - ENHANCING TRANSPARENCY AND OUTCOMES

### TERM OF REFERENCE 4

Information about, and relevant to, the public's perception and understanding of KiwiSaver fees, including:

- a) The level and types of fees charged by KiwiSaver providers; and
- b) The impact that fees may have on KiwiSaver balances.

### TERM OF REFERENCE 5

Information about the public's perception and understanding of ethical investments in KiwiSaver, including:

- a) The kinds of investments that New Zealanders may want to see excluded by KiwiSaver providers; and
- b) The range of KiwiSaver funds with an ethical investment mandate.

### TERM OF REFERENCE 8

An assessment of decumulation of retirement savings and other assets, including how the Government can ensure New Zealanders make the most of their money in the decumulation phase.

This chapter explores questions on KiwiSaver fees and ethical investment on which we've been asked, under terms of reference four and five, to provide information regarding views of the public. We also outline some possible next steps with regard to decumulation options, in response to term of reference eight. We group our responses to these three terms of reference together, because we think there is logic to addressing aspects of accumulating savings with how to plan to spend these savings. We view them as two sides of the same coin.

For one side of this coin, there is significant government investment in terms of annual government contributions for KiwiSavers (which we have proposed in chapter two to turn into a stronger incentivising mechanism), and of the infrastructure underpinning KiwiSaver. This supporting infrastructure includes the careful and transparent regulation of KiwiSaver providers and investors, but who can charge fees as the market determines. On the other side of the coin, once KiwiSavers reach 65, they have free choice as to whether to take their saved money in a lump sum, or invest in private funds management, or keep their money in KiwiSaver and draw down regularly. They can also choose to invest more money in investments, including through KiwiSaver, to continue to grow savings after 65. However, there is currently no compulsory KiwiSaver employer contribution for over 65s, which we propose in chapter two to address, by requiring that employer contributions continue for all employees, regardless of age.

Neither is there a government contribution for those who choose to keep their money in KiwiSaver over age 65. This is because the

provision of NZS kicks in from 65 for eligible New Zealanders, and is an even more significant investment of public money than the KiwiSaver contribution. Moreover, we believe NZS could be described as the 'perfect' annuity,<sup>1</sup> in terms of providing support to New Zealanders to manage the uncertain length of time they need retirement income for, though at a basic level. If a higher standard of living is desired (and it will be for many), then it is important that not only have savings being maximised prior to age 65 but also that New Zealanders feel confident and comfortable that they can manage the decumulation of their savings. There is also the question of whether the government contributions provided throughout the KiwiSaver accumulation period require any government oversight or support to ensure that that public investment is well managed.

As terms of reference four and five ask us to focus on the public's perceptions, we set out the submissions we received on these in some depth before making recommendations on fees and ethical investment. We then turn to decumulation, term of reference 8, and explore a 'blue skies KiwiSpend' proposal for establishment of a government annuity to help New Zealanders turn their savings into a certain income for as long as they live, in addition to NZS – but with the loss of some personal control of their money.

## KIWISAVER FEES – PUBLIC PERCEPTION AND UNDERSTANDING

Many of the large number of submissions received expressed an opinion on fees. Some were worried that fees are excessive and hard to balance against value for money over time, others say fees are to be expected, and others acknowledged they hadn't particularly thought about this question until responding to the review questions.

*'I assume because I'm with a big bank fees are average' – Natasha*

*'I hope I don't pay much in fees' – Katarina*

For those who knew the impact of fees on their balance, there were two camps:

### 1. Fees are too high

For this group, some said the onus was on providers, and not the Government, to be more transparent. This would provide greater competition between providers and create a more genuine level playing field where providers would compete more rigorously for market share:

*'KiwiSaver providers should be required to show not just their monthly management fees but their percentage of capital fee' – Marita*

*'Fees in NZ are excessive. The Government has unwittingly created a very profitable market for KiwiSaver providers' – Chris*

Many respondents felt that fees were far too high, but had different opinions on what to do about it or, indeed, whether anything should be done. Some said that government should intervene to avoid further issues:

*'I recently changed providers to one that charges lower fees. Less fees means more money in KiwiSaver to grow' – Sally*

*'I feel fees charged by KiwiSaver providers should be regulated so that the percentage charged tapers off as the balance increases' – David*

Others said that when they realised the scale of their fees, they switched providers and sought ongoing information about their providers:

*'I read Mary Holm and the Sorted website and review the best banks with less fees on investments keenly' – Sue*

### 2. Fees are to be expected

Others thought that fees were part of life and to be expected if you were investing in a financial product. In essence, their argument is that nothing in life is free:

*'It seems fair that fees are paid, we know this when we sign up' – Adam*

*'Choose a good provider. Shop around' – Michelle*

Others said that higher fees meant higher returns, so they look at the wider picture:

*'... [I have] actively sought out a provider with the best combination of returns and fees' – John*

*'If fees are linked to fund performance, then I don't care. If they make more money, happy to pay more fees' – Callum*

### CFFC research on fees

In addition to the public submissions, CFFC includes questions on fees its own regular surveys of the public.<sup>2</sup> From this, we know that fees are important – the second most important consideration when selecting a KiwiSaver fund (after fund performance) for respondents. It is clear that fees are a more important consideration for some respondents and cohorts than for others, with 41% of younger (18-33 year olds) KiwiSaver respondents saying that fees are important when selecting a KiwiSaver fund, compared with 36% of older respondents.

More than half of respondents (55%) support a fee cap for all KiwiSaver funds, and a further 12% support a fee cap for default funds only. However, despite the importance of fees for current KiwiSaver members, less than 5% of KiwiSaver non-members indicated fees as a reason why they are not in KiwiSaver. Therefore, fees do not appear to be a particular barrier to joining KiwiSaver. But while fees may not be a barrier to joining KiwiSaver, we think that fees levied throughout the course of saving in KiwiSaver can have a significant impact on the eventual savings outcomes, and particularly for smaller amounts of savings. We address this in the next section.

### RECOMMENDATIONS: KIWISAVER FEES – INCREASING TRANSPARENCY

Considering the above submissions, which are just a snapshot of those received, and our own understanding from CFFC's ongoing research on KiwiSaver, including the impacts of fees,<sup>3</sup> we make the following recommendations:

### RECOMMENDATION

EXCLUDE FIXED FEES FROM LOW-BALANCE KIWISAVER ACCOUNTS. FOR ALL BALANCES UNDER \$5,000, REQUIRE PROVIDERS TO REMOVE ALL FIXED FEES.

- Most KiwiSaver funds charge a flat membership fee, often around \$25 to \$45 a year, as well as a percentage of the member's balance.
- Watching fixed fees erode low balances is particularly difficult for members to accept. For instance, a parent watching their child's fees eat into the original \$1,000 kickstart – even if eventual returns more than make up for this – will typically express disappointment at a fee structure that is not meant for low-balance accounts, with few, if any deposits.
- As a result, some providers have waived fees for low balances, particularly for children's accounts. This proposal would make this trend the norm across all low-balance funds. It would also avoid the disincentivising experience that results from the effect of fees on these accounts.
- This means that, in effect, providers would cross-subsidise low-balance accounts with fees collected from other higher-balance ones. We believe that this is appropriate.
- Note that when this is considered together with our recommendation set out in chapter 2 above to reset the government contribution, the \$5,000 threshold would be quickly passed in many cases. (For example, the proposed government match of \$2 for \$1, up to \$2,000 each year, would put contributing members beyond \$5,000 in the second year.)

<sup>1</sup> Decumulation: Time to Act' Commissioned report prepared for the Commission for Financial Capability's 2019 Review of Retirement Income policies, by Associate Professor Susan St John and Dr Claire Dale of the Retirement Policy and Research Centre, University of Auckland Business School, page 5; available at <https://cffc-assets-prod.s3-ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/Ak-Uni-RPRC-Decumulation-Research-Report.pdf>

<sup>2</sup> There is a wealth of information in CFFC's barometer survey reports, and we encourage readers to review the data report in full, at <https://cffc-assets-prod.s3-ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/KiwiSaver-CFFC-Data-Report.pdf>

<sup>3</sup> <https://cffc-assets-prod.s3-ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/KiwiSaver-CFFC-Data-Report.pdf>

**RECOMMENDATION**

DISPLAY FEE PROJECTIONS ON ANNUAL MEMBER STATEMENTS. ALONGSIDE THE BALANCE PROJECTIONS THAT HAVE NOW BECOME STANDARD ON KIWISAVER STATEMENTS, ANNUAL STATEMENTS SHOULD INCLUDE FEE PROJECTIONS AND A COMPARISON TO THE AVERAGE FOR THAT TYPE OF FUND.

- As the selection of submissions above show, and we regularly hear and see in CFFC's ongoing work, it is challenging for members to comprehend fund fees and how significantly they affect their end savings' result. Sorted's fees calculator can help as it projects, based on present fee levels, what a member can expect to pay over the life of their KiwiSaver experience in the various funds on offer. Our recent exit survey from the Sorted tool shows how surprising the aggregate figures can be, with 65% reporting that they are 'more than they expected'.
- The issue for the members, however, is not just understanding how much fees add up, but how a fee structure works. Even the method for charging fees is unique. Fees are hidden behind the scenes, building in the background, and there are no bills, invoices or monthly statements to pore over. In addition, there's the impact of fixed versus percentage-based fees on various tiers of balances.
- When a spotlight is focused on fees, the public tends to jump, perhaps unsurprisingly considering the above, to a KiwiSaver fee cap solution. More than half of respondents to our regular CFFC surveys (55%) support a fee cap for all KiwiSaver funds, and a further 12% support a fee cap for default funds only. While this response is not a surprise, we do not advocate such an approach.

- Instead, more complete transparency on the effect of fees over time, and a clear comparison of a given fund with its peers, would allow members to understand the story more clearly: that is, 'This is what you can expect in terms of a result; this is what you can expect to pay for it; and this is what you would pay in a similar fund with average fees'. This approach provides for clear cost-benefit evaluations and can inform any consequent decisions.

**RECOMMENDATION**

IMPROVE DISCLOSURE AROUND SHARE INVESTING IN KIWISAVER. MANDATE IMPROVED DISCLOSURE ON SHARES, FURTHER DISTINGUISHING BETWEEN EMERGING VS ESTABLISHED MARKETS, AS WELL AS NEW ZEALAND VERSUS AUSTRALIAN SHARES.

- There are times when disclosure, with its laudable goal to de-jargon financial information to make it accessible to the widest possible audience, reduces the data too much to retain its meaning.
- Share disclosure is an example that can be remedied. Currently, providers are required to disclose all shares as being either 'Australasian' or 'International', glossing over major distinctions within these broad categories but that could significantly aid decision-making and investor capability.
- Meanwhile we know that many investors want to know how much they are investing in their own country. This proposal is therefore:
  - » Firstly, to distinguish, in a fund with Australasian shares, which portion reflects companies primarily located in New Zealand, and which portion is in Australian companies.

- » Second, where category holdings are currently simplified as 'international shares', the provider should indicate whether they are in established or emerging markets, as this is information that is fundamental to making informed investment choices.

- As an interim measure, we encourage all providers to voluntarily change their disclosure to include these distinctions. Meanwhile, there are other significant improvements to KiwiSaver disclosure that would be worth scoping as well, such as improving the risk indicator currently in use. We will be working to advance such improvements through CFFC's ongoing work programme.

**RECOMMENDATION**

MAKE PRESCRIBED INVESTOR RATES (PIR) TAX REFUNDABLE. THIS WOULD CHANGE PIR STATUS TO 'NOT A FINAL TAX', AND ACCOMMODATE PEOPLE WHO ARE USING INCORRECT TAX RATES.

- Upgrades to Inland Revenue systems in 2019 uncovered close to 950,000 KiwiSaver members who had overpaid their tax for years. But they were unable to claim a refund due to it being a 'final' tax. Another 450,000 had underpaid and received notice that a payment was due.
- While technology enhancements should mean this unfortunate situation will be largely avoided in the future, there remains the distinct possibility of having overpaid tax in KiwiSaver. A change in category for PIR would mean any such tax could be refunded into the member's account.

**KIWISAVER - ETHICAL INVESTMENT OPTIONS**

In term of reference five, the Government asked us to provide information about the public's perception and understanding of ethical investment. We commissioned research to explore the status of ethical investment in New Zealand, and asked the public their views. These are set out in this section.

**What the research tells us**

We asked KPMG to pull together a report on the status of ethical investment in New Zealand. In response, their report<sup>4</sup> provides a definition of Responsible Investment – or RI (which they consider to be a more easily understood phrase). They outline that the main framework to implement RI is through taking ESG (Environmental, Social, and Governance) factors into account when making investment decisions.

- Responsible investment includes: ESG - Environmental (climate change, resource depletion, waste, pollution, and deforestation); Social (working conditions, child labour, animal welfare); and Governance considerations (bribery and corruption, political lobbying and donations).
- Responsible Investment is a proactive and systemic approach that includes impact analysis, critical selection and longitudinal monitoring.
- This can be done through one, or a combination, of a range of approaches, from:
  - » ESG integration within business models
  - » Negative or exclusionary screening, against minimum standards
  - » Positive selecting for minimum standards
  - » Sustainability-themed investing, ie selecting particular sectors, companies or projects because of

<sup>4</sup> Available at <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/KPMG-Report-for-RRIP-Ethical-Investment.pdf>

their intended positive contribution to sustainability

- » Impact investing, ie choosing particular investments for the social or environmental impact they seek to generate, in addition to profits
- » Corporate engagement and shareholder action, whereby shareholder power is used to influence corporate behaviour.

The report notes there is a misconception that ESG issues are purely 'ethical', and may compromise financial returns. But their research over the past decade has shown that responsible investment is not less profitable.

In the New Zealand context, the research (backed by the submissions we received on this topic) suggests that New Zealanders engaged in sharemarkets care about responsible investment, with 72 per cent of respondents expecting their investments to be made responsibly and ethically. However, there are several issues with the current framework for responsible investment in New Zealand, including that for KiwiSaver, including:

- A lack of legislative guidance from the New Zealand government.
- Ambiguous and inconsistent terminology which varies between and even within KiwiSaver fund providers, and can confuse investors.
- Ambiguous policies on what is excluded.
- Some KiwiSaver funds present regulated exclusions, eg, investment in cluster munitions, as a voluntary market differentiator when they are not.
- Few KiwiSaver funds provide details about monitoring processes.

In response to these issues, the report suggests the following recommendations to government:

- Establish clear and consistent definitions for responsible investment, including themed investments such as impact and green investment.

- Establish a clear and detailed classification system, or 'taxonomy', for responsible investment and to encourage this to be the standard across New Zealand's financial system.
- Develop consumer-focused guidance on responsible investment.
- Require clear, consistent and transparent reporting on responsible investment.
- Establish labels for green financial products.

In addition to the KPMG work, CFFC includes ethical investment in its own regular surveys of the public.<sup>5</sup> From this, we know that ethical investment is important to the majority of respondents, with only 26% of overall respondents, and 18% of contributing KiwiSaver members, stating that they are NOT interested in ethical investment. We also know that:

- In terms of which investment most want excluded from investments, animal cruelty, worker exploitation, whaling and pornography top the list, with over 70% of respondents agreeing these are exclusion priorities.
- Nuclear power, pornography and fossil fuels were rejected by female respondents at a much higher rate than by male respondents, with younger respondents rejecting investment in fossil fuels at a higher rate than older respondents.
- A majority of respondents are satisfied with available ethical investment options within KiwiSaver and of those contributing, 70% are satisfied with the range of ethical investment options. However, at 64%, women are less satisfied with the available ethical investment options. Māori and Pacific respondents also show higher levels of dissatisfaction with available ethical investment options, but this data needs to be interpreted with caution due to small sample sizes.
- This high level of satisfaction is a surprise because most ethical investment funds do not meet the expectations reported by survey participants.

### What the public told us

Ethical investment was a topic that many submitters felt strongly about. Many want some sectors to be excluded from Kiwisaver investments.

Most of the investments people would like to see excluded were centred on industries with negative social and/or environmental implications, including but not limited to:

- Tobacco / vaping
- Alcohol
- Military – weapons and industrial production
- Dairy farming / big dairy industries
- Animal testing
- Modern slavery

What counted as 'ethical' was a point of contention among respondents, however. Some felt that it was about being effective and efficient at doing business:

*'What is important to me is that I select an ethical and well-managed company to look after my retirement investments. By ethical I mean a company that can be trusted to make good, open, honest and reliable business decisions' – Oliver*

Others felt that ethical was about the way workers are treated, not the industry which is being invested in:

*'Unethical industries probably in overseas countries where the workers are exploited and not paid a fair wage' – Lorna*

Similar to the sentiments expressed about monitoring KiwiSaver fees, some thought ethical investments need to be better regulated:

*'There needs to be an agency that independently evaluates and assesses the behaviour of financial institutions in this industry... they can watch over and keep them "honest" in terms of practices [so that] consumers are informed...' – Ross*

Those respondents who had no opinions on ethical investment felt either that it was a matter of personal choice or that they were concerned primarily with the return on their investment:

*'I think KiwiSaver members should choose with their investments. KiwiSaver providers should present the information on what sectors they invest in on the front of their forms/product disclosure/annual statements' – Andrew*

In terms of options for choosing how and what to invest in, and whether there is enough choice for ethical investing available, responses were mixed. While some respondents said that there were enough options already, most people said that they weren't sure how to know. For example, Sylvie said:

*'It's really hard to find out what you're investing in.'*

There were calls for more information to be provided, and that the information already available should be made much more accessible:

*'There is not enough information... there probably is enough choice, the only way we could exercise a choice is to peruse each and every KiwiSaver company's policy...' – Heather*

Some people felt that ethical investments were reserved for niche providers, and felt that big banks could get onboard with their own ethical alternatives:

*'It would be great if the four big Australian banks got onboard with some [ethical investment] options' – Nick*

Others raised concerns about a lack of transparency on the part of KiwiSaver providers about where their money was being invested:

*'I don't think there is enough transparency when starting out... fortunately [my investment provider has] a very transparent system' – Finn*

<sup>5</sup> There is a wealth of information in CFFC's barometer survey reports, and we encourage readers to review the data report in full, at <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/KiwiSaver-CFFC-Data-Report.pdf>

## RECOMMENDATION

PUBLICLY FUND MINDFUL MONEY TO ERASE ANY POTENTIAL CONFLICTS OF INTEREST: INTRODUCE TAXPAYER FUNDING FOR MINDFUL MONEY TO GUARANTEE THE CHARITY CONTINUES TO PUBLISH UNBIASED, RESPONSIBLE INVESTMENT INFORMATION.

- Mindful Money is a charity that promotes ethical investment,<sup>6</sup> and was recently launched (September 2019) in response to the public demand for more knowledge and options to invest ethically. Mindful Money's mission statement is to: 'empower investors and make investment a force for good. Over the next five years we aim to switch \$6 billion of investment funds away from pollution, exploitation and inequality towards a low emissions, sustainable and inclusive economy.'
- The growth of interest in responsible investing by New Zealanders has been a boon for public engagement with their funds, and their underlying investments. This additional engagement provides an opportunity for many to lift their financial capability, alongside their ethical interests.
- While there are a variety of solutions to empowering ethical investment, our preference is to facilitate the link between people's preferences and the financial products that cater to those preferences.
- The Mindful Money platform has quickly proven itself able to provide objective information to the public about their KiwiSaver funds, effectively 'lifting the bonnet' on the underlying investments and their exposures to undesired industries and practices. The Mindful Money platform can also match member preferences in responsible investing with available funds in the market.

- Mindful Money is currently running as a charity, receiving modest commissions from referrals to a small number of schemes. While the charity says this does not affect its recommendations, this proposal would replace its business model, with the aim of removing any possibility of perception of conflicts of interest that could arise from remuneration from member referrals, which would need to cease. We believe that this step would not only remove any potential conflict of interest, but would be the most efficient and practical step to take to support New Zealanders' interest in ethical investment, and to capitalise on that interest to support further engagement with their saving profile.
- As members consider their KiwiSaver funds for ethical investment outcomes, we would aim for them to evaluate by financial capability criteria as well, so that they do not end up with the 'perfect' ethical fund but that could be out of sync with risk preferences, the reasonableness of fees, the services offered by the provider, and knowledge of whether past returns have underperformed peers consistently. The optimal outcome would be that all these criteria be considered in choosing a KiwiSaver fund.
- While conscious that the regular process would be to go to tender first, we think in terms of efficiency and cost, and considering that the public want information now so that they can make informed choices that align with their personal values, funding Mindful Money is the most efficient and simple step for the Government to take.

Having made our recommendations on KiwiSaver (in this chapter for terms of reference four and five, and in chapter two in terms of impact on KiwiSaver from the changing nature of work, from declining rates of home ownership and from changes in the labour market participation of those 65 and older), we turn now to consider the decumulation side of the savings coin.

## DECUMULATION – SPENDING OUR SAVINGS

The eighth term of reference asks us to provide an assessment of decumulation options, including 'how the Government can ensure New Zealanders make the most of their money in the decumulation phase'. Decumulation is a topic that many New Zealanders might not be very familiar with yet – as our submissions attested to, this topic garnered the least number of responses, and with some submitters saying they don't really know what it is – but decumulation should increasingly be on New Zealanders' minds. This is because, following the introduction of KiwiSaver in 2007, the amount of savings New Zealanders are accumulating and able to access at age 65 is growing significantly, and will continue to do so as KiwiSaver, and KiwiSavers, mature over the coming decades.

To help us prepare for this assessment, we commissioned two pieces of work. The first was in direct response to this term of reference through the Retirement Policy Research Centre (RPRC), with the second, through the Public Policy Institute, focused on exploring retirement income policies in some other jurisdictions, including how they approach decumulation. We summarise both reports below, starting with the exploration of international models. This is outlined first as we wish to set out the broader context of decumulation, but then to finish this chapter by outlining the RPRC's 'blue skies KiwiSpend' thinking on how the Government could approach decumulation in New Zealand. We think that not only does this deserve in-depth attention, but a conversation needs to follow this suggestion so that most effective and commensurate next steps can be identified.

In *International trends and reforms in pension policy and delivery: comparative models for accumulation and decumulation*,<sup>7</sup> retirement income models from the three jurisdictions of the Netherlands, Denmark and Germany are explored. We chose these countries because this mix of systems and size of countries meant we could explore different aspects than we have usually examined when looking offshore, when we tend to regularly compare ourselves with Australia and the United Kingdom.

## The Netherlands

- In the Netherlands workers are required to purchase an annuity product upon retirement.
- The compulsion and restricted flexibility has resulted in some consumer dissatisfaction.
- Recent changes include an option to purchase a temporary annuity.

## Denmark

- Employees are encouraged to think about decumulation early in their working lives.
- Lump sum withdrawals are permitted but are not generally seen to be attractive compared with other options.

## Germany

- A variety of options for decumulation of pension funds - annuities, lump sum, and programmed withdrawal (or drawdown).
- The retirement system is highly complex, with different decumulation requirements, depending on the scheme.

## Other countries

- The majority of EU member states provide annuity options.
- Annuities are mandatory in six of the member states of the EU and voluntary in 15 states.

Meanwhile, in New Zealand, the report suggests that we do not generally have strong data to confirm trends, partly because there is no set mechanism to capture information as to behaviour choices for what KiwiSavers choose to do with their savings at age 65. However, anecdotal evidence seems to be that many withdraw significant amounts, and use it for non-retirement purposes such as paying off debt or for travel. The issue with one-off withdrawals, if that is a regular choice, is that they do not protect retirees from longevity risk, inflation risk, unsuccessful investment risks, financial exploitation or spending the money too early.

<sup>7</sup> *International trends and reforms in pension policy and delivery: comparative models for accumulation and decumulation*, by Yanshu Huang and Jennifer Curtin, University of Auckland (PPI), available at <https://cfc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/Making-your-money-stretch/Ak-Uni-PPI-Decumulation-International-Comparison.pdf>

<sup>6</sup> See <https://mindfulmoney.nz/pages/3/about-us/>



NEW ZEALANDERS' SAVINGS ARE GROWING SIGNIFICANTLY AND WILL CONTINUE TO AS KIWISAVER ACCOUNTS MATURE OVER COMING DECADES.

The report notes that, in terms of New Zealand's recent history with annuities, the private annuities market in New Zealand had largely disappeared, due to low state involvement in protecting consumers from their investment decisions, and high levels of taxation associated with annuities. But since 2015, a new annuity provider has entered the market, through Lifetime Retirement Income.<sup>8</sup>

Otherwise, the report notes that at present, little information is available for safe self-managed decumulation with KiwiSaver funds. Further, the report concludes that to annuitise KiwiSaver funds, tax-incentives and government regulation are needed. They note the proposal by the Retirement Policy and Research Centre for a social insurance scheme, 'KiwiSpend', intended to provide both a retirement income in the form of an annuity, as well as finance for long term medical care.

We next turn to set out the RPRC's KiwiSpend proposal, set out in their report *Decumulation: Time to Act*, proposed to encourage 'development and debate'.<sup>9</sup> The context for this proposal is that, while NZS could be described as 'a perfect annuity', and various drawdown products for retirees' other savings are available through banks, KiwiSaver providers and insurance companies, an increasingly large number of middle-income retirees are reaching the age of 65 years with large lump-sums from KiwiSaver. These require careful management if they are to last through an unknown number of years, supporting a standard of living not too dissimilar to that experienced pre-retirement. And there are other risks in addition to outliving savings, including the risk of requiring expensive long-term care, or needing to move to more appropriate housing for different stages of older life. Annuities can help manage these risks, through the saved lumpsum being used to purchase an ongoing, guaranteed income stream to supplement NZS and any other income streams.

KIWISAVER LUMP SUMS REQUIRE CAREFUL MANAGEMENT TO LAST THROUGH AN UNKNOWN NUMBER OF YEARS.

<sup>8</sup> <https://www.lifetimeincome.co.nz/about-us/about-us/>. The mission statement of Lifetime is to 'help you turn your savings into a fortnightly income that's insured to last the rest of your life, no matter how long you live.' Aside from Lifetime, while not an annuity, there is also currently a single reverse equity mortgage provider, Heartland <https://www.heartland.co.nz/reverse-mortgage/what-is-a-reverse-mortgage?m>

<sup>9</sup> *Time to Act*, page 41 and following pages.

## KIWISPEND - A DECUMULATION PARTNER TO KIWISAVER?

The Retirement Policy Research Centre (RPRC) believes the establishment of a government annuity is the best way to support NZ Superannuitants to manage decumulation.

- Annuitisation prevents the consumption of lump sums too early in retirement.
- Annuitisation can provide for ongoing income to meet future healthcare costs, including long-term care that may otherwise become a cost to the state.
- Annuitisation can help in an environment of:
  - » low interest rates, where older people may be prone to exploitation by institutions and individuals who offer higher interest rates but mask the risks involved.
  - » variability in mortality. An individual can expect between 0 and 40 years in retirement, making planning a smooth decumulation pathway a challenge.
  - » cognitive decline, if experienced, which can make management of property and investment income increasingly challenging

### WHY THE STATE SHOULD BE INVOLVED IN THE ANNUITIES MARKET

- The RPRC report argues that the New Zealand market is too small to encourage competition among multiple private providers.
- The risks faced by middle income retirees are largely uninsurable in the private sector.
- Providing a state-supported annuity can help to protect the public investment in retirement savings through KiwiSaver:

‘For an individual such advantages of certainty and simplicity may be obvious especially when there is cognitive decline. But there are also social advantages that

justify subsidisation. Where there has been tax-subsidisation of the accumulation it is legitimate to ask for a return of some kind to society. One potent argument is that annuitisation prevents the consumption of the lump-sums too early in retirement and provides for ongoing income to meet future healthcare costs, including long-term care that may otherwise become a cost to the state’. (*Decumulation: Time to Act*, page 25)

### HOW THE STATE COULD GET INVOLVED

- In exchange for a lump sum, a limited, gender neutral, annuity - which RPRC suggests could be called ‘KiwiSpend’ to capitalise on the KiwiSaver brand, and to reinforce it as the other side of the KiwiSaver savings coin - could be provided by the Government to combine an annuity with long term care insurance.
- The RPRC suggests the New Zealand Super Fund could be utilised to allow for a KiwiSpend long-term investment strategy, full CPI indexation, and the possibility of wage indexation.
- KiwiSaver providers would be obliged to default members into this scheme with a suitable opt out period to allow for advice to be taken and assessment of alternatives.
- A sensible goal for a top up annuity for middle income retirees might be an additional \$10,000 to \$15,000 per annum.

### RPRC STATES:

‘KiwiSpend would relieve some of the public and private burden of the costs of the ageing population, without creating hardship or unfair asset stripping. Under KiwiSpend, individuals would enjoy the peace of mind of the guaranteed income stream in addition to NZS’.

UNDER KIWISPEND,  
INDIVIDUALS  
WOULD ENJOY THE  
PEACE OF MIND  
OF A GUARANTEED  
INCOME STREAM.



## PUBLIC VIEWS ON DECUMULATION

Decumulation, the last question of the review survey, reflected some confusion about the term's meaning among submitters. Some left it blank, though completed the rest of the questionnaire.

People who think there is already enough help from the Government and/or KiwiSaver providers in helping decumulate lump-sum payments at age 65 were still worried about others risking 'splurging' their money at retirement. Submitters stressed the importance of financial education prior to retirement so that more people are prepared for when they become eligible to access their KiwiSaver come age 65:

*'We seem to have low financial literacy in NZ, maybe partly because wages are low relative to costs, and we feel stretched financially'*  
– Rosemarie

*'Basic financial literacy should probably be taught in school as a basic skill that young people learn about from the get-go'* – Edith

Others felt that while there is enough help with decumulation of retirement savings, it is not easy to find information about how to manage it:

*'Banks just exploit you... it's hard to find truly independent advice'* – Lawrence

*'There is enough help, but many people do not know where to look'* – Janice

Annuities were specifically mentioned in a small number of submissions:

*'There should be annuities available for people to buy'* – Andrew

*'Aside from perhaps a Government sponsored annuity scheme, I think that there is enough help available'* – Nick

At the same time, there was some strong reaction to the KiwiSpend proposal, as some thought savers should retain full control over their money, since they had earned it and know best how to spend it.

While decumulation was not the primary focus for many of our individual submitters, we also received some detailed expert views on the subject. In particular we received some submissions with technical suggestions, such as mandated timing of specific information packs, similar to the model used in the United Kingdom, where 'wake up packs' are sent to savers before the decumulation decision is taken. We also received several submissions suggesting that Government or providers should make independent financial advice available for members of KiwiSaver. Several submissions stressed that before recommending annuities, we should first more clearly establish through more thorough research that there is a case for government intervention, and if so, at what scale.

## DECUMULATION: OUR ASSESSMENT

In contrast with the wide agreement among New Zealanders of the value of NZS that we have stressed in the above chapters, we cannot yet see any consensus on how Government can best support New Zealanders to manage their own assets and savings through the decumulation phase of life. While some say they would welcome advice and support from the Government to help them manage decumulation, others say that they want no role for the Government in helping them manage their own money or constraining how or when it could be spent.

More work is needed to find out how many New Zealanders need assistance to manage savings and income once they reach the decumulation phase of life.

We therefore note the intention of the Retirement Commissioner to advance a decumulation work programme as a priority in 2020, that includes:

- Establishing an Expert Advisory Group, as set out in above chapters, the role of which would include exploring a range of options for government to consider, including outlining existing and potential demand for new products such as annuities or reverse

mortgages, as well as helping understand the costs to the public of further government intervention beyond NZS.

- ongoing consultation with the public to ensure a strong focus on understanding the range of challenges that New Zealanders continue to face in decumulating their savings and assets, considering the unknown longevity factor every person faces.
- engaging regularly with senior officials to ensure that any decumulation options are designed to align within the broader retirement income system, and are supported by the best available research to ensure fit for purpose. An evaluation framework should be designed from the outset of any new policy choices to ensure best value is being delivered for New Zealanders in government interventions.

In short, while we agree that action is needed on decumulation options, our assessment is that we are not yet in a position to know what that best course of action is. We think that the case for government intervention would need to be more broadly agreed and then designed through a thorough, inclusive process so that a clear course of action could be established to help meet the needs of the growing number of KiwiSavers, and to protect both the private and public investment that has helped created their savings.

Our next steps are therefore to lead a process to frame up the current and developing need and demand for decumulation products, and the commensurate actions, in priority order, to respond to this need and demand. This we will do through the steps outlined above, beginning in 2020.

**A CLEAR COURSE OF ACTION IS NEEDED TO MEET THE DECUMULATION NEEDS OF A GROWING NUMBER OF KIWISAVERS.**



REVIEW OF  
RETIREMENT  
INCOME  
POLICIES  
2019

ADVISING  
GOVERNMENT  
ON OPTIONS  
TO ENSURE ALL  
NEW ZEALANDERS  
HAVE A GOOD  
STANDARD OF  
LIVING AS THEY  
AGE, BOTH NOW  
AND IN THE  
FUTURE.



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