



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

**Submission of the
New Zealand Council of Trade Unions
Te Kauae Kaimahi**

on

Flexible Superannuation

P O Box 6645

Wellington

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1. Summary

- 1.1 The CTU is opposed to the proposal on flexible superannuation.
- 1.2 We recognise that the proposal maintains the current entitlements as an option but the early uptake aspect of the proposal carries significant risks to individuals and to the integrity of NZ Superannuation.
- 1.3 The CTU is concerned that pressures due to low income could mean people choose NZ Super at a lower level and be adversely affected. NZ Super is already too low.
- 1.4 Flexi-Super will impact at an earlier stage on other entitlements, such as ACC for people who opt in to NZ Super at age 60 – 65 years.
- 1.5 There could be impacts on KiwiSaver entitlements.
- 1.6 Flexi-Super undermines the integrity of NZ Super and it also poses a fiscal risk.
- 1.7 We believe the risks of higher levels of hardship among the elderly and other disadvantages outweigh any benefits from flexible superannuation.

2. Introduction

- 2.1 This submission is made on behalf of the 37 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With 340,000 members, the CTU is one of the largest democratic organisations in New Zealand.
- 2.2 The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.
- 2.3 The CTU welcomes this opportunity to comment on the Discussion Document on Flexible Superannuation. Workers are vitally concerned about adequate income in retirement and the Flexible Superannuation ('Flexi-Super') proposal could have a significant impact.
- 2.4 Flexi-super is a proposal to allow people to begin receiving New Zealand Superannuation (NZS) between the ages of 60 and 70, instead of at 65 as at present. The rate at which NZS

was paid would be adjusted relative to age 65 rates. The discussion document has suggested a 73% relativity for age 60 commencement, and a 160% relativity for deferral to age 70.

- 2.5 In this brief submission we outline our approach to superannuation and indicate our major concerns about the proposal.
- 2.6 We believe the risks of higher levels of hardship among the elderly and other disadvantages outweigh any benefits from flexible superannuation.

3. CTU Policy

- 3.1 The CTU policy position on superannuation has been to support the continuation of NZ Superannuation based on 66 percent of the average wage for a couple with entitlement at age 65 years on a universal basis.
- 3.2 We have supported the establishment of the NZ Superannuation Fund as an additional source of funding to cope with the impending peak in cost in universal public provision.
- 3.3 We have supported KiwiSaver being expanded to a 6+2+2 scheme where workers are required to contribute a maximum of 2 percent when compulsory employer contributions reach 6 percent; the Government contribution remains at 2 percent; the minimum wage is increased by an additional amount at the time the compulsory worker contribution of 2 percent applies; and that the Government contribution of 2 percent (of minimum wage or benefit level or another amount) applies to all those of working age that are not earning for a period. This is also on the basis that New Zealand Superannuation remains as it is currently structured; additional welfare payments are available to low income superannuitants and that there is a review of retirement income adequacy every 5 years.
- 3.4 We are aware of course that the employer and employee minimum contribution levels are now 3 percent. The principle of our approach still applies which is that the employer contribution should be the most significant and move to 6 percent.
- 3.5 We therefore believe that the policy focus for Government should be to improve KiwiSaver and maintain NZ Super in the current format.

4. Risks of Flexible Superannuation

- 4.1 There are many risks associated with Flexi-Super. These include issues such as:

- Pressures from low income
- NZ Super already too low
- Effect on other entitlements
- Interface with KiwiSaver
- Employment effects
- Fiscal impact
- Impact on social basis for NZ Super

5. Pressures from low income

5.1 While Flexi-Super offers more choice, the huge concern is that for low income workers the pressure to get some additional income will mean they opt for the lower rate even if it is not the best option for them in the long run. It could therefore worsen income inequality.

5.2 In a low income household, the knowledge that a person aged over 60 years could receive an additional \$260 a week will create a lot of pressure.

5.3 People coping with the stress of low-income are often in a position where there are constrained choices. For instance, choice of food, or purchase of an unreliable vehicle can end up costing the person more than more expensive options in the end once all consequences and costs are included. Adding Flexi-Super to the many constrained choices does not help.

5.4 Additionally there are issues of poor financial literacy that undermine good decision-making including superannuation decisions.

5.5 While it is true that many manual workers are exhausted before the age of 65 years, so are many other workers who have had intensive work over many decades. While an early payment of NZ Super could be attractive for these workers initially, they may end up seriously disadvantaged.

5.6 We recognise that it can sound arrogant to say people should not have more rather than less choice. But the risks in this case are very significant. What people in many cases are being asked to consider is their life expectancy. If they have a low life expectancy beyond 60 years,

then presumably (all other things equal) the best choice is to take early NZ Super at the low rate. If indeed the person does die within the next few years, then this is again, presumably, the right decision. But if the person's health improves and/or they live longer than they expected, they are then 'stuck' on the lower rate for many years.

- 5.7 Surely we need a stronger focus on lifting life expectancy, adequate health services for the elderly and other measures to improve welfare (including for people aged 60 and over) rather than creating a scenario where people through the pressure of low income and/or low life expectancy opt for a low rate of NZ Super.
- 5.8 We therefore cannot accept that a desirable policy response to lower life expectancy of Māori is to have earlier access to NZ Super. Surely we need policies that will lift life expectancy?
- 5.9 We cannot accept that an advantage for flexi-super is that it is a means of avoiding the stigma associated with other 'benefits'. To the extent that there is a stigma associated with being a beneficiary; that should be removed through a cessation of the attacks on beneficiaries by Government and promotion of recognition that there should be no stigma attached to someone exercising such entitlements.
- 5.10 Those able to delay take-up of NZ Super may derive a tax advantage which would not be available to those who need NZ Super at age 65 years (or earlier under this proposal). It is possible that a higher income earner can structure their income such that they diminish the risk of paying tax in a higher bracket by deferring take up of NZ Super until a time they have reduced their market incomes.
- 5.11 All of these elements suggest that those on low incomes will face pressures to opt for early uptake of NZ Super at the low rate. This could adversely impact on their income security in retirement and worsen income inequality.

6. NZ Super Adequacy?

- 6.1 There is evidence that for many people the level of NZ Super is already too low. Around 40 percent of those aged over 65 years rely entirely on NZ Super and for another 20 percent they get 85 percent of their income from NZ Super.

- 6.2 There is concern about household debt levels and falling home ownership. Market rents are very tough to sustain on NZ Super. There is already an increasing risk of more elderly people without a freehold home (or a high level of equity) and therefore fewer options around decumulation. The risks of higher levels of hardship among the elderly from Flexi-Super come on top of already worrying trends.
- 6.3 Jessica O'Sullivan and Toni Ashton¹ have estimated using 2009 figures that there is a shortfall of between \$5,655 and \$7,414 between NZ Super and the minimum income that is required to support living an independent and healthy life in New Zealand during retirement.
- 6.4 Peter Nielsen of the Financial Services Council has noted² for instance that for most of us \$350 a week is insufficient income in retirement to achieve a comfortable retirement. Most New Zealanders think this can be achieved by an additional \$300 a week (\$15,600 a year).
- 6.5 This indicates very real risks if people attempt to survive on a long term basis on NZ Super set at 73 percent of the aged 65 entitlement.
- 6.6 Flexi-Super creates an unacceptable risk of higher levels of hardship among the elderly.

7. Impact on other Entitlements

- 7.1 There is a real risk to workers aged over 60 under this proposal in relation to ACC entitlements. For instance, a 62 year old worker who opted for Flexi-Super and had a workplace accident (on present rules if applied to the new age) she or he would not receive earnings-related ACC compensation. People are eligible to receive ACC once they reach 65 (the current qualification age), but they have to choose either weekly ACC compensation or superannuation, not both. These are risks that are very hard for a worker to assess when considering whether to opt for early take up of NZ Super.
- 7.2 There could be an impact on other benefit entitlements a worker would otherwise be entitled to receive before aged 65 years.

¹ <http://docs.business.auckland.ac.nz/Doc/2012-Proceedings-Spending-the-Savings-Symposium.pdf>

² http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10874743

- 7.3 As the Discussion Paper notes 'if NZS was available to a person from age 60 to supplement their income, we would expect them to access it, before considering the provision of assistance under (the) social security legislation. This means that if someone was in between jobs they could have to take NZS instead of social security benefits'. In other words if someone aged over 60 in these circumstances became unemployed their NZS income could mean they do not receive unemployment benefit (Jobseeker Support).
- 7.4 There is a very serious implication in the statement that 'we would expect them to access an entitlement to NZ Super'. This implies that someone applying for a benefit over the age of 60 could be required to take up NZ Super early at the lower rate or not receive the benefit for which they are applying. This needs to be clarified.
- 7.5 There are many other circumstances where a worker aged over 60 who opted for early uptake of NZS could either miss out on or have reduced access to means tested benefits. These include accommodation supplement and disability allowance. For instance, Work and Income³ state that "the gross rate of New Zealand Superannuation... that the client or the client's partner is receiving is included as income when assessing eligibility for Disability Allowance".
- 7.6 We are also seeking clarification of the impact for people who opt for early take up of NZ Super and also choose the non-qualifying spouse rate where the rate of payment is reduced by 70 cents for each \$1.00 of income over \$100.00 (before tax).

8. Interface with KiwiSaver

- 8.1 Access to KiwiSaver funds is currently at age 65 years. Also KiwiSaver member tax credits cease when there is an entitlement to withdraw savings. Presumably these rules would be adapted so they apply at the age of uptake of NZ Super. This needs to be clarified.
- 8.2 Depending on what adaptation occurred this could have a number of effects. It could mean that the person opting for early uptake of NZ Super misses out on a period of member tax credits they would otherwise receive and during a period when they are still contributing to KiwiSaver. It could also mean that if withdrawals are permitted from KiwiSaver as a

³ http://www.workandincome.govt.nz/manuals-and-procedures/income_support/extra_help/disability_allowance/disability_allowance-21.htm

consequence of early uptake then that is an additional incentive (pressure) for a low income person to opt for early uptake of NZ Super at a lower rate. It also means they would have lower savings for retirement from KiwiSaver.

9. Employment effects

- 9.1 It is difficult to model the employment effects of Flexi-Super. It is possible that those workers who are in higher paid jobs are more likely to opt for later take up of NZ Super whereas those in lower paid jobs may opt for early take up.
- 9.2 If this did occur the effect would be to reduce the availability of higher paid jobs and increase the availability of low paid jobs.
- 9.3 Given that there are already employment spill-over effects from a trend towards people working after the age of 65 years it is hard to estimate what the additional impact of Flexi-Super would be, but this should be a consideration.
- 9.4 The Discussion Document suggests that deferring NZ Super take-up creates an incentive for people to work beyond age 65 years. The paper also notes however that early take up before age 65 years may reduce incentives to work for 60-64 year olds. In at least one example (USA), the trend was towards early uptake despite increased life expectancy.
- 9.5 Employment effects would be impacted by a lower rate than 160% for the deferral rate at age 70 years. It is by no means clear to us why that rate is at such a high level and further analysis using alternative discount rates could produce a much lower figure of around 130%. That would significantly affect the perceived benefits of Flexi-Super.
- 9.6 Employment effects would apply to different cohorts and in different ways so it is hard to see how they can be modelled to advance an argument for Flexi-Super.

10. Fiscal impact

- 10.1 It is hard to see how Flexi-Super would be fiscally neutral. It clearly adds considerable complexity but the main issue is the 'adverse selection' risk. The model proposed will increase by up to 5 years the period someone can claim NZ Super. Although the risks to those on low incomes of getting their choice wrong in the medium to long term are a

concern, there is also a risk to the Government if everyone got their choice right and therefore added to the fiscal cost of NZ Super. People who have characteristics which make the offer poor value will not take it up, whereas those who have characteristics which make the offer of particular value to them will take it up.

- 10.2 There are also very real complexities in making accurate actuarial calculations given rises in life expectancy and other factors.

11. Impact on social basis for NZ Super

- 11.1 NZ Super is not based on individual accounts derived from contributions. It is an entitlement to preserve a reasonable standard of living for people in retirement. It is set at a certain level to ensure that people after age 65 years are able to continue to participate in society. While there are debates about the level of payment and the age of eligibility, it has been near universal whereas Flexi-Super would weaken that concept. As the Discussion Paper notes there would be 66 payment options. Flexi-Super undermines universality.

- 11.2 Other countries that have a form of Flexi-Super do not have the same universal system as we do in New Zealand.

12. Annuities

- 12.1 The Discussion Document suggests that Flexi-Super could help address the market failure in respect of annuities as “it acts like an annuity”. We are sceptical that this would be the case. If it is we suspect it will be at the margin.

- 12.2 It is possible that Flexi-Super could actually undermine the annuity market further as someone may use their savings and earnings from age 65 years and then opt for the higher rate of NZ Super at age 70 thus lessening their demand for an annuity given the higher guaranteed rate of NZ Super at that point.