NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

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

P O Box 6645
Wellington

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1. Introduction

1.1. This submission is made on behalf of the 27 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With over 310,000 members, the CTU is one of the largest democratic organisations in New Zealand.

1.2. 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.

1.3. This submission is a brief outline of our views on some of the issues raised in the review.

2. CTU Policy

2.1. The CTU supports the continuation of New Zealand Superannuation (NZS) based on 66 percent of the average wage for a couple with entitlement at age 65 years on a universal basis.

2.2. We supported the establishment of the New Zealand Superannuation Fund (NZSF) as an additional source of funding to cope with the impending peak in cost in universal public provision. It smooths the demand on current revenue over several decades. We return to this below.

2.3. We support 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 contributes 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 NZS 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.

2.4. While this policy was set when the employer and employee minimum contribution levels were 2 percent, the principle of our approach still applies with them at 3 percent: the employer contribution should be the most significant.

2.5. We are not strong advocates for compulsion but under the above policy mix we are prepared to support it.

2.6. We have consistently pointed out that because wages are so low, many people would also struggle to make ends meet when they retire as they will not have been able to build up significant savings. This is a particularly difficult issue for women, Maori, and Pacific peoples.

3. Sufficiency of New Zealand Superannuation

3.1. Many New Zealand superannuitants rely solely or almost entirely on their NZS income. At the current level they are just above the poverty line by usual definitions. Any reduction in it would certainly mean the reappearance of widespread poverty among recipients.

3.2. In addition its adequacy depends on superannuitants owning unmortgaged homes. Yet rising levels of household debt, including student and mortgage debt, and increasingly unaffordable housing put that at risk. Kiwisaver can provide some relief but for many, saving is difficult – in part because of the need to delay saving in order to pay off a mortgage – so it cannot be the complete solution. Again, this is particularly true for women, Māori and Pacific peoples. The actions of the previous Government to reduce the government's contributions to Kiwisaver have not helped.

3.3. New Zealanders on at least a living wage (currently $21.15 an hour, and designed to allow for some saving) and with reasonable employment security are in a better position to save.

3.4. Unless collective bargaining is strengthened and the productivity of New Zealand firms is substantially increased (both of which will require government intervention and support) the continuing problems of low pay undermine the ability of people to save. However we note that raising labour productivity does not necessarily solve the NZS affordability problem if real wages rise as fast as productivity, as they should but have not done so since the early 1990s. This is because of the link between wages and NZS rates, which keeps retired people out of poverty. The link means that the proportional cost of NZS will rise with productivity. But rising incomes may still allow greater household saving, particularly in lower income households if poverty and inequality are significantly reduced.

3.5. The CTU recommends that the Review should consider the problem of low and intermittent income, high levels of income inequality, the lack of widespread industry agreements on wages and conditions, the impacts this has on income in general and spillover effects into saving and retirement income.

3.6. We oppose the suggestion that Kiwisaver be allowed to be used to buy investment residential property, as has been suggested by some. That would simply add fuel to excessive property prices and is likely to be a zero-sum game where, though more people may own investment properties in low cost areas, more people will also find housing unaffordable. It raises the risk (already non-negligible) of a property price crash which would damage retirement savings.

4. Sustainability

4.1. We deplore the alarmist nature of some of the commentary on NZS. The statement by the CFFC that "In 20 years time the cost will triple to $120 million a day" is highly misleading. In 20 years time, using Treasury projections (which we assume are used to calculate this figure) the size of the economy will have more than doubled, making such payments significantly more affordable. In addition the $120 million figure appears to be a gross one: when tax paid by New Zealand superannuitants is deducted the figure is around $100 million (depending on which year the Commission is referring to). Further, the current spending does not appear to include the government's contributions to the NZSF nor the contributions the Fund makes to the government's revenue through the taxes it pays.

4.2. The following analysis puts the situation into a clearer perspective. It uses data from the NZSF Model released by Treasury with each Budget which projects population and funding needs, and is used to calculate the contribution to the NZSF required by law.[1] The data is from the 2019 Budget model.

4.3. In the year to June 2019, payments to New Zealand superannuitants cost 4.9 percent of GDP or $14.6 billion. The model's projection shows that by 2060, it would be costing 7.9 percent of GDP. This is the kind of comparison commonly quoted, which looks like a substantial increase relative to the size of the economy.

4.4. However 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.

4.5. In addition, the NZSF pays tax. This varies a lot from year to year but it totals $6.7 billion since the NZSF started. It was $1.1 billion in 2017, $0.2 billion in 2018 and Treasury estimates it will be $0.7 billion in 2019. By 2060 the tax is projected to be $10.1 billion a year. That brings the net cost by 2060 down to 6.0 percent of GDP.

4.6. Then there is the direct effect of the Super Fund. The Government has restarted contributions with $0.5 billion last year, $1.0 billion in the year to June 2019, and states in its 2019 Fiscal Strategy Report that its contributions will "increase gradually to be in line with the contribution formula in 2023/24". In that year it is forecast to be contributing $2.6 billion. From then until the year to June 2036, when withdrawals from the Fund are projected to start, the capital contribution falls gradually year by year and then goes negative.

4.7. In 2024, the total cost to the government of net New Zealand Super plus these contributions less the tax paid by the NZSF is projected to be 4.8 percent of GDP. It would not have been much less – 4.6 percent – in the year to June 2019 had full contributions been made that year. 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 percent of GDP.

4.8. So the true comparison of the net fiscal cost now and the cost in 2060 is more like this: 4.8 percent of GDP soon (2024), compared to 5.6 percent in 2060. That increase is not nearly as formidable as the simplistic comparisons quoted above make it look. It is certainly not a firm basis to argue for drastic changes to

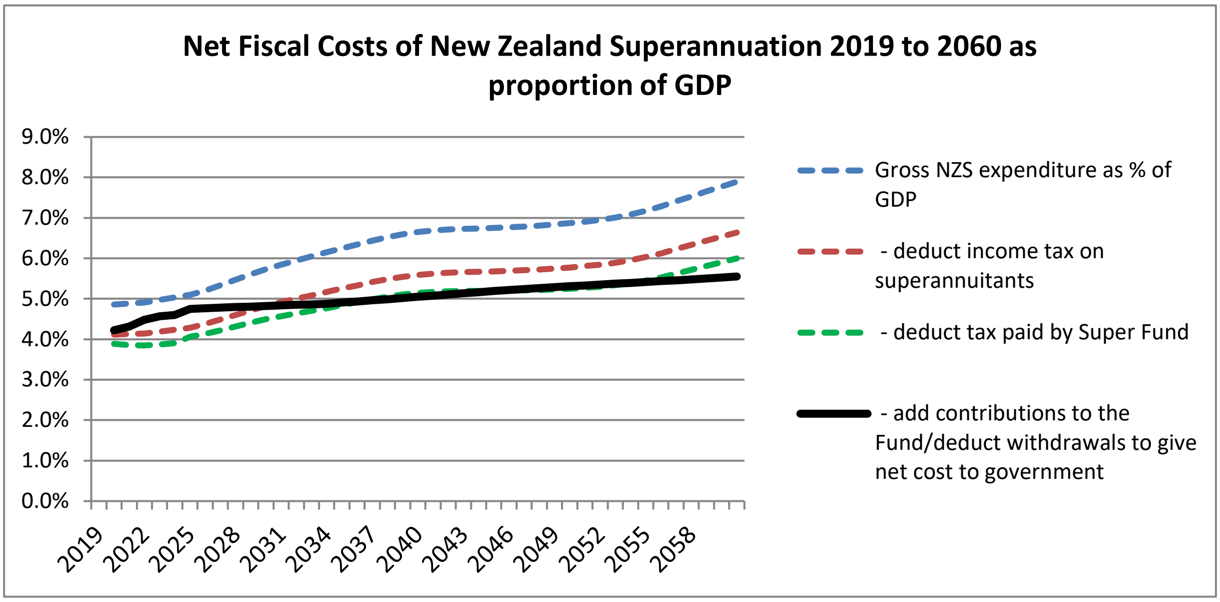
[1] See https://treasury.govt.nz/publications/information-release/new-zealand-superannuation-fund-contribution-rate-model-2019

superannuitants' income levels as is being suggested. If it is affordable now (as all parties seem to agree) then it is likely to be affordable in 2060.

4.9. The following table summarises the situation with the total impact on government finances in the bottom line. The graph shows the same costs for all years to 2060. It shows that from 2024 the NZSF does its intended job of smoothing costs to future successive governments and generations.

Net Fiscal Costs of New Zealand Superannuation
Data from Treasury NZSF Model, Budget 2019

	2019	**2024**	**2040**	**2060**
	Percent of GDP			
Gross New Zealand Super costs	4.86%	5.10%	6.69%	7.89%
- deduct income tax on superannuitants	4.11%	4.28%	5.62%	6.64%
- deduct tax paid by Super Fund	3.89%	4.06%	5.17%	6.00%
- add contributions to the Fund/deduct withdrawals to give net fiscal cost to government	**4.22%**	**4.75%**	**5.08%**	**5.55%**



4.10. The debate on sustainability is lopsided because people over 64 are not the only 'dependants' in society (and an increasing proportion of them are not dependent because they continue to be in paid work). Children make up the other main group of dependants. According to population data provided by Treasury with its 2016 Long Term Fiscal Position[2], in 1972 children under 15 made up 31 percent – almost a third – of New Zealand's population and the 65+ age group only 9 percent. Those

[2] See https://treasury.govt.nz/publications/strategies-and-plans/long-term-fiscal-position

aged 15-64 made up 60 percent. The whole ‘dependency ratio’ was 1.5 working age people to every dependant.

4.11. The population is aging in two ways: we have a greater proportion of over-64s and a falling proportion of children under 15. In 2019 the children made up only 19 percent of the population, people aged 15-64 made up 65 percent and the over-64s 16 percent according to Statistics New Zealand[3]. The ‘dependency ratio’ is 1.85. By 2060 Treasury’s projection reduces children to 16 percent of the population, people aged 15-64 to 57 percent and the over-64s to 27 percent. The ‘dependency ratio’ would be 1.4 – not much lower than the 1.5 it was in 1972. So in 2019 we are in a sweet spot – the highest dependency ratio since 1972 was in 2.0 in 2006 and we are not far from that. Perhaps this is the unusual time rather than 2060!

4.12. The effect of this all depends on the cost of raising, educating and looking after the health of children compared to the costs of old age, and the degree to which those aged over 64 continue to work, as they increasingly do. But there are also other dependents such as those with disabilities who are unable to work.

4.13. Comparisons are also made with other developed countries. OECD comparisons[4] are based on gross expenditure, for 2015 showing 4.9 percent of GDP for New Zealand as in the first line of the table above. In 2015, the average public spending for the 36 OECD countries on “old age” benefits was 7.0 percent of GDP – almost half as much again than New Zealand’s gross spending of 4.9 percent, and higher than New Zealand’s projected gross spending 20 years from now (in 2040) of 6.7 percent. Even our projected 2060 gross spending of 7.9 percent is less than the current rate of spending of 16 other OECD countries – almost half of them.

4.14. We therefore not only have more time to make relevant decisions and changes if they are needed, but also should not dismiss the government spending a higher proportion of GDP for this purpose. To do so is a perfectly valid policy option, and may in fact be more efficient and equitable than other options if properly designed.

[3] “Subnational population estimates: At 30 June 2019 (provisional)”, available at https://www.stats.govt.nz/information-releases/subnational-population-estimates-at-30-june-2019-provisional
[4] Dataset: Social Expenditure - Aggregated data, available at http://stats.oecd.org/OECDStat_Metadata/ShowMetadata.ashx?Dataset=SOCX_AGG&ShowOnWeb=true&Lang=en, downloaded 25 October 2019. It includes total spending on old age benefits including in kind. The New Zealand ranking is little different if only the pension and only cash benefits are compared. The year 2015 is the latest with near full OECD coverage, omitting only Poland for which we use 2014.

4.15. Susan St John and Claire Dale (St John & Dale, 2019) propose that NZS be treated as an untaxed “universal grant” (one which is the same for everyone whether married, single sharing or single living alone) with a special progressive tax regime on income received over and above the grant in order to preserve the incomes of those depending on NZS but clawback from those with high incomes. We agree that a more progressive tax system is ultimately the best method of raising more revenue in a fair way that also reduces existing inequalities, but are concerned that this proposal may be seen as a discriminatory tax rate on older people.

4.16. It is unfortunate that the policy mix of universal entitlement alongside more steeply progressive tax rates has been undermined by a low top marginal tax rate. We would therefore support new higher tax rates for all incomes above $100,000. Other forms of taxation that have their own advantages – such as wealth taxes or a capital gains tax – provide other feasible alternatives or additions.

4.17. However the problems of an ageing population should not be seen primarily as a fiscal problem: the provision of dignified living standards for people as they age is a fundamental requirement of a decent society; the way it is funded (privately or through taxation) is a secondary question that revolves around fairness and efficiency. If the state does not fund adequate retirement income and a substantial proportion of over-64s are unable to fund their own retirement then the cost is in poverty with its consequences of housing and health problems and social dislocation. If as much were spent by private provision as is projected for NZS – which is needed to prevent poverty among the retired population – then all the issues of dependency ratios would still be present: they cannot be avoided except by lowering the standard of living of people aged over 64. But the inability of many households to save sufficiently to achieve that result will produce an unfair outcome. It is therefore both efficient and fair for the state to provide a universal pension such as NZS. It is not possible to achieve such efficiency and fairness from private provision. It is extremely important that the fundamental basis of retirement income remains in place.

4.18. One of the reasons New Zealand has a low poverty rate among superannuitants is because of the ratio that requires NZS to be at 66 percent of the average wage for a married couple and for the single living alone rate to be 65 percent of the married rate. While the cost to the Government for NZS would significantly reduce if this indexation formula was replaced by a lower ratio (and based on inflation for instance), these savings are in direct proportion to the reduced income of superannuitants and cannot be justified. The risk of a change to the indexation that applies now is that those reliant on NZS could be pushed into poverty.

4.19. We do not therefore support proposals to index NZS at a lower rate (e.g. mixed average wage and inflation index).

4.20. Affordability also depends on long-term economic performance and needs to be considered in the context of broader equity issues. Affordability is, to a large extent, about priorities. Modelling carried out for the Treasury's long-term fiscal projections indicates the increasing costs of current NZS entitlements plus the effects of ageing on health costs are affordable as long as taxes rates are allowed to rise to fund the increase.

4.21. The reason for the NZSF was to address some of the financial pressures and this should continue to be supported rather than increase the age of eligibility. As we have demonstrated above, it is doing that, and will continue as long as contributions are maintained by successive Governments. As we have also shown, the public pension (NZS) is still far less expensive than most other OECD countries.

4.22. We do agree however that New Zealand should not continue to procrastinate indefinitely on this important issue.

5. Age of Entitlement

5.1. Consistent with our comments above, we do not support increasing the age of entitlement to NZ Superannuation.

5.2. We are aware that some of the proponents of such an increase (to say 67 years) moderate the proposal by suggesting some form of limited entitlement for those who will find it difficult to work after the age of 65 years.

5.3. There are major assumptions being made by those advocating for a lift in age of entitlement about the health, well-being and capacity of people to work as they age. People are living longer but that does not necessarily mean their capacity to work is increasing at the same rate. Some are exhausted from intensive labour that may not have been heavy manual work. While there are some occupations where working past the age of 64 years is feasible there are many people who would be considerably disadvantaged. It is not a simple matter of saying that those who have (say) engaged in heavy manual work for a number of years would continue to qualify. And older workers continue to be disadvantaged in the labour market.

5.4. It would also mean that the universal approach would disappear as there would only be some at age 65 years who manage to qualify for NZS. There would need to be policy settings, and judgement calls, and appeal processes around this. It would change the system hugely.

5.5. We also know that Māori and Pasefika have shorter lifespans compared to the rest of the population. Māori life expectancy for men aged 65 years is 3.7 years less than non- Māori. For Māori women the gap is 4.1 years. In the absence of other measures, any increase in the age of entitlement to NZS disproportionately reduces the proportion of time spent by Māori and Pasifika peoples on NZS and worsens disparate outcomes.

6. Conclusion

6.1. Projecting into the future, and particularly for several decades, is of course a risky exercise. The actual outturn is sure to be different. It could be better (for example the NZSF has a history of making much better returns than Treasury assumes) and it could be worse (for example if there are downturns in the economy greater than those usually expected). At the least it gives us a consistent and credible track that all sides of the debate can use to compare and test their assertions and proposals.

6.2. We do not accept arguments that NZS is unaffordable and have given our reasons. The primary issue is of priorities and willingness to find adequate revenue. The increase in revenue required over several decades is by no means insurmountable.

6.3. Many retirement income issues are a reflection of wider problems of society such as high income inequality and poor productivity. Retirement income policy should recognise and advocate for them to be addressed. It should not exacerbate them.