NZCTU
Te Kauae Kaimahi

ACT Party Pension Reform - A Review

Produced by the New Zealand Council of Trade Unions Te Kauae Kaimahi

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NEW ZEALAND COUNCIL OF TRADE UNIONS
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This paper has been written by the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With over 340,000 union members, the CTU is one of the largest democratic organisations in New Zealand.

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.

Purpose:

1. This paper demonstrates the impact of changes to Superannuation payments as a consequence of the ACT Party proposed policy platform for 2023. It compares these changes with our current legislated settings.

Data Sources:

2. This paper uses economic forecast data from the August Monetary Policy Statement of RBNZ, and the Treasury BEFU Fiscal Strategy Model 2023. The NZ Super payment levels are taken from WINZ.

Current Situation & ACT Proposal:

3. Section 16 of the New Zealand Superannuation and Retirement Income Act 2001 sets[1] the annual adjustment of New Zealand superannuation. This states:

    a. the standard weekly amount of New Zealand superannuation (after the deduction of standard tax) payable to a couple who are married or in a civil union or in a de facto relationship, both of whom are qualified to receive New Zealand superannuation, is not less than 66% or more than 72.5% of the average ordinary time weekly earnings (males and females combined) as determined by the last QES before 1 March in each year (after the deduction of standard tax and the earner levies payable on those earnings):

    b. the standard weekly amount of New Zealand superannuation (after the deduction of standard tax) payable to a single person who is living alone is 65% of the weekly amount of New Zealand superannuation (after the deduction of standard tax) payable to a couple who are married or in a civil union, both of whom are qualified to receive New Zealand superannuation.

    c. the standard weekly amount of New Zealand superannuation (after the deduction of standard tax) payable to a single person who is not living alone is 60% of the weekly amount of New Zealand superannuation (after the deduction of standard tax) payable to a couple who are married or in a civil union, both of whom are qualified to receive New Zealand superannuation.

4. This link between pensions and incomes protects the real living standards of New Zealand Superannuitants. If we were simply to link pension payments to inflation, then pensioners would not enjoy any of the productivity growth that would take place in the economy. Simply put, linking pensions to

[1] https://www.legislation.govt.nz/act/public/2001/0084/latest/DLM114216.html

inflation protects their incomes, but not their quality of life. This would fall every year against other income earners.

5. ACT has made a policy commitment[2] to do exactly this – to link NZ Superannuation to the Consumer Price Index (CPI) rather than to wages. This is on top of their claim to increase the age for Superannuation by 2 months every year from 2024. That claim is not part of this calculation, but ACT notes[3] that this policy would take $2bn away from superannuants by 2027 alone.

Methodology:

6. This paper has taken the latest forecast inflation and wage data from the RBNZ Monetary Policy Statement (For the years to 2026/27) and the Treasury Fiscal Strategy Model (2027/28). It has taken this data and extrapolated the change in superannuation payments between:
    a. The current legislated settings
    b. The proposed ACT settings

7. It should be noted that we assumed that the dates at which changes to pension rates are retained. ACT has not stated that it would change any other settings within NZ Superannuation.

8. We have assumed that every earner is on an 'M' tax code. We have also assumed that all changes take place in April 2024.

[2] https://assets.nationbuilder.com/actnz/mailings/5725/attachments/original/ACT's_Alternative_Budget_-_A_Time_for_Truth.pdf?1684092262 p.10
[3] Ibid, p.13

NZ Superannuation Payments:

9. The rates[4] of NZ Superannuation in 2023 are:

Category		Weekly rate		Fortnightly payment (net)
		Gross	Net	
Single, living alone		$578.67	$496.37	$992.74
Single, sharing accommodation		$532.43	$458.18	$916.36
Married person or partner in a civil union or de facto relationship		$439.79	$381.82	$763.64
Married or in a civil union or de facto relationship, both qualify	Total	$879.58	$763.64	$1,527.28
	Each	$439.79	$381.82	$763.64
Married or in a civil union or de facto relationship, grandparented non-qualified partner included **on or after** 1 October 1991	Total	$834.08	$725.84	$1,451.68
	Each	$417.04	$362.92	$725.84
Married, grandparented non-qualified partner included **before** 1 October 1991	Total	$879.58	$763.64	$1,527.28
	Each	$439.79	$381.82	$763.64
Hospital rate		$59.08	$52.89	$105.78

10. There are a range of possible options that could be used to calculate the impact of moving from the current wage link to CPI. We have grouped these together in the table below:

Changes (%)	31/12/2023	31/12/2024	31/12/2025	31/12/2026
CPI				
RBNZ	5.2	2.4	2.0	2.0
Wages				
TSY (FSM)	4.75	4.24	3.8	3.58
RBNZ	7.3	4.9	4.5	3.58

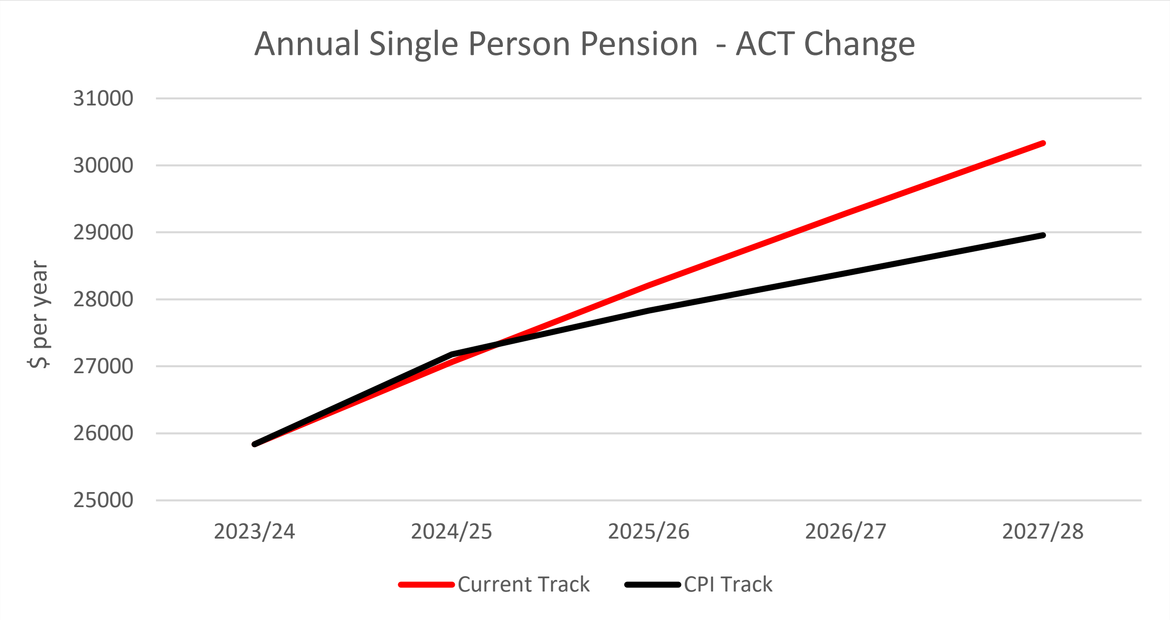
[4] https://www.workandincome.govt.nz/map/deskfile/nz-superannuation-and-veterans-pension-tables/new-zealand-superannuation-and-veterans-pension-ra.html

11. The final set of wage figures is the same for RBNZ and the Treasury because they both come from Treasury. RBNZ does not forecast that far ahead, so this report uses the Treasury figures.

Calculations:

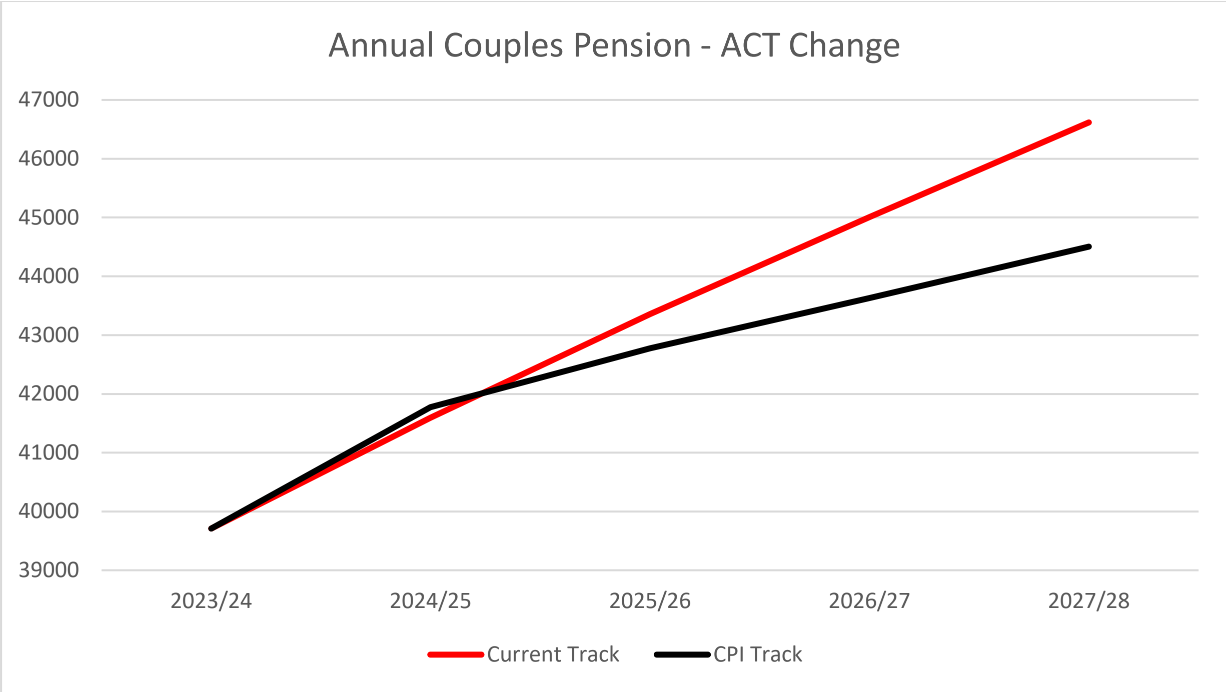
12. We have calculated the rates of change for the 'single living alone' rates, and for the 'Married or in a civil union or de facto relationship, both qualify' rates as these are likely to be the most commonly observed types. The findings of this analysis will be directionally true for all of the payment levels shown in the table.

13. On this basis a single pensioner would be $2,531 worse off after four years – or $12.17 a week. This is using Treasury data for wage growth, which since BEFU 2023 has come in stronger than expected. It should be considered the 'minimum' that will be lost to a single pensioner. Using[5] RBNZ forecasts of wage growth this would be much larger, doubling the level of change to more than $6,000.

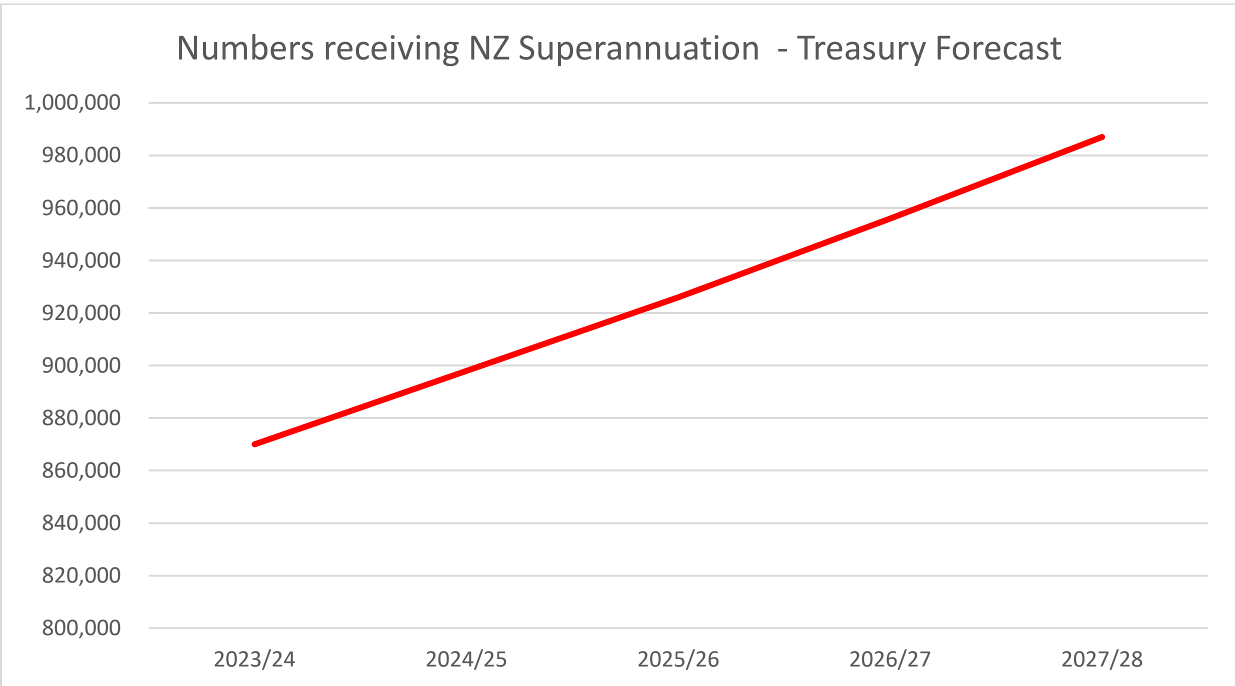


14. For a couple, the cumulative loss is equivalent to $3,891 over the next four years – or $18.70 per week. At the end of the forecast period, a pensioner is $2,113 worse off than under the current regime. Again, if we use RBNZ data then this grows to over $9,700 in losses. Due to the size of this difference caution should be applied in the use of this datapoint. It is highly likely that taxation effects would reduce the effective size of that gap.

[5] This uses the RBNZ Quarterly employment survey average hourly earnings forecast. However, this is a slightly different measure as NZ Super is calculated on the basis of 'ordinary time' – and this figure will include overtime and bonus payments. However, it demonstrates the sensitivity of NZ Super to small changes in overall wage levels.



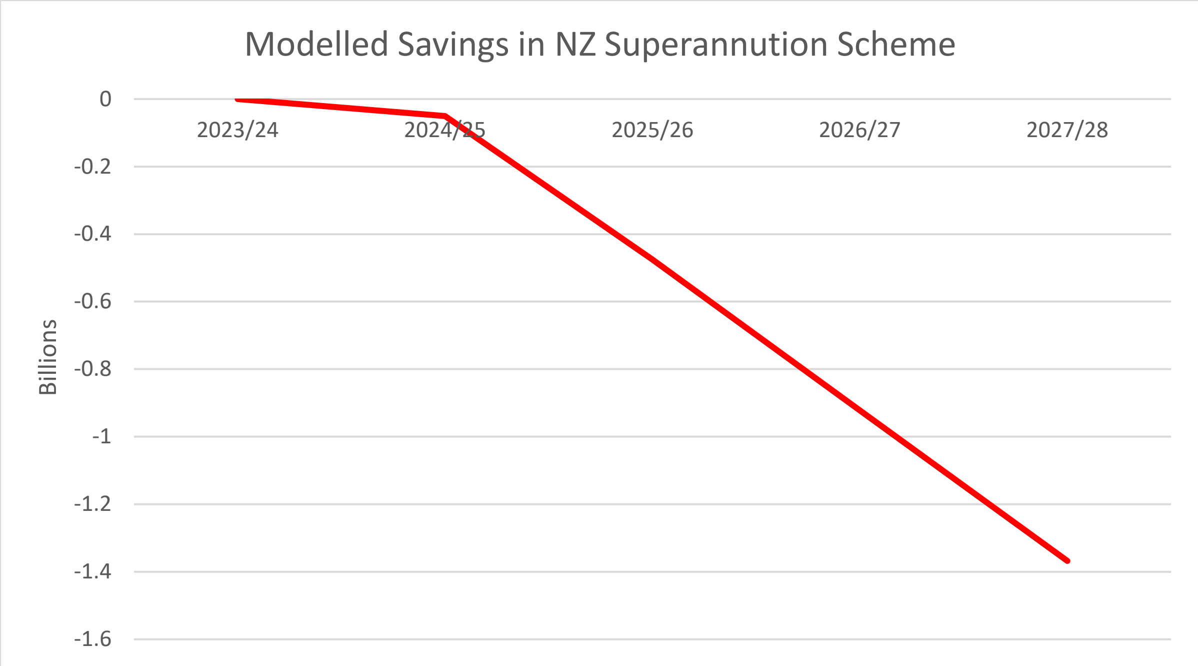
15. At an aggregate level, this would save significant amounts of money for the Crown. The number of NZ Super recipients is forecast at Budget by Treasury.



16. ACT calculated[6] in its alternative Budget that this would save $1.132bn across the period to 2026/27. Our calculations demonstrate that this is likely to be an underestimate, with the change likely to generate estimated savings of $1.44bn using revised inflation data. Adding in the final 2027/28 year would

6 https://assets.nationbuilder.com/actnz/pages/12888/attachments/original/1684101155/ACTs_Alternative_Budget_-_A_Time_for_Truth.pdf?1684101155

increase the savings by $1.36bn. Cumulatively, the government would save $2.82bn across the forecast period.



17. Again, caution should be applied to the use of this number as it involves the use of average figures. The figure would be much larger again if we were to use wage forecasts from RBNZ as the basis for the calculation.

18. What this figure does demonstrate is that there is essentially a significant wealth transfer occurring with this approach. These changes to superannuation would lead to the quality of life of many NZ Super recipients falling. The tax changes which are also proposed by ACT would lead to tax increases for everyone who earns less than $56,000 – which is most NZ Super recipients.

Conclusion

19. This analysis shows that the movement from the existing wage link will see money that otherwise would have gone to NZ Super recipients now going to other areas. These are the very highest earners and landlords. This is a very regressive measure, as NZ Super recipients are some of the poorest people in the country.

20. What compounds this problem is that Superannuitants have faced some of the highest rates of cost-of-living increase in New Zealand. According to the Household Living Price Index, the inflation rate for NZ Superannuitants has been 49% since 2008. For the wealthiest households during the same period, this has been 37.2%.

21. This movement will also deliver a change to one of the fundamental elements of the NZ Superannuation scheme. In 2005, the 66% link between Super and average incomes was established. As wages rise faster than

inflation in most years this link will be lost, and Super will be a smaller and smaller proportion of average incomes. Ironically, as the country does well in terms of wages pensioners will lose out faster and faster.

22. Finally, this change really runs counter to the idea that we should manage change to deliver increasing value for money for the public purse. Expenditure that supports NZ Superannuitants to retain lives of independence and value is spending that reduces the Crown's exposure to additional liabilities. Elderly New Zealanders living in their homes, who can afford not to choose between heating and eating, don't cost the health service, aged residential care, or the economy. It also means that they lead lives of mana & dignity, and that should always be our primary goal.