Periodic Report Group 2003

Background Paper

A Description of New Zealand's Current Retirement Income Framework

Ministry of Social Development

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

Description of New Zealand's Current Retirement Income Policies

A report prepared by the Ministry of Social Development for the Periodic Report Group
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INTRODUCTION

New Zealand has a two-tier system of retirement income provision. New Zealand Superannuation (NZS), a universal public pension funded from general taxation comprises the first tier. The second tier consists of voluntary private provision by individuals to enhance their standard of living. This paper will describe these two components of New Zealand's retirement income system.

The first section will primarily focus on New Zealand Superannuation and covers: history, eligibility, rates, demographic profile, expenditure, and additional assistance available to older people. The second section[1] describes the framework surrounding private provision of retirement income.

Finally, some issues are raised that the Periodic Report Group may wish to consider.

PUBLIC PROVISION

Historical Overview

For over 100 years, New Zealand has had some form of publicly provided retirement income. The Old Age Pensions Act 1898 provided a modest pension to people aged 65 years and over who were of good character, had lived in New Zealand for a number of years and who met an income and asset test.

With the introduction of the Social Security Act in 1938, New Zealand adopted a dual pension system for public provision. People of retirement age, who had been resident in New Zealand for twenty years, were able to choose between:

- Age Benefit (not taxed, but subject to an income test, payable from age 60); and
- Superannuation Benefit[2] (taxable, but not income tested, payable at age 65)

While the rates payable for each were the same, the different tax status of each resulted in the Age Benefit being higher than the net Superannuation Benefit if no other income was earned. However, the dual pension system was confusing. A study[3] found that a number of people were receiving the Superannuation Benefit even though they would have been financially better off receiving the Age Benefit to which they were entitled. Furthermore, there was a view by some that income testing of older people was demeaning.

The basis for the present system took effect from February 1977 with the introduction of National Superannuation, which replaced the previous dual pension system. National Superannuation was taxable (the rates were significantly higher than Age Benefit making the after-tax payment still more than the previous non-taxable payment) and payable at age 60. The gross rate for a married couple was fixed at 70 percent of the average ordinary weekly wage (to be increased to 80 percent from August 1978) and the gross rate for a single person was fixed at 60 percent of the gross married rate.

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[1] The section on private provision will be comparatively brief, as other projects (tax, employer superannuation and eduction) will cover this area in detail.
[2] Superannuation Benefit was commonly known as Universal Superannuation.
[3] 1974 Department of Social Welfare Survey of Older People aged 65 years and over.

There was also a residential qualification that required an applicant to have resided in New Zealand for a total of ten years since the age of 16. Seven of these years must have been in the ten years immediately preceding application, but this period of seven years could be reduced by one year for every complete ten years of residence in New Zealand after the applicant turned 16.

Key changes since 1977:

1979	The basis for determining rates revised to reflect a net rather than gross relationship with average wages.
1985	A National Superannuitant surcharge was introduced at the rate of 25 cents for every complete dollar of a superannuitant's taxable other income in excess of certain limits.
1989	National Superannuation no longer linked to 80 percent of average wage levels. Instead, the net rates were increased by the lesser of price and wage movements, and intended to move in a band of between 65 and 72.5 percent of net wages.
1990	National Superannuation was renamed Guaranteed Retirement Income and the residential requirement was changed. A person now had to be resident and present in New Zealand for ten years since the age of 20, and resident and present for at least five years since the age of 50. A living alone allowance of $20 gross per week was introduced for single people, which brought the after-tax payment for those who qualified up to 65 percent of the combined married rate.
1991	Guaranteed Retirement Income renamed National Superannuation and the qualifying age was increased to 61, and would then gradually increase so that it would reach 65 by April 2001.
1993	A multi-party accord on retirement income policies signed by the Alliance, Labour and National parliamentary parties and formalised by the Retirement Income Act 1993. National Superannuation was renamed New Zealand Superannuation. Rates were required to be adjusted by price movements subject to the new married couple rate being between 65 and 72.5 percent of the average wage.
1994	Transitional Retirement Benefit introduced to assist those people affected by the increase in the qualifying age from 60 to 65 years.
1998	The surcharge abolished and the 65 percent floor for the link with average wage levels lowered to 60 percent.
2000	The 65 percent floor for link with average wage levels was restored.
2001	The New Zealand Superannuation Act 2001 passed, which established the New Zealand Superannuation Fund.

Current Eligibility

NZS is neither income nor asset tested, and all people who met the qualifying age and residential requirement are eligible. First, a person must have reached 65 years of age. Second, a residential qualification must be met that requires a person to:

- be a New Zealand citizen or permanent resident,
- have been resident and present in New Zealand for not less than ten years since the age of 20, of which five years or more must be since the age of 50, and
- generally be ordinarily resident in New Zealand on the date of application.

Rates

NZS is paid at a standard dollar amount unrelated to previous earnings and the amount is dependent only on marital status and living arrangements. The rates are the outcome of a long evolutionary process dating back to the introduction of New Zealand's social security system in 1898. Since then, the rates have been re-examined and revised several times.

There are currently three basic rates at which NZS is paid. These are the married person rate, the single sharing rate, and the single living alone rate. From 1 April 2003 the rates of NZS are:

Rate	**Net 'M' tax (weekly)**	**Gross (weekly)**	**Gross (annual)**
Married Person	$188.69	$224.76	$11,687.52
Single Sharing	$226.43	$272.58	$14,174.16
Single Living Alone	$245.30	$296.49	$15,417.48

In addition to the rates listed above, there is a special rate[4] for a person eligible for NZS in their own right, but with a partner who is not eligible. A married superannuitant whose partner has not yet qualified for NZS has the choice of receiving either:

- the married person rate of NZS - $188.69 gross per week; or
- a special married couple rate of NZS - $427.34 gross ($359.82 net, "M" tax) per week that is subject to the social security benefit income test. Each individual receives half of this total amount.

Rationale for Different Rates

The married couple rate (equal to twice the married person rate) is the base rate for NZS. All other rates are calculated as a percentage of the rate for a married couple. This dates back to the origins of New Zealand's social security system when all benefit rates were calculated as a percentage of the relevant married couple rate.

The single sharing and single living alone rates of NZS are calculated as a percentage of the married couple rate. This percentage was based originally on income equivalence tables for different sized households. The level of these rates is intended to reflect costs that a married couple can share, but which cannot be shared by someone living alone, or living in a flatting situation. These costs include items such as accommodation and power that are used jointly. The differential between the single rates recognises that it is generally more expensive to maintain a single person household.

[4] There is a one other rate (equal to the married couple rate where both qualify) payable to those still with a non-qualified partner and who applied before 1 October 1991.

The provisions made for a non-qualified partner are intended to more closely resemble the income support available to people who are unemployed rather than to those people who are retired. This rate is set to reflect the married person rate of NZS (paid in respect of the qualified partner) plus the single adult rate of Unemployment Benefit (paid in respect of the non-qualified partner).

The income test that apples to the special married couple rate is, therefore, similar to that which applies to other social security benefits, except that gross income abates the gross rate. For each dollar of the couple's combined income over $4,160 gross per annum, 70 cents is deducted from the gross rate of NZS. Whether it is more advantageous to receive the married person rate or the special married couple rate will depend on the amount of extra income the couple receives.

Based on the 1 April 2003 rates, a combined gross weekly income of $369.40 or more (excluding NZS) would financially disadvantage a qualifying partner who chooses to receive the special married couple rate. At this point, the rate reduces to below the married person rate. The qualifying partner would be better off receiving the non-income tested married person rate.

Adjustments to Rates

There is a statutory requirement to adjust the weekly rates of NZS in line with changes to the 'all groups' Consumers Price Index (CPI). Under the New Zealand Superannuation Act 2001, the net weekly rates are adjusted on 1 April each year in line with any percentage increase in the CPI. Where there is a downward movement in the CPI, a corresponding downward adjustment to NZS is not permitted. This process ensures that inflation does not erode the adequacy of NZS. For example, on 17 January of this year, Statistics New Zealand announced that the CPI had increased by 2.72 percent to the end of December 2002. Accordingly, as of 1 April 2003 the weekly rates of NZS were increased by 2.72 percent in line with this change.

In making the annual adjustment to NZS, there is also a requirement to consider the proportional relationship of the rates to the net average weekly wage[5]. That is, the standard weekly amount of NZS that is payable to a married couple must not be less than 65 percent or more than 72.5 percent of the net average weekly wage. The aim of linking NZS to wage levels is to ensure that all retired New Zealanders may continue to enjoy a reasonable level of participation in the community.

The current married couple rate ($377.38 after tax at 'M') is 66.73 percent of the net average weekly wage. Consequently, no further adjustment is necessary to keep NZS within the specified range. In the November 2002 quarter, the net average ordinary time weekly earnings (males and females combined) was $565.55.

Finally, the New Zealand Superannuation Act 2001 requires that the standard weekly amount of NZS payable to a single person who has been granted a 'living alone payment' is 65 percent of the net weekly amount payable to a married couple where both of whom are qualified to receive NZS. Where a single person has not been granted a living alone payment, the standard weekly amount is 60 percent of the net weekly amount of NZS payable to a married couple.

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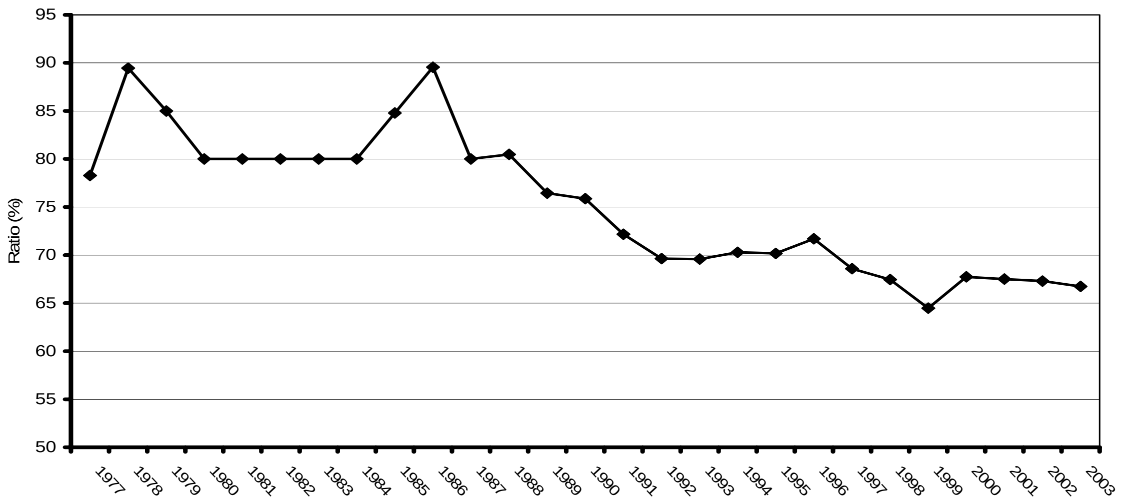
[5] The actual figure used is the average ordinary time weekly earnings (males and females combined) as determined by the last Quarterly Employments Survey published by Department of Statistics before 1 March in each year (after the deduction of standard tax and the earner premium payable on those earnings).

Figure 1: NZS - Wage Ratio (1977 - 2003)



Source: Ministry of Social Development, and Office of the Retirement Commissioner (2001) Retirement Income in NZ: the historical context.

As shown by Figure 1, the ratio of NZS rates to wage levels has remained above 65 percent except for a brief period in the late 1990s. This followed the lowering of the floor for the link with the net average wage to 60 percent, which was later restored to 65 percent. The upward trend in the mid 1980s was the result of tax changes that increased the net rates of NZS to compensate for the introduction of the Goods and Services Tax. Figure 1 also highlights that the ratio of NZS rates to wage levels is steadily moving downwards to the 65 percent floor. This arises because wage levels tend to increase faster than the CPI. Consequently, when the April 2007 adjustment occurs NZS rates are expected to be directly linked to wage movements to keep within the band.

What is "65 at 65"?

The current framework surrounding NZS is often described as "65 at 65". This phrase can be taken to mean that all individuals receive a minimum of 65 percent of the net average weekly wage at 65 years of age. However, it applies to one group of superannuitants only - a married couple where both are qualified to receive NZS. As outlined in the previous section, a married couple actually receive slightly more than 65 percent at present - 66.73 percent. In practice, this means that:

- a married person receives an amount equal to 33.36 percent,
- a single person sharing receives an amount equal to 40.04 percent, and
- a single person living alone receives an amount equal to 43.73 percent of the net average weekly wage.

If the wage floor of 65 percent is reached when the April 2007 rate adjustment occurs, NZS rates will be directly linked to wage levels. Subsequently, a married couple will then receive an amount equal to 65 percent of the net average weekly wage, and:

- a married person will receive an amount equal to 32.5 percent,
- a single person sharing will receive an amount equal to 39 percent, and
- a single person living alone will receive an amount equal to 42.25 percent of the net average weekly wage.

Demographic profile

Table 1 below shows that people receiving NZS are more likely to be women than men, and that among those receiving NZS, men are more likely to be married than women. The majority of single women are aged 75 or over, while the majority of single men are aged under 75. These facts are primarily a consequence of women having a greater life expectancy then men.

Table 1: Gender, Age and Marital status of people receiving NZS by Payment Category[6]

	Single Men		Married Men			
Age Group	**Sharing Rate**	**Living Alone Rate**	**Married Rate**	**Non Qualified Partner Rate**	**Total Men**	
65-69	4,320	9,247	35,309	11,028	59,904	
70-74	4,663	8,706	35,814	4,356	53,539	
75-79	3,937	7,717	28,567	1,371	41,592	
80-84	3,057	5,085	14,652	363	23,130	
85-90	1,986	2,714	5,451	53	10,204	
90 & over	1,296	1,072	1,404	8	3,780	
Total Men	**19,259**	**34,541**	**121,170**	**17,179**	**192,149**	
	Single Women		**Married Women**			
Age Group	**Sharing Rate**	**Living Alone Rate**	**Married Rate**	**Non Qualified Partner Rate**	**Total Women**	**Total Men & Women**
65-69	6,560	16,905	37,899	1,117	62,481	122,385
70-74	7,547	19,946	30,769	289	58,551	112,090
75-79	8,251	22,314	20,074	83	50,722	92,314
80-84	8,951	19,561	9,821	21	38,354	61,484
85-90	8,334	11,492	2,934	9	22,769	32,973
90 & over	7,008	4,537	530	1	12,076	15,856
Total Women	**46,651**	**94,755**	**102,027**	**1,520**	**244,953**	
Grand Total	**65,910**	**129,296**	**223,197**	**18,699**		**437,102**

Source: Ministry of Social Development, IAP

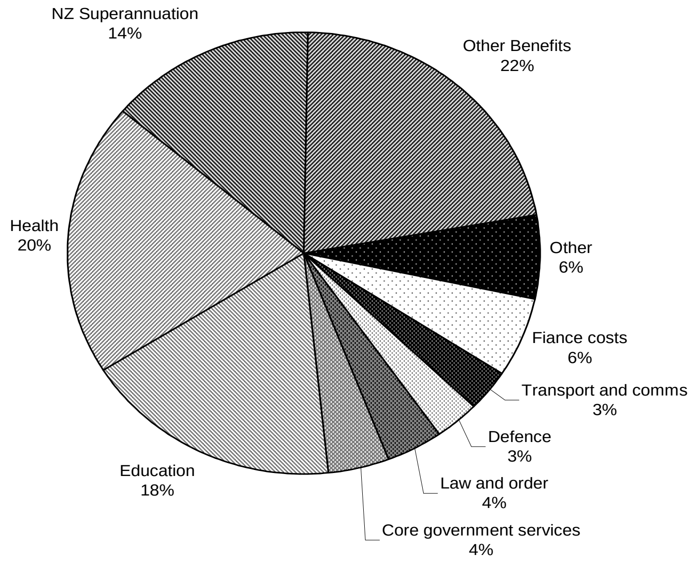
Expenditure

In 2001, the passing of the New Zealand Superannuation Act established the financial arrangements for the New Zealand Superannuation Fund. The Fund has been established as a mechanism to accumulate sufficient savings to partially pre-fund future payment of NZS. However, it is anticipated that the Fund will not be drawn upon until 2025. Consequently, NZS will continue to be fully funded from general taxation on a "pay as you go basis" until then.

[6] As at 9 May 2003.

As shown by Figure 2, NZS is one of the most significant items of government expenditure and comprises approximately 14 percent of total government expenditure.

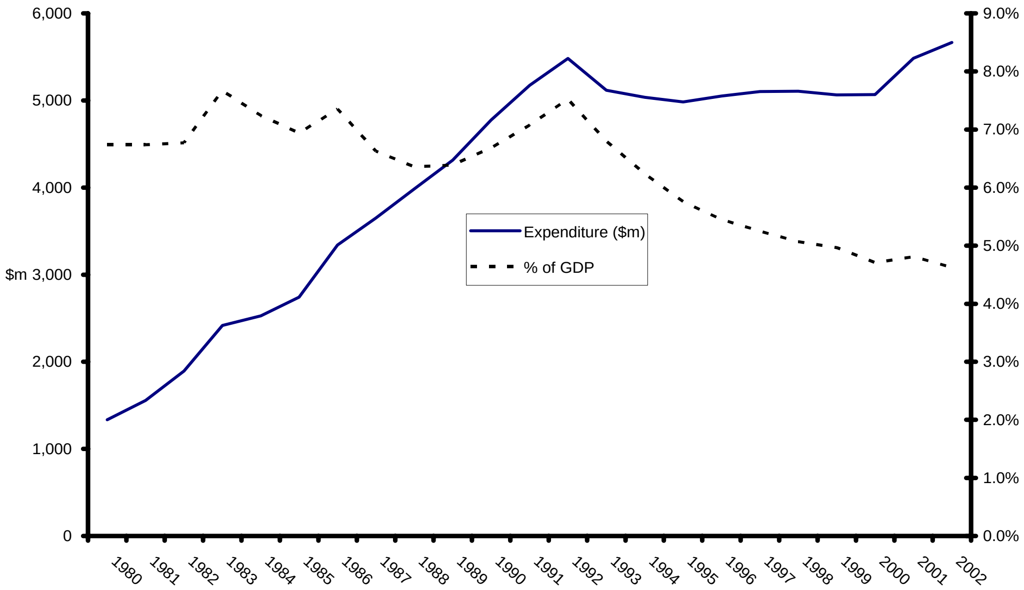
Figure 2: Government Expenditure in 2002/03 - $41.2b



Source: Budget 2002, Treasury

Figure 3 shows that NZS expenditure has remained relatively stable at around $5 billion a year since the qualifying age began to gradually increase to 65 years in the early 1990s. However, NZS expenditure as a percentage of Gross Domestic Product (GDP) has fallen in this period to less than five percent today.

Figure 3: NZS Expenditure (1980 - 2002)



Source: Statistics NZ Year Books (various) and Ministry of Social Development

Expenditure is expected to rise in upcoming years as New Zealand's population is ageing. The proportion of the population over the age of 65 is expected to increase from 12 percent to 27 percent over the next fifty years. This is due to the "baby boom" generation and the effects of increasing longevity, falling fertility and later child bearing. Consequently, NZS expenditure as a percentage of GDP will increase from around 4 percent to over 9 percent by 2050.

Other Financial Assistance

Veterans Pension

As an alternative to NZS, some war veterans are able to receive a Veterans Pension (VP). VP provides income support for ex-service people who have either reached the qualifying age for NZS and are on a 70 percent (or greater) war disablement pension, or are precluded from participating in the labour force because of a disability. Although the rates of VP are the same as NZS, it has the following benefits:

- automatic entitlement to a Community Services Card;
- lump sum payments can be made at death to a surviving partner or child; and
- payments are not reduced if long term hospital care is required.

As at 13 June 2003 there were 7,872 people receiving VP, including 7,246 who are aged 65 years or over.

Transitional Retirement Benefit

Transitional Retirement Benefit (TRB) provides income-tested support for people who have not reached the qualifying age for NZS. TRB was introduced in 1994 to assist those people affected by the increase in the qualifying age for NZS from 60 to 65 years. The qualifying age has been gradually increasing so that it will reach 65 years in April 2004, at which time TRB will end. The qualifying age is currently 64 years and 26 weeks.

As at 13 June 2003 there were 2,147 people receiving TRB.

Other Social Security Benefits

Approximately 93 percent of the population aged 65 years or over are currently receiving NZS. The lower than 100 percent take-up is primarily a reflection of those unable to meet the residency qualification for NZS – they do not have sufficient years of New Zealand residence. Consequently, there are a number of people aged 65 years or over who receive social security benefits.

The main benefit received by this group is Emergency Benefit (EB). EB provides income and asset tested support to people who are suffering hardship, unable to earn enough income for themselves (and any family), and who cannot receive any other benefit. As at 13 June 2003 there were 4,274 people receiving EB aged 65 years or over.

A number of superannuitants also receive second and third tier income support. The eligibility conditions for such income support are the same for superannuitants as they are for the working age population. This means that while NZS is not income or asset tested, it is counted as income for the purposes of assessing their entitlement to supplementary assistance.

Of the current NZS population, approximately:

- 71 percent have a Community Services Card;
- 22 percent receive a Disability Allowance; and
- 4 percent receive an Accommodation Supplement.

Accommodation Supplement provides means-tested assistance to enable people to meet their accommodation costs. The level of assistance is dependent upon where the person lives and their family circumstances. The comparatively low uptake of Accommodation Supplement reflects the high rates of freehold home ownership by older people. Disability Allowance provides income-tested assistance for people that have ongoing additional costs from their disability, where the disability is likely to last at least six months. Community Services Card is income tested and provides subsidised access to health services such as family doctor fees and prescription charges.

In addition, there is a range of other assistance available for older people experiencing hardship. The eligibility conditions for such assistance are the same for older people as they are for the working age population.

PRIVATE PROVISION

Private provision of retirement income in New Zealand is purely voluntary without tax concessions or other direct concessions to encourage savings. This framework is supported by the promotion of private provision of retirement income, which is carried out primarily by the Retirement Commissioner.

Taxation

The current framework has its genesis in the tax reforms of the late 1980s. Prior to this, NZ offered incentives to save for retirement through tax exemptions on contributions to certain superannuation products. The tax treatment of superannuation was "EET" ie contributions were exempt (E), fund earnings were exempt (E), and withdrawals from the fund were taxed (T). Between 1988 and 1990 the tax scale was flattened and all tax incentives for savings were removed. The focus of these reforms was to ensure tax neutrality between different savings vehicles.

The new regime that developed, and which still applies today, was "TTE" ie contributions are made from after tax income (T), fund earnings are taxed (T), and withdrawals from the fund are exempt (E). There is, therefore, no distinction between the tax treatment of retirement savings and any other types of savings.

Superannuation Schemes

Along with the changes to the tax regime in the late 1980s, the Superannuation Scheme Act 1989 changed the regulatory environment. The Superannuation Schemes Act 1989 requires extensive reporting and gives wide-ranging powers to the Government Actuary to safeguard the interests of investors.

The Act emphasises the roles and responsibilities of trustees, and while it gives trustees greater freedom, the trustees' activities are required to be more transparent. Furthermore, the Act applies to all schemes and makes no distinction between schemes for the general public and schemes sponsored by private and state sector employers.[7]

These tax and disclosure changes resulted in a number of changes in the nature of superannuation schemes.

Table 2: Nature of Superannuation Schemes

Nature of scheme[8]	Number of schemes		Total Assets ($m)		Total Membership	
	1990	***2001***	***1990***	***2001***	***1990***	***2001***
Private	508	56	58	28	550	77
Employer	2,242	625	9,508	10,463	310,741	263,283
Retail	113	127	1,466	7,865	236,062	437,510
Total	2,863	808	11,302	18,356	547,353	700,870

Source: Report of the Government Actuary for the year ended 30 June 2002

As shown by Table 2:
- total membership has increased by 28 percent
- the total number of schemes has fallen from 2,863 to 808; and
- the reduction in schemes has primarily involved employer based superannuation schemes, which have fallen from 2,242 to 625.

While there has been a major reduction in the number of employer based superannuation schemes, this is partly a reflection of stand-alone schemes merging into master trusts. Nonetheless, in this same period membership of employer based superannuation schemes has fallen from 22.6 percent of the labour force to 14.6 percent.

Annuities

The annuity market in New Zealand is small. Analysis by Susan St John[9] shows that annuities-based funds account for only an estimated $300 million to $400 million out of an estimated $40 billion of managed funds in New Zealand. The average annuity in force in June 2002 was just $4,884 for 5,610 policies.

Compulsory Superannuation

Compulsion has never been a major feature of New Zealand's retirement income framework.

In 1975, a short-lived compulsory contributory superannuation scheme was established by the then Labour government. The New Zealand Superannuation Scheme was based on compulsory contributions from employers and employees, and was to be run by the government. The intention was to supplement public provision (the existing Age and Superannuation Benefits would continue to operate) with an annuity from the compulsory scheme. However, with the change of government in 1976 the scheme was abolished.

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[7] As well as the requirements of the Superannuation Act 1989, schemes must also meet the disclosure requirements of the Securities Amendment Act 1996 and the Investment Advisors (Disclosure) Act 1996.

[8] Private refers to schemes set up by individuals for themselves and family, while public refers to schemes available to the general public.

[9] St John, S (2002), Pensions and Annuities in New Zealand: Have we lost the plot? 10th Annual Colloquium of Superannuation Researchers, University of New South Wales, 8-9 July 2002.

Compulsion emerged as an option again in 1997 with the proposed Retirement Saving Scheme (RSS). The RSS was based on compulsory contributions from taxable income to provide an annuity approximately equal to NZS at retirement. The aim of the RSS, unlike the earlier 1975 scheme, was not to supplement NZS, but to eventually replace it. However, the implementation of the RSS was subject to a referendum and as 91.8 percent of respondents voted against the RSS it was not pursued.

The current framework has been revisited on a number of occasions by groups such as the 1991/92 Taskforce on Private Provision for Retirement, the 1997 Periodic Report Group and the 2001 Tax Review. Generally, the conclusion of these groups has been to support the current voluntary framework.

For example, the 1991/92 Taskforce on Private Provision for Retirement considered three options: a voluntary model, tax incentives and compulsion. The Taskforce recommended a voluntary model as it:

- maximised individual choice and flexibility;
- allowed people to save at a level that is affordable to them;
- provided for competition and efficient markets; and
- allowed for gradual change.

Education

An important aspect of voluntary provision is the need to educate people on the benefits of planning for their retirement. The 1991/92 Taskforce on Private Provision for Retirement, while recommending a voluntary model for private provision, highlighted the need for education to prepare people to look after their own interests in planning and providing for retirement. The Taskforce further recommended the establishment of the position of a Retirement Commissioner who would have as one of their roles coordinating education programmes on budgeting and preparing for retirement.

Consequently, the Retirement Income Act 1993 established the position of the Retirement Commissioner, allowed for the setting up of the Office of the Retirement Commissioner, and specified the roles and functions of the Commissioner. Functions include, among other things, promoting education about retirement income issues and publishing information about those issues. In the 2003/04 financial year, the Office of the Retirement Commissioner has been allocated $2.5 million for education purposes.

The Retirement Commissioner's education programme is currently focussed on the Sorted Strategy, which highlights the importance of developing financial skills that can be applied throughout life. The tool for delivering this message is primarily through the sorted website. In addition, there are more specific programmes covering areas such as youth, Maori youth, students and managing finances in retirement.

POSSIBLE ISSUES FOR CONSIDERATION

Portability of NZS, and Overseas Pensions

Current policies allow limited portability (payment overseas) of NZS to superannuitants who take up residence outside of New Zealand, and require overseas pensions[10] received by New Zealand residents to be deducted dollar for dollar from NZS. There are concerns that these current portability and direct deduction policies are limited and inequitable. The Ministry of Social Development is currently leading a review of these policies.

Development of existing policies

For the majority of the 20th Century New Zealand was an immigrant-taking country. Migration flows were principally to and from Australia and the United Kingdom (UK), and were covered by social security agreements negotiated with these countries after World War II. For those New Zealand residents with overseas pensions, the direct deduction policy was introduced in 1938 so that the pension was deducted dollar-for-dollar from a person's New Zealand benefit entitlement. The rationale behind this policy was that a person with an overseas pension should not be advantaged over a person who had remained in New Zealand their entire working lives.

By the late 1980s, however, migration patterns had increased and diversified. The government of the day was facing increased pressure to provide seamless social security coverage for people who had immigrated from or emigrated to countries other than Australia and the UK. The government of the day therefore agreed to allow portability of NZS under social security agreements.

Due to public pressure, the general portability provisions were also introduced in 1990, whereby a person who was entitled to NZS could take 50 percent of the full rate with them overseas to a non-agreement country. The rate of 50 percent was struck to reflect the surcharge that applied to those who remained in New Zealand and the fact that portable pensions are not taxed in New Zealand.

Special portability provisions were introduced in 1993 to reflect New Zealand's special ties with three Pacific countries: Niue, the Cook Islands and Tokelau. While they were made more generous than the general portability provisions (in that a person retiring to the aforementioned countries could receive full NZS after 40 years' New Zealand residence), the formula meant that people with less than 20 years' New Zealand residence were receiving less than the 50 percent rate of general portability. In 1999 the formula was therefore amended so that a person could receive full NZS after 20 years' New Zealand residence. The number of Pacific countries covered by these provisions also increased to 22.

Issues with existing policies

The policies relating to the portability of NZS and the treatment of overseas pensions have been developed in an ad hoc manner over time, in response to particular pressures. At no time have they been comprehensively reviewed. As a result, there are problems that have arisen which affect an increasing number of people. In terms of portability, these include the following:

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[10] A pension from overseas that is administered by or on behalf of the government of another country and is similar in purpose to a New Zealand benefit or pension.

- the rate of portability differs, depending on the country in which a person intends to retire;
- the rate of general portability is now outdated, as the surcharge was abolished in 1998;
- the rate of general portability does not reflect genuine cost-sharing between the countries in which a person has spent their working lives (eg a person who has spent 35 years between the ages of 20 and 65 in New Zealand takes only 50 percent of NZS with them); and
- the criteria for a person to be ordinarily resident and present in New Zealand upon application for NZS, and for five of the ten years' residence required for NZS being after age 50, impede migration flows, and the former is applied inconsistently because it is overridden by agreements.

The direct deduction policy generates the following problems:

- there is no incentive for people to claim (or declare) their overseas pension, as they derive no real benefit from it;
- this generates a high degree of evasion of the policy, at an estimated cost of $150 million per annum to Government;
- genuine cost-sharing is not achieved between the countries in which a person has spent their working lives, as the NZ Government essentially deducts a person's entire overseas pension from their New Zealand benefit entitlement, leaving New Zealand's contribution to be very minimal (if anything) or very large if the person has spent a short amount of time here and has a very small or no overseas pension; and
- a number of countries balk at the direct deduction policy, and refuse to negotiate a social security agreement with us, at a significant cost to Government.

People with disabilities – a group with low lifetime income

The Periodic Report Group's terms of reference require comment on the issues faced by women, Maori, and Pacific peoples when saving for retirement. However, it is possible to identify an additional population group who are similarly disadvantaged by low lifetime incomes – people with disabilities.

The Disability Survey carried out by Statistics New Zealand in 2001 shows that a total of 743,800 New Zealanders reported some level of disability[11] – an overall disability rate of one in five. Some key findings of the survey were:

- People with disabilities are less likely to be employed. An estimated 58 percent of adults aged 15-64 with disabilities (235,400) were employed in 2001. In contrast, 76 percent of non-disabled adults of this age were employed.
- Reflecting their lower employment rates, the personal incomes of adults with disabilities are lower than those without disabilities. Almost half of people aged 15-64 with disabilities reported gross personal incomes of less than $15,000 for the year ended 31 March 2001, compared with 38 percent of non-disabled adults in that age group. At the other end of the scale, only 8 percent of disabled adults had personal incomes of $50,000 or more, compared with 14 percent of non-disabled adults.

There has been little analysis of the issues faced by people with disabilities when saving for retirement and this may be a matter that the Periodic Report Group identifies as requiring work in the future.

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[11] A disability was defined as any self-perceived limitation in activity resulting from a long-term condition or health problem; lasting or expected to last six months or more and not completely eliminated by an assistive device.