Office of the Minister of Finance

Chair, Cabinet

New Zealand Superannuation

Proposal

1 This paper proposes two changes to the settings for the New Zealand Superannuation scheme (NZ Super) to improve its long-term fairness and sustainability.

1.1 Increasing the age of eligibility for NZ Super by two years, starting in 20 years' time (reaching 67 years of age in 23 years' time, because of the transition period); and

1.2 Increasing the residency requirements for NZ Super eligibility.

2 I propose to progress legislation in 2018 to implement these changes.

Executive Summary

3 NZ Super provides a pension at age 65 for any New Zealand citizen or permanent resident who has lived in New Zealand for at least ten years, at least five of which must have been after the age of 50.

4 The rate of NZ Super for a married couple is 66 per cent of the average wage, which equates to $295.97 per person a week after tax currently.

5 A universal superannuation benefit was introduced in 1940. The current NZ Super scheme dates from 1977. It is designed to ensure a basic standard of living for older New Zealanders, and is an important element in ensuring old-age poverty remains very low in New Zealand.

6 Life expectancy has increased by 12 years in the last 60 years, including four years since 2001 when the retirement age became 65. Life expectancy is expected to continue to rise on average 1.3 years per decade until the end of the century – the equivalent of increasing by almost one day each week.

Life Expectancy						
	1951	1956	2001	2017	2037	2057
At birth…	69.3	70.5	78.7	82.5	86.2	89.0
At 65…	13.8	14.1	18.4	20.9	23.4	25.5

7 Older New Zealanders are also staying in the workforce and supporting themselves for longer. The labour force participation rate for 65-69 year olds has increased markedly over the last 20 years – from 11 per cent in 1997 to 45 per cent now. There are seven times as many 65-69 year olds in work than there were 20 years ago. Labour force participation in the 65+ age group is expected to continue to increase.

8 While a healthier population that lives longer is undoubtedly positive, it is also driving increased costs of NZ Super. Although the increase is affordable, it would necessitate future trade-offs – either restricted spending increases in areas like health, education or transport and/or tax increases.

9 The Retirement Commissioner recently recommended increasing the age of NZ Super eligibility to 67 over eight years between 2027 and 2034.

10 To ensure the continued fairness and sustainability of NZ Super, I propose to implement the Retirement Commissioner's recommendation to increase the age of eligibility to 67, but to do so with a twenty year notice period. Giving an extended period of notice would ensure families and individuals will have time to adapt to these changes. I therefore propose that the increase occur over four years between 2037/38 and 2040/41.

11 In recent years, the Government has given a clear signal about the age of eligibility for NZ Super remaining unchanged. It was particularly important to make this commitment to provide certainty during the GFC when the Government's finances came under a lot of pressure.

12 This proposal balances the needs to keep the clear signal about NZ Super settings – hence the 20 year lead in time – and the need for future change to maintain the fairness and sustainability of the system.

13 Currently a retiree at age 65 can expect to live 24.3% of their life on average on NZ Super. With the change of the age to 67, those reaching retirement age in 2040/41 will spend on average 24.5% of their lives receiving NZ Super.

14 In reviewing the settings for NZ Super, I have also identified another change I propose to make. This is that the residency requirement for NZ Super should increase from 10 years to 20 years, with grandparented rights for people who are already New Zealand citizens or residents. An alternative approach would be to increase the residency requirement only to 15 years.

15 Other settings such as indexation to the average wage and universal entitlement (without means testing) will remain unchanged.

16 When the total package is implemented in 2040/41, nearly 120,000 fewer people would be eligible for NZ Super in that year. This is comprised of an estimated 113,000 people who would be eligible for NZ Super two years later due to the increased age of eligibility and approximately 6,800 people who would need to wait longer to meet the new 20-year residency requirement. This is expected to reduce overall net costs to taxpayers by $4.0 billion in 2041, the equivalent of 0.6 per cent of GDP.

17 I propose that other policy settings linked to the settings for NZ Super should also be adjusted in line with the proposed changes, including the age of eligibility for the Veteran's Pension, the age of eligibility for the SuperGold Card and the interface with earnings-related compensation payable under the ACC Scheme. However, in line with a recommendation from the Retirement Commissioner, I propose to uncouple the age at which individuals can access their KiwiSaver funds, so that it remains at 65 regardless of any increases to the age of eligibility for NZ Super.

18 I propose that there should be a review in 2030 of the impact of the proposed changes to the age of eligibility on different groups, in light of the latest demographic, social and labour market trends at that time, and to consider whether any temporary additional support is needed for people who are not able to continue working beyond the age of 65.

Background

19 There has been extensive public discussion about the settings for NZ Super and retirement income generally over the past few years, most recently in the Retirement Commissioner's triennial review of retirement income policies, which was published in December 2016. The review included recommendations on the settings for NZ Super as well as recommendations on KiwiSaver and improving financial capability.

20 This package of proposals relates to the largest issues relating to eligibility for NZ Super. The Minister of Commerce and Consumer Affairs will bring a paper to Cabinet later in the year proposing a Government response to the rest of the Commissioner's recommendations.

21 The purpose of NZ Super is to assure a basic standard of living for older New Zealanders, available to all New Zealand residents, subject to a residency requirement. The rate of NZ Super for a married couple is 66 per cent of the average wage, which equates to $295.97 per person a week after tax currently. This compares to $175.10 per person per week for a couple on jobseeker support.

22 Any changes to NZ Super settings involve considering:

- Fairness between individuals and generations;
- Income adequacy for older New Zealanders;
- Fiscal sustainability of the NZ Super scheme;
- Sufficient notice to allow people to plan for their future; and
- Long-term stability in the settings over the years.

23 The proposals in this paper are intended to achieve progress on all those elements, by setting a direction of travel for NZ Super which can persist over many decades.

Age of Eligibility

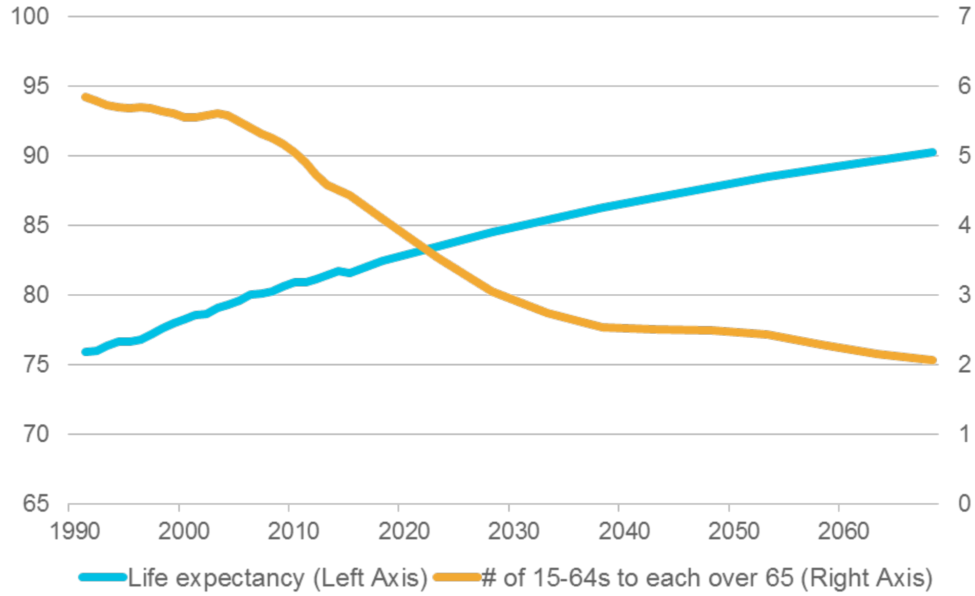
24 The current age of eligibility for NZ Super is 65. On 1 April 1992, the qualifying age was increased from 60 years to 61 years. The qualifying age was then increased by three months every six months from 1 April 1993, until it was fixed at 65 years from 1 April 2001.

25 Since then longevity has continued to increase. According to figures from Statistics New Zealand, life expectancy at birth has risen by 12 years over the last 60 years, including an increase of about four years between 2001 and 2016[1]. Life expectancy is projected to continue to rise on average 1.3 years per decade until the end of the century.

26 The number of people aged 15-64 is also declining relative to the number of people aged over 65 (Figure 1 below). However, as mentioned above, people aged over 65 are increasingly engaged in paid employment.

1 Male life expectancy at birth: 1956: 68.0 / 2001: 76.3 / 2016: 80.6
Female life expectancy at birth: 1956: 73.6 / 2001: 81.1 / 2016: 84.0

Figure 1: New Zealand life expectancy and age profile, 1990-2070



Source: Statistics NZ

27 While a healthier population that lives longer is undoubtedly positive, it does raise questions around the fairness of NZ Super settings. Based on life expectancies at the time, in 2001 a 65 year old could expect to be receiving NZ Super for an average of 18.4 years. By 2037, that is expected to have increased to 23.4 years.

28 These changes in life expectancy, and an increasing number of older people, are driving increased costs of NZ Super.

29 The cost of NZ Super is expected to increase from 5 per cent of GDP currently to around 8.4 per cent in 2060 – although remaining lower than the current average pension costs for OECD countries of 9 per cent of GDP. While the increase is affordable, it would necessitate future trade-offs – either restricted spending increases in areas like health, education or transport and/or modest tax increases.

30 Many other countries are raising their pension age, as set out in the table in the Annex. For example, in Australia, the pension age is rising to 67 in 2023 and in the United Kingdom it is rising to 66 in 2026 and 67 by 2028.

31 The Retirement Commissioner has recommended that the age of eligibility for NZ Super should be increased to 67, with a gradual rise over eight years starting in 2027.

32 There are good arguments for increasing the age of eligibility, given the increased longevity of the New Zealand population and the need to maintain fairness between generations and individuals. An increase would also maintain the fiscal sustainability of the NZ Super scheme.

33 However, I believe the ten-year transition period proposed by the Retirement Commissioner is too short to enable individuals to plan properly for their own future, and that the increase in the age of eligibility is not urgently required for fiscal reasons.

34 I therefore propose that the age of eligibility is increased to 67, but that there is a notice period of twenty years for that change. I propose a phase-in period for the change so

that the age of eligibility will increase by six months every year, starting on 1 July 2037 and reaching 67 on 1 July 2040. Today a retiree at age 65 can expect to live 24.3% of their life on average on New Zealand Super, while in 2040/41, on the proposed new settings, they will live 24.5% of their life on NZ Super.

Impact on people

35 The cohorts impacted by the increasing eligibility age are outlined below.

Birthdate	Pre 01/07/1972	01/07/1972 to 31/12/1972	01/01/1973 to 30/06/1973	01/07/1973 to 31/12/1973	01/01/1974 and after
Age of eligibility	65	65 and 6 months	66	66 and 6 months	67

36 Once fully implemented in 2040/41, approximately 113,000 fewer people will receive NZ Super at any one time than had the current age been retained.

37 The first cohort of people facing a retirement age of 67 with this change would be those born on or after 1 January 1974.

Fiscal savings

38 The proposed change to the age of eligibility delivers a significant reduction in the gross cost of NZ Super of approximately $4.3 billion per year by 2040/41 – a saving of around 0.6 per cent of GDP.

39 It is expected that some 65 and 66 year olds who would have received NZ Super will instead receive another benefit of additional support through Working for Families. The Treasury expects these additional costs to be approximately $520 million per year by 2040/41, taking the net savings to around $3.8 billion in that year.

Impact on Labour market participation

40 An increase in the age of eligibility for NZ Super is likely to increase the proportion of people aged 65 and over who are in paid employment (which currently stands at 24 per cent). There may be labour market impacts on different age cohorts as a result of this shift for older workers, which is also likely to be disproportionately seen among lower wage workers, as higher income earners can afford earlier retirement. There may also be an impact on employers, including a greater need for health and safety provisions.

Supporting vulnerable people

41 People who are not able to work beyond the age of 65 will be eligible for other support, such as jobseeker and disability benefits. However, because these benefits are typically lower than NZ Super, some people will be disadvantaged by the increase in the age of eligibility of NZ Super. This includes people with high health needs, the disabled, those with caring responsibilities and those who have worked in physically demanding jobs and cannot work beyond the age of 65, as well as people receiving social security benefits who are approaching 65, as they would have to wait longer to receive NZ Super.

42 Increasing the age of eligibility for NZ Super also raises issues of fairness, given the different life expectancies and income levels of individuals, of different ethnic groups and of people working in different occupations. People who live longer receive more NZ

Super than those who are shorter-lived, and increasing the age of eligibility for NZ Super will have a greater impact on those who spend a shorter period of time receiving it. However it is important to note that these differences already exist with the current age of eligibility.

43 Demographic, social and labour market changes will continue over the next twenty years and we may see the continuation of trends such as the convergence of longevity expectations between different population groups and different patterns of work.

44 I therefore propose that there should be a review in 2030, to examine the impact on different groups in society of the changes to superannuation settings in light of the latest trends at that time, and to consider whether any temporary additional support may be needed for people who are not able to work beyond the age of 65.

Residency requirements

45 To meet residency requirements for NZ Super, an individual must be ordinarily resident in New Zealand and have lived in New Zealand for 10 years since they were aged 20 years, of which five years must have been since they were aged 50 years.

46 New Zealand and Australia have the lowest residence requirement in the OECD, of 10 years. Australia also has income and asset test criteria that apply to the age pension. In other countries with residence-based systems, Canada, Iceland, Finland and Denmark require 40 years residence for a maximum pension. Most OECD countries have contributory state pension systems where differing rates are paid depending on the number of years of contribution.

47 The short residency requirements for NZ Super create an issue of fairness, whereby people who have not made a contribution to New Zealand during their working lives still benefit during retirement.

48 The Retirement Commissioner recommended in her 2016 report that the length of residence required for New Zealand Superannuation should be increased from 10 years to 25 years after the age of 20. Years of residence would be counted cumulatively and continue beyond the age of eligibility for NZ Super as at present.

49 While recognising the arguments in favour of increasing the residency requirement, and the additional savings that could be made with a 25 year residency requirement, I consider that a residency requirement of 25 years would be too long. I suggest that the length of residence needs to be appropriate in the context of increasing international mobility. I therefore propose a residency requirement of 20 years.

50 The Retirement Commissioner recommended that the new residency requirement should apply immediately for new immigrants to New Zealand, but that the current ten-year residency criteria should continue to apply for anyone who is already a New Zealand citizen or resident. I agree with this recommendation and propose to implement it. In addition, for avoidance of doubt I propose that existing recipients of NZ Super are grandparented. Consequently no person who met the residence criteria before the increase in the residency requirement and was granted NZ Super will subsequently lose their NZ Super if they do not meet the increased residency requirement.

51 Residency and pension contributions in countries with which New Zealand has a Social Security Agreement count towards the residency requirement for NZ Super (this includes

the UK, Canada, Australia and six other European countries) so the impact of a change in the residency criteria on migrants from these countries will be minimal.

Savings from changing residency requirements

52 The Treasury projects that between 35 and 50 per cent of individuals who would not meet the increased residency requirements would migrate earlier in order to meet the requirements. It is also assumed that between 30 and 35 per cent of individuals who would not ordinarily qualify for NZ Super because of the increased residence period would receive another social security benefit – Jobseeker Support (JS) or Supported Living Payment (SLP). This leaves between 20 and 30 percent of individuals who would not meet the increased residency requirements and would not be eligible for any benefits. There may also be increased take-up of supplementary assistance from those who have a lower income.

53 With the change to a 20-year residency requirement, it is estimated that the number of NZ Super recipients in 2041 would reduce by around 6,800 and the number of recipients of JS/SLP would increase by around 3,100. Alternatively, if the change was to a 15-year residency requirement, the number of NZ Super recipients would reduce by around 1,200 and the number of recipients of JS/SLP would increase by around 500. Table 1 below shows the impact of the residency policy options in isolation.

54 The combined effects of increased residency requirements and the increase in the eligibility age are shown in Table 2.

Table 1: Estimated overall savings each fiscal year (net of JS/SLP increase) of extending the residency requirement

Annual savings	**2023**	**2030**	**2041**
Introduce 15-year residency requirement			
Nominal overall $ change (millions)	(0.2)	(14)	(34)
Introduce 20-year residency requirement			
Nominal overall $ change (millions)	(0.1)	(39)	(195)

Savings are represented as values in brackets.

55 Increasing the residency requirement may have an impact on the labour market, as it may change the incentives for migrants to come to New Zealand, particularly from those countries with which New Zealand does not have a Social Security agreement. To the extent that eligibility for NZ Super is a factor in individuals' decisions, an increase from ten years may persuade some potential migrants to stay in their home countries rather than move to New Zealand.

Consequential changes

56 I propose that the settings for other schemes that relate to the settings for NZ Super should be adjusted in line with the proposed changes to NZ Super. The main areas are set out below, but I will include further details in the proposals for legislative change which I will bring to Cabinet in 2018.

<u>New Zealand Veteran's Pension</u>

57 The Veteran's Pension provides retirement income for New Zealand veterans who have recognised service and who have reached the qualifying age for NZ Super. A veteran can choose to receive either Veteran's Pension or NZ Super. There are currently about 8,500 recipients of the Veteran's Pension, though this number is expected to decline significantly over the next twenty years.

58 The entitlement settings for the Veteran's Pension are currently based on those for NZ Super. I propose that the age of eligibility should be increased to match any increase in the NZ Super qualifying age. However, where applicable, veterans with a service-related impairment that prevents them from working full-time would continue to be eligible for weekly income compensation or weekly compensation (depending on the date of their qualifying service) until they reached the age of eligibility for NZ Super or the Veteran's Pension. For veterans who do not meet the eligibility criteria for weekly income compensation or weekly compensation, support from Work and Income is available.

<u>Special Portability Arrangement with Pacific Countries</u>

59 There is a special portability arrangement covering certain Pacific countries, which enables people to receive NZ Super if they intend to reside in one of the specified Pacific countries. There are different residency tests under this arrangement, which will need to be reviewed in the light of changes to the general residency requirement. No analysis has yet been done of what adjustments would be appropriate and what their impact might be on potential claimants.

<u>Accident Compensation Corporation</u>

60 Increasing the age of eligibility to NZ Super could have cost implications for the ACC scheme under current settings, as weekly compensation from ACC (which can be 80% of previous earnings) is payable until the age of eligibility for NZ Super. There may also be increased liabilities to ACC if more people remain at work longer than currently, as people in the over 65 age group are more prone to workplace injuries, both in incidence and severity. Against that, there may be some reduction in liabilities in the Non-Earners' Account as people stayed in work longer. These impacts have not been modelled or quantified. Nonetheless, the relevant age for ACC compensation needs to continue to be aligned with the NZ Super age, and I recommend that this relationship should be retained.

<u>SuperGold Card</u>

61 The SuperGold card is a discounts and concessions card for seniors and veterans. It is currently available to anyone who is 65 years or over and legally and ordinarily resident in New Zealand, or to anyone under 65 years who receives a Veteran's Pension or the Non-Qualified Spouse or Partner rate of NZ Super or Veteran's Pension. I propose that the age settings for the SuperGold card should be increased in line with the age of eligibility for NZ Super.

KiwiSaver settings

62 The age at which KiwiSaver funds can be accessed is currently linked to the age of eligibility for NZ Super. KiwiSaver investors expect that their money will be available at 65 and have been saving on this basis. Increasing the age at which KiwiSaver can be accessed may be seen as the Government changing the rules on what people can do with their own personal savings. This could undermine confidence in the KiwiSaver programme. For this reason, the Retirement Commissioner recently recommended that the age at which KiwiSaver funds can be accessed should be decoupled from the age of eligibility for NZ Super.

63 The goal of KiwiSaver is to improve well-being and financial independence in retirement. Leaving the KiwiSaver age at 65 would allow individuals greater flexibility in choosing when to retire by allowing them to access their private savings at that age.

64 On the other hand, it could be argued that the age of eligibility for KiwiSaver has always been described in relation to the age of eligibility for NZ Super, and KiwiSaver is often considered to be a supplement to NZ Super rather than an alternative to it. On balance, I believe the private property arguments should win out, and I therefore propose that the age at which KiwiSaver funds can be accessed should be uncoupled from the age of eligibility for NZ Super and that this be part of the superannuation announcement.

65 The Retirement Commissioner also recommended that people over the age of 65 should be allowed to join KiwiSaver, as this would provide access to a lower-cost managed fund for those who have not previously joined. I support this idea and propose that it should be taken forward along with the change to the age at which KiwiSaver funds can be accessed. As there are some complicated interactions between these settings, I propose that the Minister of Commerce and Consumer Affairs and the Minister of Revenue should be invited to come back to Cabinet with detailed proposals for the implementation of these changes.

66 It should be noted that allowing people to access their KiwiSaver funds in advance of the age of eligibility for NZ Super may compromise their eligibility for a social security benefit during that period, as eligibility for benefits can be subject to an assessment of that person's income and assets, which would include assets available from a KiwiSaver scheme. I propose that this issue be addressed in the 2030 review on the transitional impacts on the change of the age of eligibility of superannuation.

New Zealand Superannuation Fund

67 The New Zealand Superannuation Fund was established under the NZ Superannuation and Retirement Income Act 2001. The fund is managed by the Guardians of New Zealand Superannuation, a Crown Entity. The Government uses the fund as a savings vehicle in order to help pay for the future cost of providing universal superannuation. In this way the fund helps smooth the cost of superannuation between today's taxpayers and future generations.

Between 2003 and 2009, the Government contributed $14.88 billion to the Fund. Contributions to the Fund will resume from when core Crown net debt falls below 20% of GDP. This is currently expected to occur in 2020/21. At that time, contributions are expected to be made in line with the amount which is calculated per the contribution formula under s.43 of the Super Act. That amount will reduce under the new NZS policy settings (increased eligibility age and residency requirements) as these will both lead to lower future costs of superannuation. The updated expected Fund contribution track will be published in the Budget Economic and Fiscal Update on 25 May 2017 and the accompanying Fiscal Strategy Report.

Consultation

68 The following departments were consulted on the contents of this paper: the Ministry of Business, Innovation, and Employment; the Inland Revenue Department; the Ministry of Justice; the Ministry for Pacific Peoples; the Ministry of Social Development; Statistics New Zealand; the Ministry for Women; New Zealand Veterans' Affairs and the Department of the Prime Minister and Cabinet. Te Puni Kōkiri was informed.

69 I have not undertaken any external consultation on the proposals in this paper, but the issues and arguments have been discussed extensively over the last few years, most recently during the consultation process which led up to the publication of the Retirement Commissioner's 2016 report.

70 Once I have announced the Government's intentions, we can expect to receive further representations and public discussion which will help in developing the necessary legislation. In order to support this discussion, I propose to release this Cabinet paper and the associated Regulatory Impact Statement in due course.

Financial Implications

71 Table 2 below shows the estimated overall reduction in net NZ Super expenditure to 2050 if both the proposed changes were implemented as proposed, and less net JS/SLP increases.

Table 2: Estimated overall savings each fiscal year (net of JS/SLP increase) due to a combination of both policy options ($ & %)

Annual savings	**2023**	**2030**	**2038**	**2041**
With 15-year residency requirement				
Nominal overall $ change (millions)	(0.2)	(14)	(964)	(3,848)
Change (% of GDP)	(0.0)	(0.0)	(0.2)	(0.5)
With 20-year residency requirement				
Nominal overall $ change (millions)	(0.5)	(39)	(1,108)	(4,009)
Change (% of GDP)	(0.0)	(0.0)	(0.2)	(0.6)

Savings are represented as values in brackets.

Human Rights

72 Because these proposals relate to entitlements based on age and residency, there are potential issues under the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993, (particularly the right to freedom from discrimination).

73 The proposed increase in the age of entitlement may indirectly discriminate against groups of people with shorter life expectancies (that is Māori, Pacific Island peoples and men) and other groups who might be disadvantaged by an increase in the age of eligibility (people with disabilities or high health needs, those with caring responsibilities and those in physically demanding jobs who may find it difficult to work beyond the age of 65). The proposed change to the residency requirements would also affect some individuals who had lived outside New Zealand for some of their lives.

74 However, it should be noted that the New Zealand Superannuation and Retirement Income Act 2001 already discriminates insofar as it already contains a fixed pension eligibility age and residence criteria. The proposal would move the line (i.e. change the eligibility age and the number of years a person must be resident) rather than introduce new criteria. I consider that the justification for any current discrimination would continue to apply to an increased age and residency eligibility – i.e. it is necessary to achieve the policy objective of maintaining the fairness and sustainability of NZ Super for all New Zealanders, it impairs rights no more than is reasonably necessary to achieve the objective and it is in proportion to the importance of the objective. The proposed changes to the eligibility age are based on statistical data on life expectancy on which it is reasonable to rely.

75 Further analysis will be undertaken in preparing the legislation to implement these changes, and the review in 2030 will provide another opportunity to consider the impacts of the proposed changes on different groups in society and whether any temporary additional support will be required at that time.

Legislative Implications

76 The proposals in this paper will require amendments to the New Zealand Superannuation and Retirement Income Act 2001 and the Veterans' Support Act 2014. There may also be consequential amendments required to the Social Security Act 1964, for example if any new transitional provisions are required for those who cannot work past the age of 65.

77 This does not have a slot on the legislative programme for 2017, but I envisage bringing a bill forward for the 2018 programme.

78 The proposed Act would bind the Crown, on the basis that it would make amendments to the New Zealand Superannuation and Retirement Income Act 2001 and the Veterans' Support Act 2014, which both bind the Crown.

Regulatory Impact Analysis

79 The Regulatory Impact Analysis requirements apply to this proposal.

80 The Treasury has prepared a Regulatory Impact Statement (RIS), which is attached to this paper.

81 The Regulatory Impact Analysis Team at the Treasury (RIAT) has reviewed the RIS produced by the Treasury. The reviewers consider that the information and analysis

summarised in the RIS **meets** the quality assurance criteria for regulatory impact analysis.

82 The motivation for considering options for reducing the future fiscal cost of New Zealand Superannuation is well established and the likely fiscal impact of the examined options is clearly described in the RIS. Extensive further analysis is referenced.

83 If the proposed changes are agreed, continuing monitoring of private saving behaviour and labour force participation by older workers, in the period leading up to the change, should help to ensure a smooth transition.

Gender and disability implications

84 On average, women live longer than men so receive on average more NZ Super. Older females currently have lower labour force participation rates than men, though this may change over the next 20 years. Lifetime earnings capacity is also an issue for women as they have lower lifetime incomes and live longer than men. Lifetime earning capacity is compounded for Māori and Pacifica women and women with disabilities although these populations have lower life expectancy than the general population.

85 People with a disability are more likely to be unable to work beyond 65 years. In addition, people with a long-term disability have lower lifetime incomes, so will have fewer options in their older years. They also have lower life expectancy than the general population.

Publicity

86 I propose to make an announcement about these decisions on 6 March. I also propose to release this paper and the associated Regulatory Impact Statement proactively in due course.

The Minister of Finance recommends that Cabinet:

1. **agree** that the age of eligibility for New Zealand Superannuation should start moving from 65 years of age to 67 years of age in twenty years' time.

2. **agree** that the age of eligibility for New Zealand Superannuation should increase on a phased basis, starting on 1 July 2037 when the age of eligibility would increase by six months, and increasing the age of eligibility by a further six months every year until 1 July 2040.

3. **note** that the age of eligibility for New Zealand Superannuation will reach 67 years of age in 23 years' time, because of the transition period.

4. **note** that there will be no change to the indexation rate of New Zealand Superannuation and there will continue to be no means-testing of New Zealand Superannuation as a result of these proposals.

5. **agree** that the residency requirement should be amended so that new applicants for New Zealand Superannuation must have lived in New Zealand for twenty years, with five of those after the age of 50.

6. **agree** that the current residency requirement for New Zealand Superannuation will continue to apply for people who are New Zealand citizens or residents at the time the legislation is enacted.

7. **note** that the proposed changes would produce overall annual savings of $4.0 billion by 2041, and that these savings would be equivalent to 0.6 per cent of GDP.

8. **agree** that there should be a review in 2030 of the expected transitional impacts of the change in the age of eligibility, in light of the latest trends in employment and longevity at that time, to ensure that the impacts on any disadvantaged groups are fully understood and to consider whether any temporary additional support is needed for those unable to work beyond 65.

9. **agree** that the changes in the eligibility rules for New Zealand Superannuation should be carried across to other policy settings that relate to them, including the age of eligibility for the New Zealand Veteran's Pension, ACC earnings compensation and the SuperGold card.

10. **agree** that the age at which KiwiSaver funds can be accessed should be decoupled from the age of eligibility of New Zealand Superannuation, and fixed at 65.

11. **agree** that people over the age of 65 may join KiwiSaver.

12. **invite** the Minister of Commerce and Consumer Affairs and Minister of Revenue to report back to Cabinet with details on the implementation of the recommended changes to KiwiSaver settings.

13. **note** that the changes outlined above will require amendments to the New Zealand Superannuation and Retirement Income Act 2001 and the Veteran's Support Act 2014 and may require consequential amendments to other legislation, and that the Minister of Finance will bring forward detailed proposals for the necessary legislative changes in 2018.

14. **note** that the Prime Minister and the Minister of Finance will announce on 6 March 2017 the proposed changes to New Zealand Superannuation.

15. **note** that the Minister of Finance will publish this Cabinet paper and the associated Regulatory Impact Statement in due course.

[Authorised for lodgement]

Hon Steven Joyce

Minister of Finance

ANNEX

International Comparison of Current and Proposed Pension Ages

Country	Current Pension Age	Proposed Pension Age	Date of Proposed Pension Age Change
Australia	65	65.5	1 July 2017
		66	1 July 2019
		66.5	1 July 2021
		67	1 July 2023
Canada	65	n/a	n/a
United Kingdom	65	66	October 2020
		67	2028
		68	2046
Denmark	65	67	2022 for men, 2030 for women
Netherlands	65 years, 3 months	67	2024
Ireland	66	68	2028
Germany	65 years, 3 months	67	2030
Italy	66 years, 3 months for men, 63 years, 9 months for women	67	2022
United States	66	67	2027
OECD average	64 for men, 63.1 for women	65.5 for men, 65.4 for women	n/a

Notes

Canada: The pension age was set to increase to 67 in 2023 (as stated in the Old Age Security Act), but this policy was reversed in 2016.

United Kingdom: The increase in pension age to 68 is scheduled for 2046, but this is subject to a review under the Pensions Act 2014, which must be completed by May 2017.

Denmark/Netherlands: The pension age is planned to increase further to 72.