

# The Treasury

## New Zealand Superannuation Information Release

### Release Document July 2017

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- [2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [3] Deleted – not relevant to the announcements

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

## Treasury Report: Additional considerations for New Zealand Super policy

<b>Date:</b>	22 February 2017	<b>Report No:</b>	T2017/321
		<b>File Number:</b>	AD-1-51

### Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Steven Joyce)	Note the key points outlined in the report	Prior to Cabinet paper presentation

### Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Melissa Piscetek	Analyst, Modelling and Research [2]	N/A (mob)	✓
Peter Gardiner	Manager, Modelling and Research	[1]	

### Actions for the Minister's Office Staff (if required)

Provide feedback to Treasury on the attached Cabinet paper, noting the content of this report.

Note any feedback on the quality of the report

**Enclosure:** Yes (attached)

[NZS Cabinet paper - draft of 21 Feb 2017 \(Treasury:3669322\)](#) [Add to worklist](#)

## Treasury Report: Additional considerations for NZ Super policy

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### Executive Summary

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1. You have asked Treasury to prepare a Cabinet paper that sets out a number of changes to New Zealand Superannuation (NZ Super) policy that you propose. Specifically, you recommend four changes to the NZ Super settings to improve its long-term fairness and sustainability. The proposed changes are:
  - a 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),
  - b linking the age of eligibility for NZ Super to life expectancy from 2050,
  - c from 2022, increasing the residency requirements for NZ Super eligibility, and
  - d from 2022, discontinuing the arrangement where non-eligible partners of NZ Super recipients receive a NZ Super payment.
2. This report outlines some additional analysis that we would like to bring to your attention as regarding the NZ Super policy options outlined in the Cabinet paper. This analysis includes:
  - a **Indexation to longevity:** There are a number of technical issues that need to be looked at in more detail before determining the most appropriate indexation method. This work will be undertaken by officials from the Treasury and Statistics New Zealand.
  - b **Changes to residency requirements:** You are considering an earlier introduction to the change to residency requirements (to either 15 or 20 years). If you introduce changes in 2017/18, there will be additional fiscal savings. Individuals (including New Zealand citizens) who have lived in countries with no Social Security agreement with New Zealand may not meet the residence requirements for NZ Super under the proposed changes.
  - c **Access to KiwiSaver:** Decoupling the accessibility age for KiwiSaver from the retirement age would allow the accessibility age for KiwiSaver to remain at age 65. This allows greater personal choice. However, allowing access to KiwiSaver funds before reaching the age of eligibility for NZ Super may compromise someone's eligibility for other main benefits, as these can be subject to an assessment of that person's assets. More consideration of the costs and benefits of these options needs to be completed.
  - d **Longevity by ethnicity:** Demographic factors mean the proposed change to the age of eligibility will have a particular impact on Māori and Pacific peoples. Officials from the Treasury and the Ministry of Social Development should work together to undertake further analysis of the linkages between the proposed policy changes and their associated welfare implications as well as policy options for the provision of transitional support for those unable to work past the age of 65.

- e **Wage indexation:** The current legislation sets the after tax amount payable to be between 65% and 72.5% of the after-tax average ordinary-time weekly wage as determined by Statistics New Zealand's Quarterly Employment Survey. We believe it would be opportune to review available wage measures that take account of new data and new data sources that have become available in recent years.

## Recommended Action

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We recommend that you:

- a. **note** that further work is required to determine the most appropriate longevity indexation methodology
- b. **note** the analysis of introducing changes in residency requirements in 2018 rather than 2022
- c. **note** the issues relating to decoupling the age of eligibility to KiwiSaver from NZ Superannuation
- d. **note** the additional analysis on longevity by different ethnic groups
- e. **note** that on measurement grounds there is good reason to consider reviewing the appropriate wage measure, and
- f. **Discuss** the content of the attached draft cabinet paper with officials before Thursday, 23 February.

Peter Gardiner  
**Manager, Modelling and Research**

Steven Joyce  
**Minister of Finance**

## Treasury Report: Additional considerations for New Zealand Super policy

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### Purpose of Report

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3. You have asked Treasury to prepare a Cabinet paper that sets out a number of changes to NZ Super policy that you propose.
4. Specifically, in the Cabinet paper you propose four changes to the settings for the NZ Super to improve its long-term fairness and sustainability:
  - a 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),
  - b linking the age of eligibility for NZ Super to life expectancy from 2050,
  - c from 2022, increasing the residency requirements for NZ Super eligibility, and
  - d from 2022, discontinuing the arrangement where non-eligible partners of NZ Super recipients receive an NZ Super payment.
5. This report outlines some additional considerations that we would like to bring your attention regarding the policy options outlined in the Cabinet paper.
6. The additional considerations relate to the increase in eligibility age, linking future eligibility age increases to life expectancy improvements, improvements to wage measures, increasing the residency requirements and KiwiSaver access.

### Index future increases to NZ Super eligibility age to longevity improvements

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7. You propose a future increase in the age of eligibility for NZ Super to 67, which will occur in a staged process over four years, between 2037 and 2040.
8. You also propose that the age of eligibility be linked automatically to changes in life expectancy as determined by Statistics New Zealand, with any change calculated every ten years starting in 2040 and coming into effect ten years later, starting in 2050.
9. The following issues need to be considered before the most appropriate longevity indexation methodology can be determined:
  - a Choice of age or age range to use. Life expectancy can be measured at any age – typically at birth (age 0), but other ages are arguably more relevant if considering 'retirement' ages and superannuation.
  - b Choice between period and cohort life tables.
    - i Period – based on people dying in a specific period of time – a cross-sectional measure.
    - ii Cohort – based on people born in a specified period of time – a longitudinal measure requiring tracking of a birth cohort over their entire lifetime.

- c Impact of variance of life expectancy amongst different ethnic groups. Ethnic specific life expectancies are able to be calculated but at lower level of quality than overall life expectancy.
- d Whether a measure of independent life expectancy is more useful. Independent life expectancy is defined as the 'expectation of life without the need for assistance from another person or a complex assistive device (whether daily or intermittently)'.
- e How best to reflect partial year improvements in longevity. For example an improvement of 1.3 years over a decade may be rounded down to an increase in eligibility age of one year.

### The timing of increased residency requirements

10. 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.
11. As part of the proposed changes to NZ Super policy, your Cabinet paper will present two recommendations to increase the residency requirement to i) 15 years and ii) 20 years commencing in 2022/23. The requirement for five years of residence post age 50 will remain.
12. If changes in residency are introduced immediately, additional cost saving would be made. These savings range from \$3.75 million and \$12.0 million dollars in 2018. Between 133 and 460 people would be ineligible for benefits (including NZ Super and other benefits).
13. The fiscal savings associated with bringing forward residency requirements to 2017/18 are outlined in the table below. The fiscal modelling assumes that some individuals who no longer qualify for NZS, because of the increased residence period, receive another social security benefit – Jobseeker Support (JS) or Supported Living Payment (SLP) for both scenarios.

**Table 1: Estimated overall gross savings (net of gross JS/SLP increase) of extending the residency requirement (\$ & %)**

<b>Annual savings</b>	<b>2018 (yr. 1)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Introduce 15-year residency requirement</b>					
Nominal overall \$ change (millions)	(3.75)	(6.89)	(9.52)	(11.62)	(13.10)
% change (as a % of gross NZS expenditure)	(0.03)	(0.05)	(0.06)	(0.07)	(0.09)
<b>Introduce 20-year residency requirement</b>					
Nominal \$ change (millions)	(11.96)	(23.17)	(34.04)	(44.63)	(54.81)
% change (as a % of gross NZS expenditure)	(0.09)	(0.16)	(0.22)	(0.28)	(0.38)

Source: Developing advice on Retirement Income, Ministry of Social Development (2017). Savings are represented as values in brackets.

14. Impact on the number of people receiving NZ Super based on the introduction of increased residency requirements in 2017/18:
  - a 15-year residency requirement:
    - i In 2017/18 it is estimated that the number of NZ Super recipients would reduce by around 333. The number of recipients of JS/SLP would increase by around 200.
    - ii In 2021/22 it is estimated that the number of NZ Super recipients would reduce by around 1,065. The number of recipients of JS/SLP would increase by around 640.
  - b 20-year residency requirement:
    - i In 2017/18 it is estimated that the number of NZ Super recipients would reduce by around 994. The number of recipients of JS/SLP would increase by around 535.
    - ii In 2021/22 it is estimated that the number of NZ Super recipients would reduce by around 4,178. The number of recipients of JS/SLP would increase by around 2,250.
15. 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. New Zealand does not have a Social Security Agreement with any Asian, African or South American countries, though we are currently negotiating an Agreement with South Korea. India has also approached New Zealand with an interest in establishing an Agreement.
16. Individuals (including New Zealand citizens) who have lived in countries with no Social Security agreement may not meet the residence requirements for NZ Super under the proposed changes. The number of New Zealand citizens affected will be greater if the residency requirement is introduced sooner, particularly as these people will not have the option of arriving earlier to gain the necessary residency.
17. As at December 2016 there were 9,414 permanent and long-term arrivals into New Zealand over the age of 55 (those individuals who may not meet the residency test under current settings). If the residency requirement increased, an additional 3,196 individuals (under 15 year residency requirement) or 7,172 individuals (under 20 year residency requirement) may not meet the residency test under the proposed settings.

### KiwiSaver accessibility age

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18. The age at which KiwiSaver funds can be accessed is currently the same as the age of retirement (eligibility for NZ Super).
19. If NZ Super eligibility age increases to age 67 (or increases further due to the link to longevity improvements), and if KiwiSaver policy does not change, the age of access for KiwiSaver will also increase.
20. KiwiSaver investors have an expectation that their funds will be available at 65 and have been making saving and investment decisions on that basis. An increase in the age may undermine confidence in the long-term stability of the KiwiSaver settings.

21. As an alternative, the accessibility age for KiwiSaver may be decoupled from the retirement age. This would allow the accessibility age for KiwiSaver to remain at age 65.
22. KiwiSaver's objective is to improve the well-being and financial independence of individuals in retirement. Since KiwiSaver is comprised of private savings, it does not necessarily need to be linked to the age of access for the public pension.
23. Allowing people to access their KiwiSaver funds in advance of the age of eligibility for NZ Super may compromise someone's eligibility for pre-retirement benefits, as these can be subject to an assessment of that person's assets. This issue would have to be considered if the KiwiSaver access age and NZ Super eligibility age are decoupled.

## Wage indexation

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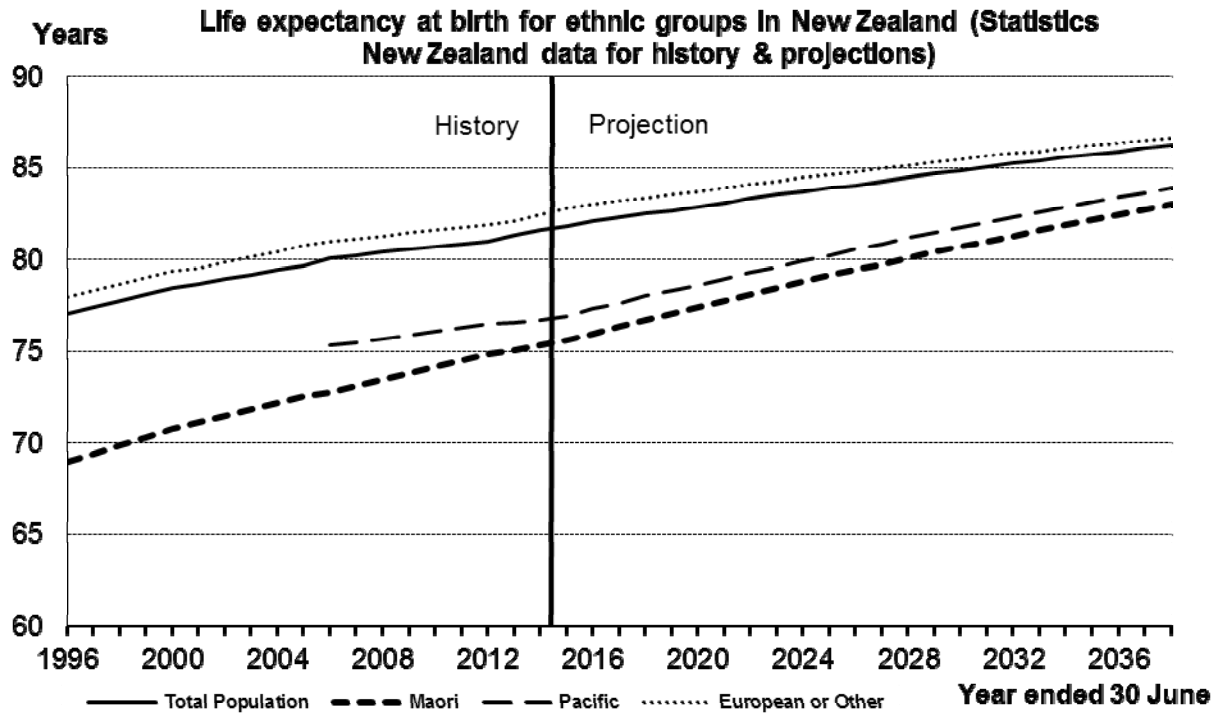
24. The current legislation sets the after-tax amount payable to be between 65% and 72.5% of the after-tax average ordinary-time weekly wage as determined by Statistics New Zealand's Quarterly Employment Survey.
25. We believe it would be opportune to review available wage measures that take account of new data and new data sources that have become available in recent years. In particular it would be useful to "future proof" the wage measure used to index NZ Super against changes in data sources. Choices would include use of salary and wage or total income measures derived from tax data or "cost of living" measures such as the CPI or new Household Living-Cost Price Indexes for superannuitants.
26. If an improved wage measure is introduced, settings would be chosen so as not to affect the current level of superannuation received while better targeting payments to the needs of this group.

## Ethnicity and life expectancy

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27. In New Zealand, ethnic specific life expectancies differ (and are calculated at a lower level of quality than overall life expectancy). For example, Māori have an average life expectancy at birth of 73.4 years for males and 77.3 years for females. Pacific peoples have an average life expectancy at birth of 74.6 years for males and 78.8 years for females. The overall life expectancy at birth is 79.8 years for males and 83.4 years for females.
28. Average life expectancies at birth for all ethnic groups are projected to converge to the overall life expectancy over the next 25 years, as illustrated in the graph below.





29. Although the trend is towards convergence, there will continue to be differences in life expectancies across ethnic groups over the long term. A difference of 3.5 and 3 years will remain between Māori life expectancy and the overall population life expectancy (for males and females respectively) and a difference of 2.7 and 1.9 years will remain between Pacific peoples' life expectancy and the overall population life expectancy (for males and females respectively) in 2038.
30. These demographic factors mean the proposed change to the age of eligibility will have a particular impact on Māori and Pacific peoples.
31. Provisional mortality figures for 2014 show that 80% of all deaths for the total population occur in the age group of 65 and over. By contrast, only 52% of Māori deaths occur in this age group. Even with the current age of eligibility, far higher numbers of Māori die before becoming eligible for superannuation.
32. Māori and the Pacific peoples' population are more likely to work in physically demanding jobs which may make it more difficult to work beyond the age of 65.
33. Persistent and intergenerational poverty, lower employment and poorer health outcomes mean many Māori and Pacific people find it harder to make their own provision for retirement.
34. For many Pacific peoples there is not enough disposable income to be able to put aside money for a time the future when they will not be earning an income from employment.

## Risks

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### **Ethnicity and life expectancy**

35. Demographic factors mean the proposed change to the age of eligibility will have a particular impact on Māori and Pacific peoples.

### **The timing of increased residency requirements**

36. Individuals (including New Zealand citizens) who have lived in countries with no Social Security agreement may not meet the residence requirements for NZ Super under the proposed changes. The number of New Zealand citizens affected will be greater if the residency requirement is introduced sooner, particularly as these people will not have the option of arriving earlier to gain the necessary residency.

### **KiwiSaver accessibility**

37. Investors have an expectation that their funds will be available at 65 and have been making saving and investment decisions on that basis. An increase in the age may undermine confidence in the long-term stability of the KiwiSaver settings.
38. Allowing people to access their KiwiSaver funds in advance of the age of eligibility for NZ Super may compromise someone's eligibility for pre-retirement benefits, as these can be tested against the person's assets. This issue would have to be considered if the KiwiSaver access age and NZ Super eligibility age are decoupled.

## Next Steps

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### **Ethnicity and life expectancy**

39. Officials from the Treasury and the Ministry of Social Development should work together to undertake further analysis of the linkages between the proposed policy changes and their associated welfare implications as well as policy options for the provision of transitional support for those unable to work past the age of 65 and proposals on any other policy settings that may be affected by the increase in the age of eligibility for NZ Super.

### **Index future increases to NZ Super eligibility age to longevity improvements**

40. A number of issues need to be considered before the most appropriate longevity indexation methodology can be determined. Officials from the Treasury and Statistics New Zealand will work together to determine the most appropriate indexation methodology.

### **The timing of increased residency requirements**

41. Give consideration to the optimal time to introduce increased residency requirements.

**KiwiSaver accessibility**

42. Investors have an expectation that their funds will be available at 65 and have been making saving and investment decisions on that basis. An increase in the age may undermine confidence in the long-term stability of the KiwiSaver settings. Further work is required to investigate the potential issues associated with decoupling the KiwiSaver accessibility age from the retirement age, including the impact on other benefit entitlements.