The Treasury

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[1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government

[2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

[3] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[4] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[5] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

[6] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[7] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

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[9] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[10] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[11] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[12] Not in scope

[13] 7(b) - to prevent prejudice to relations between any of the Governments of New Zealand, the Cook Islands or Niue

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

Welfare Reform Phase Two – Implementation, Costs and Funding: Revised Paper for SOC

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Purpose

1. This paper updates Cabinet on the implementation, costs and funding for the second phase of welfare reform. Approval is sought to appropriate 2012/13 funding of $32.537 million, to be funded through the overseas pension collection savings initiative and underspends. Consideration of remaining costs of $199.072 million between 2013/14 and 2016/17 is deferred until Budget 2013.

2. Funding of $26.652 million between 2012/2013 and 2016/17 is also sought for an unrelated issue – the impact of the increase in the pharmaceuticals co-payment charge from $3 to $5. The co-payment increase was agreed at Budget 2012 and resulted in flow on costs to Vote Social Development which was not funded at the time.

3. This paper was initially considered at SOC on 24 October, but was referred to SOC this week so Minister Bennett could provide further information on the criteria for testing overseas pensions.

Comment

4. As we have previously briefed you on this paper and it is a joint paper between yourself and Minister Bennett, we have not included further information on the content of the paper in this briefing.

5. Instead we have provided you with some points on overseas pensions, which was the key point of discussion at SOC on 24 October. These points were also reflected in an aide memoire we sent you last week on this topic. You may wish to raise these points at SOC this week, to support Minister Bennett in getting agreement to the initiative:

Talking Points on Overseas Pension Collection Savings Initiative:

- <u>Savings options are crucial to meeting cost pressures:</u> MSD is facing additional cost pressures of at least $400 million over five years, driven primarily by welfare reform. This is on top of generic cost pressures (for example from salary pressures and efficiency savings) which amount to roughly $300 million over the forecast period. Easy savings options have largely been exhausted. Unlike many other potential savings initiatives, the overseas pension collection initiative is available under existing policy settings.

- <u>A threshold is applied:</u> A one year overseas residence threshold is currently applied before requiring people to apply for an overseas pension. This will continue to be applied.

- <u>Savings are made from clients who meet the minimum threshold:</u> Even for people who have been overseas for a minimum of one year and return less than a $1 a week, we understand that MSD generally recoups the cost of testing and administration over time, so applying a higher threshold would result in fewer savings. Also, due to legislative changes in the UK (where 75 per cent of overseas pensions are from) we are seeing a decreasing trend in these low-value pensions.

- <u>There are challenges with applying a different threshold (for example, excluding low-value pensions):</u>

    1. Many overseas state pension schemes are complex and even in the initial screening phase people are unlikely to remember their earnings from when they were overseas. This could create operational difficulties in implementation and possibly a larger number of complaints.

    2. Excluding low-value pensions (once the level of the overseas pensions has been established through the application process) would require legislative change and could create the following issues:

        - Exchange rate fluctuations could mean that some superannuitants volley between being eligible and ineligible.
        - Potential demand for the exemption to apply to all overseas pensioners (e.g. the first $5 per week of all overseas pensions to be exempt from deduction).
        - Complaints from those who are just above the level of exemption.
        - Previous superannuitants who have had to apply for an overseas pension considering the change unfair.

    3. As indicated above, applying a higher threshold is also expected to reduce savings.

Treasury Recommendation

6. We recommend that you **support** the recommendations in this paper.

Title	Pg	Recommend	Fiscal Implications ($m GST excl.)					Treasury Comment
			2012/13	2013/14	2014/15	2015/16	2016/17	
Welfare Reform Phase Two – Implementation, Costs and Funding		**Support**	*Operating*					This paper was referred from SOC on 24 October so that further information could be provided on the overseas pension collection savings initiative. The paper provides an update on welfare reform implementation, costs and funding. Approval is sought to appropriate funding for costs in 2012/13, which are fully funded through savings initiatives and underspends. Costs in 2013/14 and outyears will be addressed in Budget 2013. This paper also seeks funding for flow-on costs to Vote Social Development arising from the increase in the pharmaceuticals co-payment charge.
			2.977	5.925	5.914	5.918	5.918	
			Capital					