



## National Council of Women of New Zealand

Te Kaunihera  
Wahine O Aotearoa

National Office  
Level 4 Central House  
26 Brandon Street  
PO Box 25-498  
Wellington 6146  
(04) 473 7623  
www.ncwnz.org.nz

7 February 2001

S01.08

### Submission to the Finance and Expenditure Select Committee on the New Zealand Superannuation Bill

#### Introduction

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 43 nationally organised societies. It has 34 branches spread throughout the country to which women from some 150 societies are affiliated. Its purpose is to work for the well being of women, families and society through research, discussion and action.

Members of the NCWNZ Economics Standing Committee have studied this Bill and are pleased to have the opportunity to make comments. The early closing date for submissions and the fact that the consultation period coincided with the Christmas break when affiliated organisations were in recess, meant that canvassing a wider opinion was difficult. Opinions of our wider membership are currently being sought and will form a bank of opinion for future consultation. Comments relating to this submission have, therefore, been prepared by the Economics Standing Committee on the basis of existing policy and member's comments to date.

#### General Comments

At NCWNZ's first meeting in 1896, over 100 years ago, the following resolution was passed:

***“That in the opinion of this council, that with a view of securing for the people an assurance against poverty in old age, it is desirable that a system of old age pensions, or annuities, should be established in this colony .....*”**

Since this original resolution, the matter of provision for retirement has been extensively debated by our membership. NCWNZ has always insisted that all citizens are entitled to adequate sustenance in old age and that the state has a responsibility to fund at least the basic minimum. More recent resolutions included a request to the government to retain the principle of universality in any national scheme for superannuation and a further request to retain 60 years as the age for the commencement under any such scheme. The most recent retirement resolution provided support for the 1993 multi-party agreement known as the Accord and expressed support for the implementation of a non-partisan, long term sustainable programme for the provision of retirement income.

In summary, opinion expressed by members of NCWNZ over many years, reinforces the belief that Governments have a responsibility to ensure that the country's citizens are adequately provided for in their latter years. NCWNZ members consider New Zealand superannuation not as a welfare benefit designed to alleviate poverty but rather to secure participation and belonging for all citizens. New Zealand superannuation ensures the principle that entitlement to a basic pension is a citizen's right, not one that has been earned by specific contributions to the paid workforce or by contributions made by one's spouse. NCWNZ, therefore, strongly supports the concept of a publicly funded superannuation scheme.





For there to be effective private provision for retirement, there must be the opportunity to provide. Even in the 21<sup>st</sup> Century, women are still disadvantaged in making such a provision. Women's longevity means greater savings are needed. The lack of equal pay and equal opportunity mean women have less capacity to make their own provision for retirement. A Government sponsored superannuation scheme, is a means of facilitating women, in their latter years, to live with dignity and financial independence particularly in situations where private provision is difficult or near impossible.

NCWNZ also supports, in principle, the concept of pre-funding New Zealand superannuation. It is believed that, theoretically, pre-funding will allow the Government to maintain the current New Zealand superannuation entitlement levels into the future while bringing stability to a retirement income policy. Pre-funding means that the costs of superannuation can be smoothed over time, preventing a possible sharp increase in future taxes. However, some concerns have been expressed about aspects of Dr Cullen's scheme. Members fear that it may not be economically sustainable and affordable. Numerous commentators have described the need for an annual capital contribution into the Fund, of around two billion dollars for each of the next twenty-five years<sup>(1)</sup>. Does this mean that the Government will have to collect two billion dollars more through tax each year than it actually needs to run publicly funded services. It is worth noting that only three of the previous twenty-five Governments have achieved surpluses of that magnitude. Thus NCWNZ is concerned that future administrations will have difficulty in achieving sufficient operating surpluses to make the required capital contributions to the fund.

In a similar vein, concerns have been expressed as to possible future spending options foregone in order to have a partially pre-funded superannuation scheme. It is believed that pre-funding could shift fiscal risks onto other spending policies, forcing these to bear a greater proportion of the risk of variability in tax revenue. The fund is committing a large percentage of Government's future spending power. Members are concerned that there will not be sufficient funds to spend on other community priorities including closing the gaps, reducing hospital waiting lists, increased educational spending, reducing public housing costs and stimulating research and development.

NCWNZ members are also concerned that the public fully understand the outcomes of the proposed scheme. Treasury papers have described how the scheme only starts subsidising superannuation payments in approximately twenty-five years time<sup>(2)</sup>. In other words, it doesn't start supporting the pension until today's 65 year olds turn 90. At its peak, the scheme will constitute around 14% of the costs of superannuation – 86% will still need to be funded by taxpayers of the day. Does the proposal, therefore, really amount to security? Members are concerned that the 14% of superannuation payments met by this scheme at its peak will be insufficient to ensure payments remain equivalent to their present level.

Further concern has been expressed at the likely impact a pre-funded superannuation scheme will have on private savings. It is understood that Treasury has already signaled its concerns that the scheme may act as a disincentive to household savings<sup>(3)</sup>. In many ways, a pre-funded scheme makes the assumption of adequacy therefore private provision unnecessary. Some of our members believe that a more comprehensive solution to meeting New Zealand's future retirement income needs is necessary. Implementing a private savings strategy at the same time as introducing a publicly pre-funded scheme could help to achieve this.

Some members have suggested that Government needs to undertake a more comprehensive investigation into the key design features of New Zealand superannuation before deciding on a future path. It is felt the consultation process has been too expedient and does not allow time for full discussion of all the issues. For example, a more suitable approach would require a properly researched debate and consensus on the likely parameters of national superannuation in the future. Relevant questions include:



1. What should the qualifying age be? The appropriate age for an individual will be determined by health, availability of work, family circumstances, income and wealth. In choosing an appropriate state pension age, Government needs to balance social issues, labour market efficiencies, voter satisfaction and fiscal considerations.
2. What are appropriate qualifying conditions? The proposed scheme allows for anyone who has lived in New Zealand for 10 years after age 20 with five of these being after age 50. Why has the Government chosen these particular figures and not others?
3. What should be the amount of entitlement? In 1989, Labour decided the after-tax married couple's rate should be 65-72.5% of the after-tax national average wage. There was no extensive debate at the time about the amount and none since. Discussion is also needed on what exactly the pension should be linked to. Is the after-tax national average ordinary time wage best? Should it instead be linked to economic output or prices?
4. Should New Zealand superannuation be paid to all regardless of income and assets?

Having agreed on the future shape of New Zealand superannuation, its costs could then be modeled to determine if tomorrow's economy could afford a partially pre-funded scheme, totally pre-funded scheme or a scheme, which would be met from taxes of the day.

NCWNZ would like to be part of the debate on New Zealand superannuation by making the following specific comments.

### **Specific Comments**

#### **Part 1 Entitlements to New Zealand Superannuation Standard New Zealand Superannuation entitlements**

##### **Clause 7 Age qualification for New Zealand Superannuation (1)**

As previously mentioned, some members have concerns that the qualifying criteria for a publicly funded superannuation scheme have not been fully debated resulting in a lack of national consensus on the key issues. Support for this statement is evident in the variety of opinions presented by members. For example comments received suggested a diversity of opinions on the qualifying age.

Clause 7 (1) specifies that a qualifying person reaching the age of 65 is entitled to receive New Zealand superannuation. While numerous members supported this clause, others believed there was a case for raising the entitlement age. Advances in living standards and health care mean that individuals are able to work safely to a more advanced age than in the past. This trend is likely to continue. Raising the age of eligibility is part of a sensible response to aging pressures and therefore the Government's proposal to fix the age of eligibility at 65 should be discussed further.

One member suggested that 65 years was a suitable age for eligibility except in the situation where an individual continued full time in the workforce. Superannuation would be received once the individual officially retired.



## **Clause 12 Standard rates of New Zealand Superannuation**

### **(1)**

There was general agreement that a wage floor equivalent to 65 % of the average ordinary time weekly wage was adequate. As one correspondent emphasised, this level currently equates to approximately \$17,000 after tax. However it was emphasised that the amount should be viewed as a minimal and should be supplemented by private provision of retirement income. A small number of correspondents felt given recent price increases in petrol and certain grocery items, a more appropriate level would be between 70 and 75% of the average ordinary time weekly wage.

There was strong opinion expressed by a minority of members that the proposed scheme should not include income testing but rather asset testing. Members were of the opinion that the key problem with income testing was that it clawed back money from taxpayers after it had been spent. Although a universal scheme is easy to administer, it was viewed as not an equitable scheme to all taxpayers. Currently numerous well off individuals receive superannuation from the state, funded by all taxpayers many of whom are not wealthy. If asset testing was implemented, it is envisaged that such assets as a main house and car would be exempt. Additional houses would be considered, as assets that could be sold to finance a chosen lifestyle rather than using taxes funded by individuals many of whom are low-income earners.

## **Clauses 13,17,19 and Schedule 1**

All of the above clauses use the term “unmarried persons”. To be consistent with Clauses 16 (b) and (c), members believe that the term “**single**” should be substituted for “unmarried persons” reflecting modern language. If the legislation assumes these two terms to have different meanings, then their meanings should be defined to add clarity.

### ***Non-standard New Zealand superannuation entitlements***

## **Clause 24 Absences up to 52 weeks with aid agencies**

### **(1)**

This clause allows an eligible individual who is absent from New Zealand for 52 weeks or less and who is carrying out voluntary and unpaid humanitarian work for a recognised aid agency to receive New Zealand superannuation. While our members are pleased that the proposed scheme acknowledges those who, as retired New Zealanders, are willing to make sacrifices for the well-being of the international community, members feel that the allowable period of absence (up to 52 weeks) is too restrictive. Members feel that a more appropriate period for allowing an individual to be absent and still collect New Zealand superannuation would be **104 weeks** – twice that proposed in the Bill. An individual having met all the criteria for eligibility of superannuation deciding to provide humanitarian services abroad without remuneration, should not be penalised for working a period longer than 52 weeks.

### **Part 2 New Zealand Superannuation Fund *Required Capital Contributions***

## **Clause 44 Lesser amounts of annual capital contribution**

### **(1)**

Clause 44 (1) sets out clear guidelines as to accepted Government action in the case where annual capital contributions made are less than those required. While members acknowledge the transparency of actions required, they feel that the purpose of having entrenched legislation is defeated if the Government of the day can adjust capital contributions when surpluses are unavailable. Some members believe that the clause is a “back door” method of changing the amount contributed with less notice than changing the legislation.



### ***Board of Guardians***

#### **Clause 53 Role of board/Clause 54 membership of board**

NCWNZ members commend the Government on the governance arrangements for the proposed scheme. The organisation is pleased that the Guardians will run the Fund at arms-length from the Government with the selection process for members of the Board beginning with a nominating committee, the Governor General being ultimately responsible for making the appointments.

### ***Investment of Fund***

#### **Clause 58 Investment of Fund**

##### **(1), (2)**

NCWNZ also commends the Government on the investment arrangements as set out in the proposed Bill. Members are pleased that the Fund will be managed independently of Government and on a prudent commercial basis in line with best practice portfolio management, which maximises return without undue risk while endeavouring to maintain New Zealand's responsible reputation within the world community.

However, even though Guardians are required to invest the Fund on a commercial basis, they are free to invest in overseas as well as domestically. There is concern that excessive international investment could undermine New Zealand's economic sovereignty. Alternatively if the money is invested domestically, there are concerns because of the projected size of the Fund (an investment portfolio of \$25 billion by 2009/10) <sup>(1)</sup>, the Fund could constitute considerable market power. This can be viewed positively if the Fund is used to support new business ventures or existing companies. Members are concerned that any investment portfolio is a balanced one.

#### **Clause 61 Contents of statements of investment policies, standards and procedures**

##### **(d)**

The proposed Bill does not set out investment criteria. Some members believe that investment decisions should be based on a combination of economic, social and environmental well-being and this should have been stated in the Bill. However Clause 61 (d) does specify that a statement of investment policies, standards and procedures must include policies, standards and procedures relating to ethical investment. Unfortunately the term ethical investment is not defined. Different people have differing ideas as to the meaning of ethical.

### ***Ministerial Directions***

#### **Clause 64 Ministerial Directions**

##### **(1)**

Some members believe Clause 64 (1), which permits the Minister to provide directions to the Guardians of the Fund including expectation of risk and return, is in direct conflict with Clause 58 (2). Clause 58 (2) states that Guardians are responsible for investing the Fund and must do so on a prudent commercial basis. It is considered inappropriate for the Minister, who may not have the required expertise, to determine risk and return. There is also the real possibility that the Minister's expectations, which are aimed at meeting political short term targets may be in conflict with long term prudent investment decisions made by highly skilled qualified experts.



## *Performance reviews*

### **Clause 71 Performance reviews**

#### **(1), (2)**

While members are pleased that there will be independent performance reviews into how effectively and efficiently Guardians of the Fund are performing, it is believed that such reviews should be carried out at least every **three years** instead of the 5 yearly intervals as stated in the Bill. A tighter time frame would better ensure accountability and enable any redress of identified unsatisfactory situations to occur in a more timely manner.

## **Part 3 Miscellaneous provisions**

### ***Political commitment to New Zealand Superannuation***

### **Clause 73 Amendments to Act**

#### **(1), (2)**

It is pleasing to note that the Government recognises that the public is anxious for political consensus on New Zealand superannuation and has built this into the Bill's design. Members are pleased that any future Government wishing to amend the legislation would be required to consult the party signatories to the relevant part and the Guardians of the Fund at least 90 days before introducing the amendment.

#### **(3)**

This Clause refers to procedures required to convert the balance of the Fund into individual retirement accounts. There was some support amongst members for individual accounts although there was concern that personalised funds would be an administrative nightmare. However personalised accounts would provide individuals with a greater feeling of being a stakeholder in their country and greater security that a fund in their individual name will exist upon retirement.

### **Conclusion**

NCWENZ congratulates the Government for having the foresight and courage to design a scheme, which attempts to address the issues of future sustainability of New Zealand superannuation. NCWENZ members have made it clear over the years, that they support a traditional approach of an individually based state pension, non-contributory in nature with virtues of simplicity, flexibility and fairness.

Members believe the essential elements of a superannuation scheme are as follows:

1. That it ensures an adequate income in retirement for all New Zealanders
2. That it must be fair and just to all
3. That the scheme must be economically and politically sustainable
4. That the scheme must be outside political influence

Although the proposed scheme meets some of the criteria, there are concerns that successive Governments will not be able to return surpluses sufficient to contribute annually to a pre-funding superannuation scheme as well as ensuring that other social policy objectives are adequately funded.



The Fund is seen as a minimum to ensuring adequate provision in retirement. The importance of private provision has been emphasised and it is for this reason that members would like to see the Government supporting an environment, which fosters private savings at the same time as implementing a New Zealand superannuation scheme.

Finally, the challenge of any scheme is to provide confidence and security for future retirees. To this end it is NCWNZ's wish that political consensus is achieved on the design of the scheme.

Barbara Glenie  
**National President**

Gillian Leigh  
**Convener, Economics Standing Committee**

---

**Reference:**

1. Quirk, Anthony. (2000, November 17). Superannuation Debate. *National Business Review*, p.30-31.
2. Shipley, Jenny. (2000). National Paves the Way for Rational Debate on Superannuation. *Statement Online*. (cited 15<sup>th</sup> December 2000): 1-3.
3. English, Bill. (2000) Cullen Ignores Treasury Advice. *Statement Online*. 2000 November 21 (cited 15<sup>th</sup> December 2000): 1-2.