TE ARA AHUNGA ORA
Retirement Commission

NZ SUPER
ISSUES AND OPTIONS

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Contents

Purpose

This paper discusses NZ Superannuation, with particular reference to Māori where data is known, putting pension policy in context and assessing some options for change. The paper is intended to inform public discussion and provide an independent framework for assessing the issues.

Executive summary

NZ Superannuation (NZ Super) is a taonga to be treasured. It protects New Zealanders from poverty in old age and is available to everyone, with no contribution requirements, and just some residency-based criteria. The simplicity of its design is internationally envied and New Zealand's expenditure on its pension is relatively low compared to other OECD countries. Current and future recipients say that they want to see its broad eligibility maintained without means-testing.

However, NZ Super is said to be under fiscal pressure, due to forecast increase in expenditure in future years. This is despite the amount being internationally comparable (we are the eighth lowest spender in the OECD) and the fact that it is funded without taxation revenue streams that are commonplace overseas (such as capital gains tax or wealth tax).

General political discussion over the years has tended to focus on claims of unaffordability without independent, publicly accessible analysis that includes a wide strategic lens. A longer-term political accord, and the process to reach it, would assist debate and balanced decision-making.

As a crucial component of the retirement income system and support to older New Zealanders, any system changes to NZ Super need to be comprehensively analysed and implemented with a long runway. Tomorrow's superannuitants will not be the same as today's.

This paper follows on from the 2022 Review of Retirement Income Policies (RRIP). The RRIP included a recommendation to 'Establish an advisory rōpū to consider retirement income policy changes that would better support Māori in later life and lead the development of policy options to present to Government'. This paper sets out some of the issues. A second paper will follow on KiwiSaver, to help fulfil that recommendation.

This paper examines some policy options for NZ Super and the impacts of any change.

THE PAPER CONCLUDES:

- NZ Super is the Government's primary contribution to financial security for a person's later life and ensures an adequate standard of living for older New Zealanders.
- The system needs to be fair, stable, and affordable.
- NZ Super is the eighth least expensive pension in the OECD as a proportion of GDP, and our expenditure would continue to be well below the OECD average in 40 years without any change to the age of eligibility.
- The current age of eligibility for NZ Super is not low relative to other OECD countries, with 70% currently having a pension age of 65 or below, reducing to 53% by the 2060s.
- Discussion around changes to NZ Super needs to consider a wide range of data to inform decisions.
- The simplest position is for the age of eligibility for NZ Super to remain unchanged. Current and projected expenditure does not represent an internationally high proportion of GDP and age 65 is not relatively low compared to our peers.
- Any change to the age of eligibility would disproportionately disadvantage manual workers, carers and those they care for, and those with poor health, due to differences in savings, wealth and ability to remain in paid work after the age of 65. Women, Māori, and Pacific Peoples are overrepresented in those groups.
- The extra support needed to support some people through to a later age of eligibility would reduce fiscal savings from raising the age.
- Political support for a stable long-term system is crucial.

WE RECOMMEND:

- A long-term political accord is important to best serve citizens and there is an opportunity to secure this. The Government should encourage Te Ara Ahunga Ora Retirement Commission to investigate the possibility of a new cross-party accord on the retirement income system to provide stability and certainty for future generations of retirees and to encourage sound decision-making.
- At the very least, the number of parties who have made a political commitment under the New Zealand Superannuation and Retirement Income Act 2001 could be expanded. This would signal their ongoing commitment to current policy settings and impose special obligations on the Government to disclose whether consultation has taken place with other listed parties and the results of the consultation.
- The age of entitlement to NZ Superannuation should remain at 65.
- Only if fiscal savings are essential,
    - alternatives to raising the age of eligibility should also be considered, and eight other options have been outlined in this paper.
    - income-testing is a fairer way to reduce expenditure on NZ Super, compared to raising the age of eligibility, so NZ Super would not be paid to those who continue to earn significant income (for a period after 65, or while significant income is being earned).
    - enhancements to KiwiSaver should also be simultaneously considered with any NZ Super change, to assist future retirees to maximise and utilise their private savings.
- A legislated and periodic review (for example every nine years or so) should be undertaken to enable environmental, fiscal, and population changes to be formally and independently assessed by Government. This will provide data, and a framework, to inform political debate and decision-making and help encourage trust in the system which is important for younger people as they navigate their lives and try to save for their retirement.

Part one
Where are we now?

The 2022 Review of Retirement Income Policies

The 2022 Review of Retirement Income Policies (RRIP) included a recommendation to 'Establish an advisory rōpū to consider retirement income policy changes that would better support Māori in later life and lead the development of policy options to present to Government'. This paper has been written to set out some of the issues in the context of wider options. We know that Māori are dying earlier, on average, and are less likely to have sufficient savings to live a quality of life into their retirement years. Consideration of life expectancy is included in Appendix A of this paper.

We also know that the Māori population is growing and by 2050 we will see a growing contribution from Māori into the New Zealand economy (Cook, 2022). Māori will also be an increasing share of the New Zealand population in every age group. By 2043, one quarter of all New Zealanders aged under 35 will be Māori, and Māori will be 21% of the population aged 25 to 55 years (Cook, 2022). This means that more Māori will be in the 'working age' population that contribute the taxes that fund NZ Super payments. Meanwhile, only one in nine people aged 65 and over will be Māori (Cook, 2022), so while younger Māori will be funding NZ Super, few older Māori will benefit from it.

What is NZ Super?

NZ Super is a pension for those aged 65 and over that has been in place, in more or less the same form, since the major welfare reforms of 1938. It is a cash payment that is not means-tested and has some residency-based eligibility criteria. NZ Super is a 'tier 1' benefit (per the OECD classifications) as it aims to protect from poverty in old age (TAAO, 2021a).

Whether it continues to achieve that aim is unclear, as a new generation of retirees will face housing costs not experienced by previous generations, as outlined in the 2022 RRIP. Already, an increasing number of older people are claiming the Accommodation Supplement despite the low cash asset means-testing threshold (TAAO, 2022).

Income inequity within the over 65 cohort is increasing, with the Gini coefficient (measure of inequality) currently sitting at 0.37, compared to 0.25 in 1980 and 0.28 in 2001. This reflects increasing levels of income from paid work by those aged over 65, but is concentrated in the top income deciles, rather than across all income deciles (Perry, 2019:189).

Those who remain in paid work after age 65 are generally those whose employment income is significantly more than the amount of their NZ Super rather than a small addition to it. NZ Super is the sole income for 40% of retirees, with 20% only having a little more (Perry, 2019:185).

NZ Super is a guaranteed lifetime annuity, and as such, it protects people from longevity risk (the risk of running out of money before you die). That provides a level of security for people beyond any other state transfer. For those who have experienced living off a main benefit, it offers income stability with no further assessments to confirm eligibility.

Our research clearly tells us that receipt of NZ Super allows seniors to participate in society in many ways, from family or whanau activities such as caring for children and passing on cultural knowledge, to volunteer work, and simply enjoying a new phase of life. We also know that the amount of expenditure on NZ Super is more than outweighed by the taxes paid by the over 65s and hours of unpaid work they undertake (TAAO, 2022). Ultimately, NZ Super provides certainty of income despite the lack of certainty we have over how long we will live, and it enables people to focus on other areas of retirement living.

What is the retirement income framework?

As we have noted previously (TAAO, 2021b), it is hard to define NZ Super by its legislation because the Act does not provide a specific description or purpose. Instead, the Act refers to the mechanics required for the delivery of NZ Super (continue entitlements, establish the NZ Super Fund, provide for government contributions to it and an entity to manage and administer it) (PCO, a).

For this reason, in 2021 the Retirement Commissioner issued a purpose statement for the retirement income system, which covers superannuation and independent savings (TAAO, 2021c):

> A stable retirement income framework enables trust and confidence that older New Zealand residents can live with dignity and mana, participate in and contribute to society, and enjoy a high level of belonging and connection to their whānau, community and country.
>
> To help current and future retirees to achieve this, a sustainable retirement income framework's purpose is twofold:
>
> 1. To provide NZ Superannuation to ensure an adequate standard of living for New Zealanders of eligible age. NZ Super is the Government's primary contribution to financial security for the remainder of a person's life.
>
> 2. To actively support New Zealanders to build and manage independent savings that contribute to their ability to maintain their own relative standard of living.
>
> The retirement income system sits within the broader government provision of infrastructure also needed to enable older New Zealanders to live well, such as health care, housing, and transport.

The purpose statement provides a framework for system analysis. It is within this context that NZ Super should be considered, including any proposed changes, with particular reference to the need for stability, trust and confidence, and the ability to live later life with dignity and mana. Taking this holistic approach means that KiwiSaver and private savings (referred to in the second point within the purpose statement), must be considered at the same time as any change to NZ Super.

INDEPENDENT SAVINGS – KIWISAVER

KiwiSaver is a voluntary, opt-out, portable retirement savings scheme that operates mainly through contributions the employer deducts directly from salary and wages and sends to Inland Revenue. (Non-salary and wage earners can also enrol directly with a scheme). Contributions are placed in managed funds and are accessible after the age of 65 or in limited specific circumstances, such as a deposit for a first home, or in cases of serious financial hardship (TAAO, 2021d).

KiwiSaver is a young scheme, only introduced in 2007, meaning that people have not been able to use it to save for their retirement over their whole life. It is not until 2054 that people turning 65 will have had KiwiSaver available since they were 18. This is one of the reasons for the low balances, on average, in KiwiSaver. Individuals may also face their own barriers to contribution, based on various forms of wage gaps and the unequal distribution of paid and unpaid work. (Further detail on KiwiSaver balances can be found in reports commissioned by Te Ara Ahunga Ora from MJW in 2022 and 2023).

The next generation to retire (currently aged 45 to 59), will receive less income from KiwiSaver than from NZ Super. In fact, it will only be equivalent to an additional quarter to a third of their NZ Super

(NZSA, 2024). This situation could change over time. As people start to contribute to KiwiSaver for longer, we would expect balances to grow. This could be accelerated by an increased rate of contribution. Currently 64% of employee contributions are at 3% (Inland Revenue, 2023a), which is the default rate, and this could be altered (for example, by a higher default rate with the option to choose a reduced rate, if desired). The Government contribution is also low. A comprehensive review of KiwiSaver settings has not been undertaken for some time and it is important that impacts and improvements for KiwiSaver are considered alongside any change to NZ Super given their complementary nature within the retirement income system.

It remains unclear how the decline in home ownership and higher housing costs will impact people's ability to save for retirement, either through KiwiSaver or as private savings, or increase the pace of their drawdown after retirement.

INDEPENDENT SAVINGS – OTHER RETIREMENT SAVINGS SCHEMES

KiwiSaver is only one example of a retirement savings scheme. Some employers offer registered superannuation schemes, which means some or all of their employees are not auto enrolled into KiwiSaver, and these have remained a feature of retirement planning even after the introduction of KiwiSaver.

Iwi also offer retirement savings schemes that are not KiwiSaver products. One example is Whai Rawa offered by Ngāi Tahu. Withdrawals can be made from age 55 (instead of 65 in KiwiSaver schemes) and Te Rūnanga o Ngāi Tahu offer the benefit of matched savings and distributions (Ngāi Tahu, 2023). Another example is the Ka Uruora WhānauSaver scheme run for Te Kotahitanga o Te Atiawa Trust and Te Kahui o Taranaki Iwi Trust (Ka Uruora, 2024). These examples of iwi-led initiatives provide innovative forms of retirement savings for Māori.

INDEPENDENT SAVINGS – PRIVATE SAVINGS AND INVESTMENTS

These can also provide income for people in retirement. We do not have a full picture of the savings and investments held by individuals or households. Available data sets are either scarce or highly aggregated, and self-reported data may not provide a complete picture, especially at the upper end of the wealth distribution. However, we know that there is uneven distribution in the financial assets we hold. People in the wealthiest 20% had median financial assets of $1.11 million in the year ended June 2021 and those in the bottom 20% had a median value of $9,000 (Stats NZ, 2022).

We also know that New Zealanders favour investing in property. Housing wealth is the most widely held type of asset and generally the largest proportion of our wealth (Symes, 2021). Housing as a potential retirement asset is not evenly distributed across population groups and rates of home ownership are dramatically lower for Māori than non-Māori and are lowest for Pacific Peoples (Stats NZ, 2020).

The decision to invest in property cannot be viewed in isolation from the economic environment. Historically, there have been no capital taxes paid on the sale of property, and it has been possible to offset losses made on property investments (including from interest expense) against other income. A 'bright-line' test was introduced to tax the gains on properties sold after relatively short periods of time, and the offsetting of losses had been restricted, but it is about to relaxed again. There remains both a strong preference and incentive for investing in property.

When considering any changes to NZ Super, the situation regarding private savings and investments should also be taken into account. Either in thinking about what people have and need (in some countries pensions are means-tested) or in devising ways to support people to save and invest more. Most OECD countries provide financial incentives to encourage individuals to save for retirement. This can take the form of tax incentives, which are indirect subsidies provided through the tax code, or non-tax incentives, mainly matching contributions and fixed nominal subsidies, which are direct government payments into the pension account of eligible individuals (OECD, 2022).

How is NZ Super funded?

NZ Super is paid for from government income, which mostly consists of tax revenue, in line with the majority of transfers in Aotearoa New Zealand. The financing of transfers using current tax revenue is known as 'PAYGO' or pay-as-you-go, because each year, pension payments are financed from current tax collection. Although NZ Super is currently funded as PAYGO, in future it will be a 'smoothed pay as you go', when we start to draw down from the NZ Superannuation Fund or 'Super Fund'.

The primary purpose of the Super Fund is to act as an intergenerational tax smoothing vehicle, in order to assist future taxpayers to cover the cost of providing NZ Super. It was established in 1999 through the New Zealand Superannuation and Retirement Income Act 2001. The Government said at the time, "By setting aside some Crown resources toward retirement income now, while we can afford it, we will be able to smooth out the cost over time" (quoted in Bell, 2021:7).

The legislation includes the formula that defines how capital contributions to, and in later years withdrawals from, the Super Fund are to be calculated each year and assigns responsibility for making these calculations to the Treasury (Bell, 2021:2). Successive governments have not always followed the results of the formula, either contributing less than the calculated amount (during its first two years) or suspending contributions entirely (the National-led Government suspended contributions from 2009 until 2017) (Bell, 2021:8-9).

The impact of the Super Fund on NZ Super expenditure can be seen in the table below from the Treasury's latest Long Term Fiscal Statement.

Table 1: NZS and NZSF contributions/withdrawals

Year ended June	2010	2020	2040	2060	2080	2100
Net NZS-to-GDP	3.5	4.1	5.4	6.3	7.5	8.0
Net NZS +/- NZSF contribution/ withdrawal (% GDP)	3.7	4.6	5.2	5.9	6.5	7.1
NZSF contribution (+)/withdrawal (-) (% GDP)	0.1	0.5	-0.2	-0.4	-1.0	-0.9
NZSF contribution (+)/withdrawal (-) (as % of total net NZS cost)	3.6	11.1	-3.3	-6.6	-12.7	-10.8
NZSF contribution (+) withdrawal (-) (as % of rise in net NZS-to-GDP above 2010)	N/A	76.2	-9.6	-15.0	-24.1	-19.4

Source: Treasury (2021:57)

Political commitment

The requirement for system stability was one of the key points made in *Private provision for retirement – the way forward: Final report of the Task Force on Private Provision for Retirement*, otherwise known as the Todd Report (1992). It argued that the public system needs to be stable so that people 'know exactly what they can expect from the government in the long term and be confident that it will be there when they retire'. The Retirement Commission was consequently established to promote and encourage long-term policy stability across governments.

Stability and clarity on public pensions are still needed today. If there is to be a change to the age of eligibility for NZ Super, it is important that it is signalled well in advance, so that those who can make other provision have time to do so. The Todd Report also called for 'public and political consensus' on retirement provision issues more broadly, which remains elusive even after more than 30 years.

The introduction of MMP in the 1996 election brought a change to the political landscape in New Zealand including the creation of new parties that have secured places in Parliament. Currently these include NZ First and Te Pati Māori. It is now more likely that each Government will be formed as a coalition of parties. With that in mind, gaining broader political consensus on the retirement income system is especially desirable. Extending the number of parties who make the political commitment under the Act would be a first step.

The 'political commitment' clause was included in the New Zealand Superannuation and Retirement Income Act 2001. This special measure allows parties to signal their ongoing commitment to current policy settings (s72) and imposes special obligations (s73) on the Government to disclose whether consultation has taken place with other listed parties and the results of the consultation. At present, the political commitment to Part One of the Act, on NZ Super itself, is currently offered by the New Zealand National Party, the New Zealand Labour Party and the Green Party. On Part Two of the Act, on the NZ Super Fund – Schedule 4 of the New Zealand Superannuation and Retirement Income Act 2001, the political commitment is offered only by the New Zealand National Party and New Zealand Labour Party (PCO,b). We encourage NZ First, ACT, and Te Pāti Māori to make political commitment to Parts One and Two of the Act and the Green Party to make political commitment to Part Two.

A new cross-party accord is desirable, to not only ensure broad political consensus, but also to gain general public consensus as a result of the process of establishing the accord. This would benefit future retirees by affirming stability.

Any system change of the magnitude of NZ Super should be well supported by strong policy principles and independent data analysis. A legislative change to the Review of Retirement Income Policies could require the terms of reference set by the Minister to produce a detailed fiscal, population, and environmental impact analysis every third RRIP (namely, every nine years or so). This would provide a scheduled opportunity for renewed political discussion that is informed by strong data.

Who receives NZ Super?

As at 30 June 2023, a total of 883,239 people were receiving NZ Super, and 5,136 were receiving a Veteran's pension. The majority of NZ Super recipients identified as European, at 82.9%, with 7.1% identifying as Māori and 3.4% identifying as Pacific People (MSD, 2023a).

People turning 65 can apply for NZ Super if they are a resident and present in New Zealand, the Cook Islands, Niue or Tokelau. There is also a requirement to have lived in one or more of these countries, or a social security agreement country, for at least 10 years since the age of 20, and for at least five years since the age of 50 (TAAO, 2021b).

The 10-year requirement is in the process of being changed for future superannuitants and will become 20 years by 2042 (MSD). The fiscal savings from this change are expected to be modest: a maximum of $162.6 million per year once fully implemented, around 0.3% of net NZ Super expenditure, including expected increases in main benefit costs (Treasury, 2021a:42).

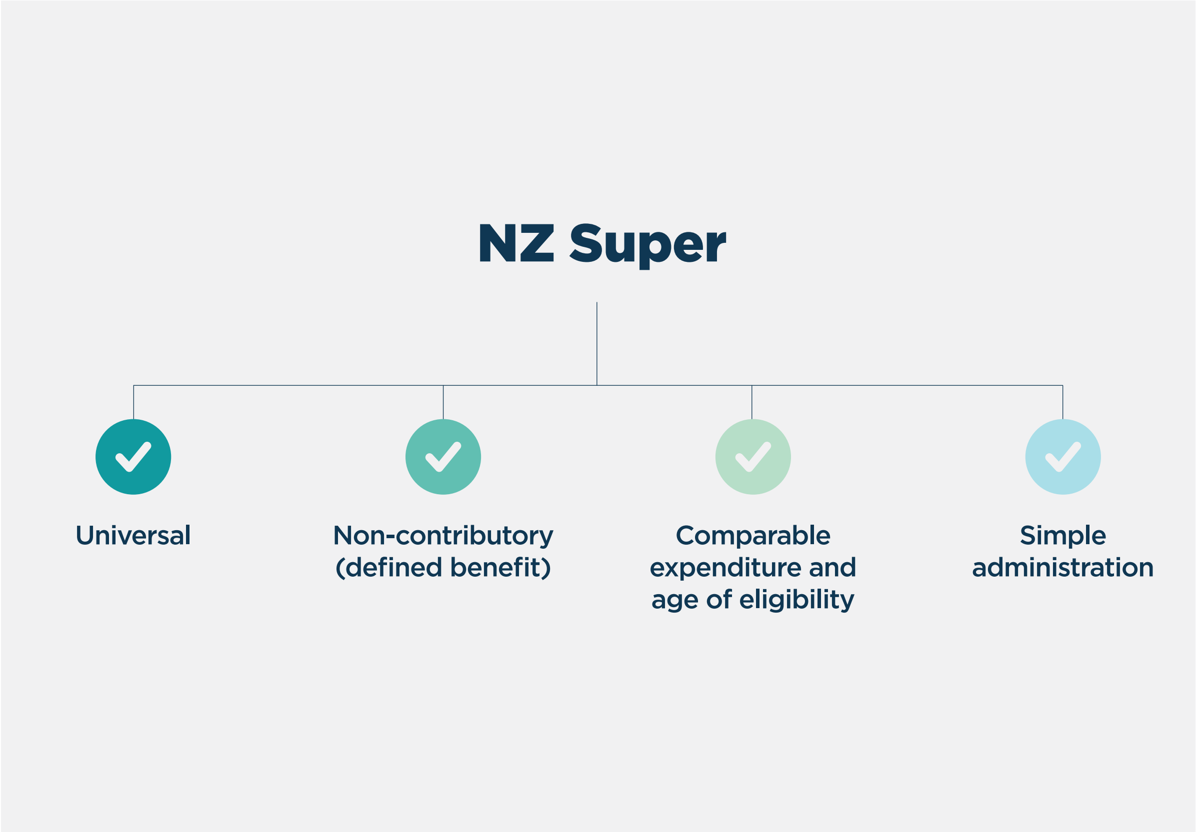
This change is particularly relevant for one of the social security agreement countries, Australia, where the age of eligibility has increased to 67. The terms of our social security agreement mean that if a person is relying on time spent in Australia for residency eligibility in New Zealand, the individual will need to be aged 67 (instead of age 65), to receive NZ Super (TAAO, 2021b).

Accordingly, in the future, people will start to become eligible at different times, based on how long they have resided in New Zealand or other countries, and a lower percentage of 65-year-olds will be eligible for NZ Super.

How does NZ Super compare internationally?

To answer this question, we consider four policy design elements of NZ Super.

Figure 1: Elements of NZ Super policy design

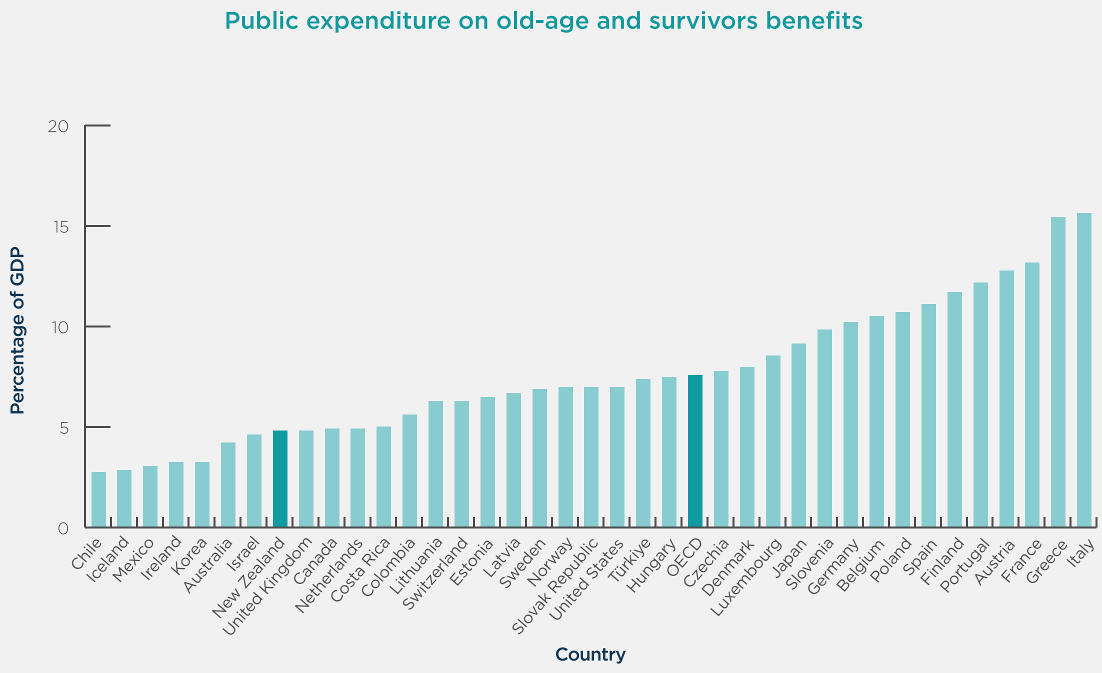


NZ Super compares very well internationally when any of these policy settings are considered. The universal design feature of NZ Super alleviates any risk of stigma from its receipt, and along with the non-contributory nature, supports a simple administration of the pension. The financial benefit of a simple scheme can be seen from the amount required to administer it. The MSD appropriation to administer NZ Super (including international social security entitlements and agreements) is $69m for FY23/24 (Treasury, 2023). Against an expenditure of $21.6bn in the same year, that is a percentage cost of just 0.003%.

The non-contributory and defined benefit design of the scheme provides for the same amount regardless of pre-retirement labour force participation or any other criterion. This particularly supports women who continue to bear a disproportionate amount of unpaid work and would generally receive less than men from a contributory pension scheme (such as KiwiSaver – see MJW, 2023). Everyone benefits from the non-contributory and defined benefit design features of NZ Super. These settings especially support women, other low earners including Māori and Pacific People, people with disabilities, and people who, for whatever reason, would have had difficulties making contributions to a pensions scheme benefit.

In terms of expenditure, NZ Super is provided at a much lower percentage of GDP than many other OECD countries provide their old age pensions. New Zealand currently has the eighth lowest pension cost of the OECD group of 38 countries, so we are in lowest quartile for expenditure.

Figure 2 – Current actual pension costs as a proportion of GDP in OECD countries



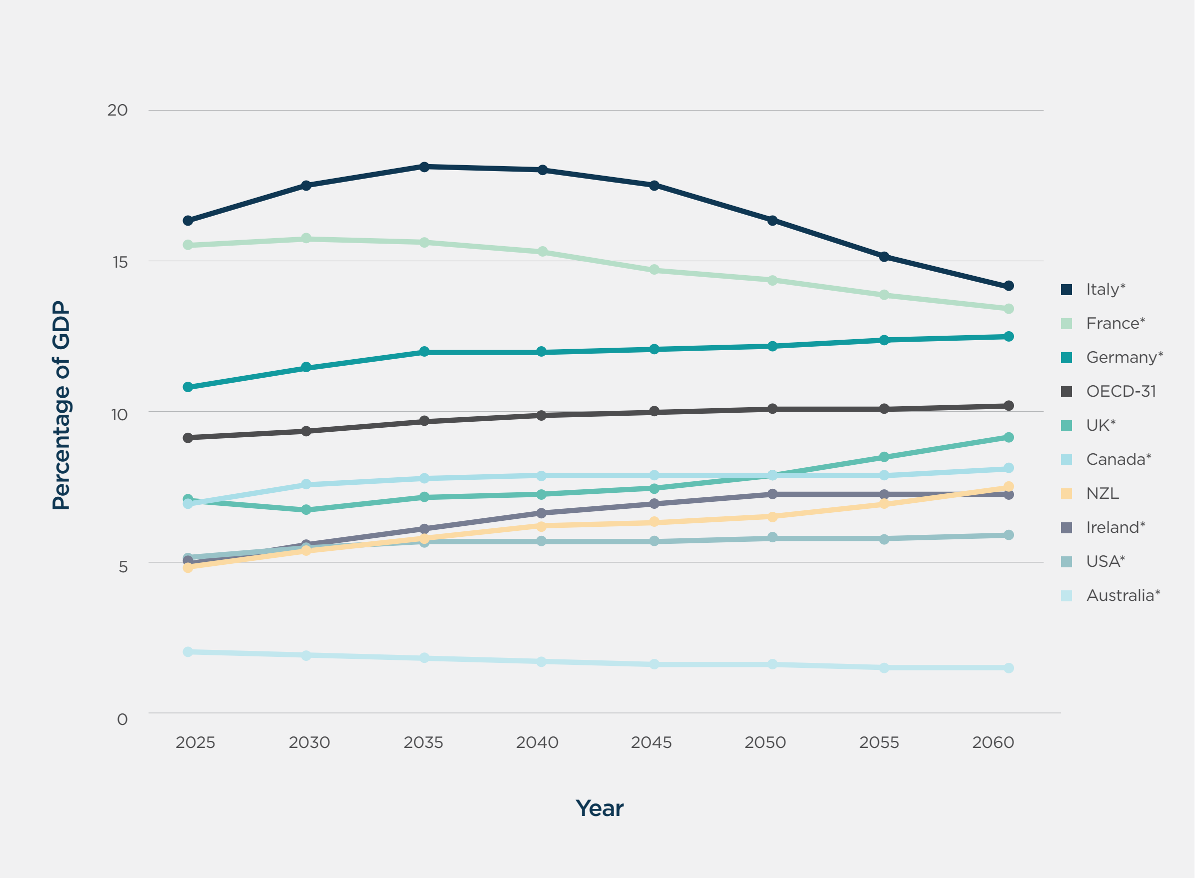
Source: OECD (2023). Pensions at a Glance.

Even the projection of 7.7%[1] of GDP by 2061 in Treasury's most recent Long Term Fiscal Statement (2021b) would still see New Zealand spending significantly less than the average figure of the 38 OECD countries.

Figure 3 below shows projected expenditure on public (age) pensions as a percentage of GDP through to 2060. In addition to public spending, some countries also provide tax concessions, which can be both on contributions and on any earnings made in superannuation accounts (private pensions). Examples of these countries are indicated by an asterisk* in the graph (Figure 3). These tax concessions are equivalent to social expenditure (Adema and Ladaique 2009:39). In the case of Australia, these tax concessions are substantial, and significantly increase Australia's projected retirement system spending.

1 This is gross expenditure on NZ Super and we note that using net expenditure would be a more accurate reflection of actual government expenditure.

Figure 3 – Future projected pension costs as a proportion of GDP in OECD countries



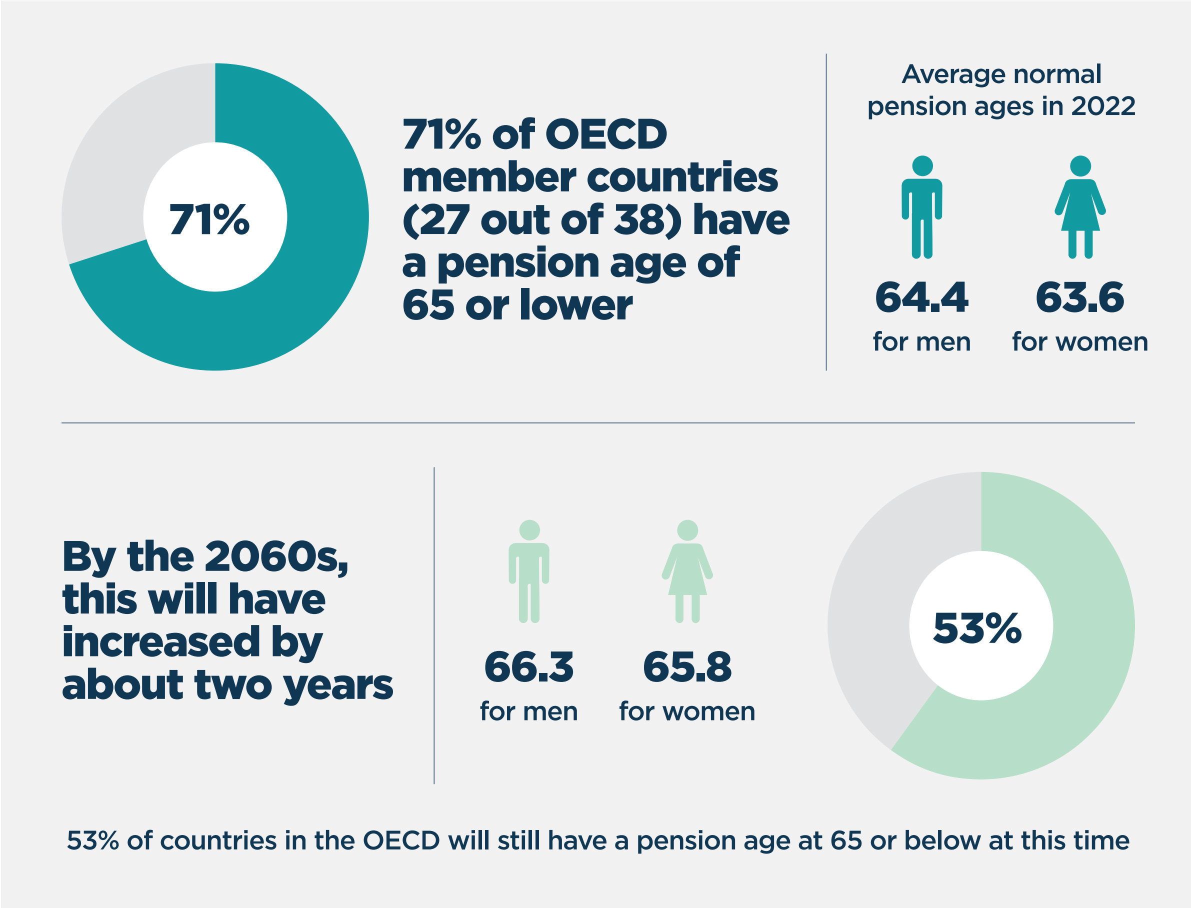
Source: OECD (2023). Pensions at a Glance.

In terms of age of eligibility, New Zealand's current settings are in line with our international peers: 71% of OECD countries currently have a pension age of 65 or below. Some countries have proposed modest increases of around two years, from the current averages of 64.4 for men and 63.6 for women, to 66.3 for men and 65.8 for women by the 2060s. This will still leave 53% of OECD countries with a pension age of 65 or lower by this time. By keeping the pension age of 65, New Zealand would be in line with countries including Austria, Canada, France, Japan, Korea, Spain, and Switzerland (OECD, 2023).

While some countries have moved to an age of eligibility that is over 65, they also generally have tier 2 (compulsory savings) pension schemes in place, such as Australia's 'Super', as well as tier 3 (voluntary) schemes. The combination of these schemes ensure that people have other assets that they can access, generally at an age before pension age, which relieve the pressure on the tier 1 pension.

This makes the New Zealand system, with only two tiers (tiers 1 and 3) and no tier 2 pension, comparatively fragile and may contribute to New Zealanders' significantly lower retirement savings.

Figure 4 – International comparison of pension eligibility age



Source: Created from data in OECD (2023). Pensions at a Glance.

How does our NZ Super policy compare to other countries with indigenous populations?

New Zealand is not the only high-income country with an indigenous population, and we can consider what measures have been taken overseas.

Aboriginal and Torres Strait Islander Australians have lower life expectancies than non-indigenous Australians. A recent report recommended that superannuation access should be adjusted to account for the life, health, and socio-economic differences between First Nations people and non-Indigenous people (Dockery et al, 2020). Policy changes have not occurred, but the issue was raised before the Federal Court in (unsuccessful) legal proceedings in which an indigenous claimant argued the pension eligibility age of 67 was discriminatory in the context of the shorter life expectancy of indigenous Australians (FCA, 2023).

First Nations, Inuit, and Métis peoples are the indigenous peoples of Canada and they all have lower life expectancy than non-indigenous Canadians (Statistics Canada, 2019). There is no earlier age of eligibility for the tier 1 old age pension (NZ Super equivalent) but Canada has a tier 2 pension (compulsory work-based retirement savings). This can be accessed by anyone with a lower rate of entitlement at age 60, full entitlement at 65, and increased entitlement at 70 (Government of Canada, 2022). This would allow anyone who felt they were unlikely to reach the age of 65 to commence receipt of their personal retirement savings earlier.

American Indians and Alaska Natives (AIAN) have lower life expectancies than the non-indigenous population in the USA. The age of eligibility for the social security (tier 1 old age pension) is now 67 but everyone is able to access it from 62 years, at a lower rate, or at a higher rate if deferred until aged 70. Those whose full retirement age is 67 will receive only 70% of the benefit if they claim at age 62 (SSA, 2023).

People can also access their tier 3 IRA and 401k (voluntary savings like KiwiSaver) penalty free from age 59.5 (IRS, 2023). Taking a step further than Canada, people in the USA can access not just their own retirement savings early if they wish, but also the state pension as well.

Period life expectancy tables have been used in the discussion above, which means that the life expectancy figures quoted are mean averages, and not deterministic. Some indigenous people will have a longer life span than quoted and some will have a shorter life span.

What we see from the policies above is provision being made for the uncertainty of life expectancy, which we all face. The policies enable those who believe their life span will be shorter to access a pension at a younger age. This might include manual workers or people with known health conditions. As accessing earlier means a lower rate of payment than would apply if accessing later, anyone making the decision for early access is taking on an element of fiscal risk, if they incorrectly estimated their longevity.

Part two
What would happen if we raised the age of eligibility?

While raising the age of eligibility is often talked about, the range of impacts of such a policy change are less often discussed. We hear that raising the age of eligibility will 'save money', but generally not how much money, or how people in different life situations will be impacted differently by such a change. Good public policy requires a range of options to be assessed. We canvas some below.

Would we save money by changing the age of eligibility to 67?

Fiscal savings could be made from a one-off change of eligibility from age 65 to age 67.

Actual and estimated expenditure on NZ Super over the current forecast period is as follows:

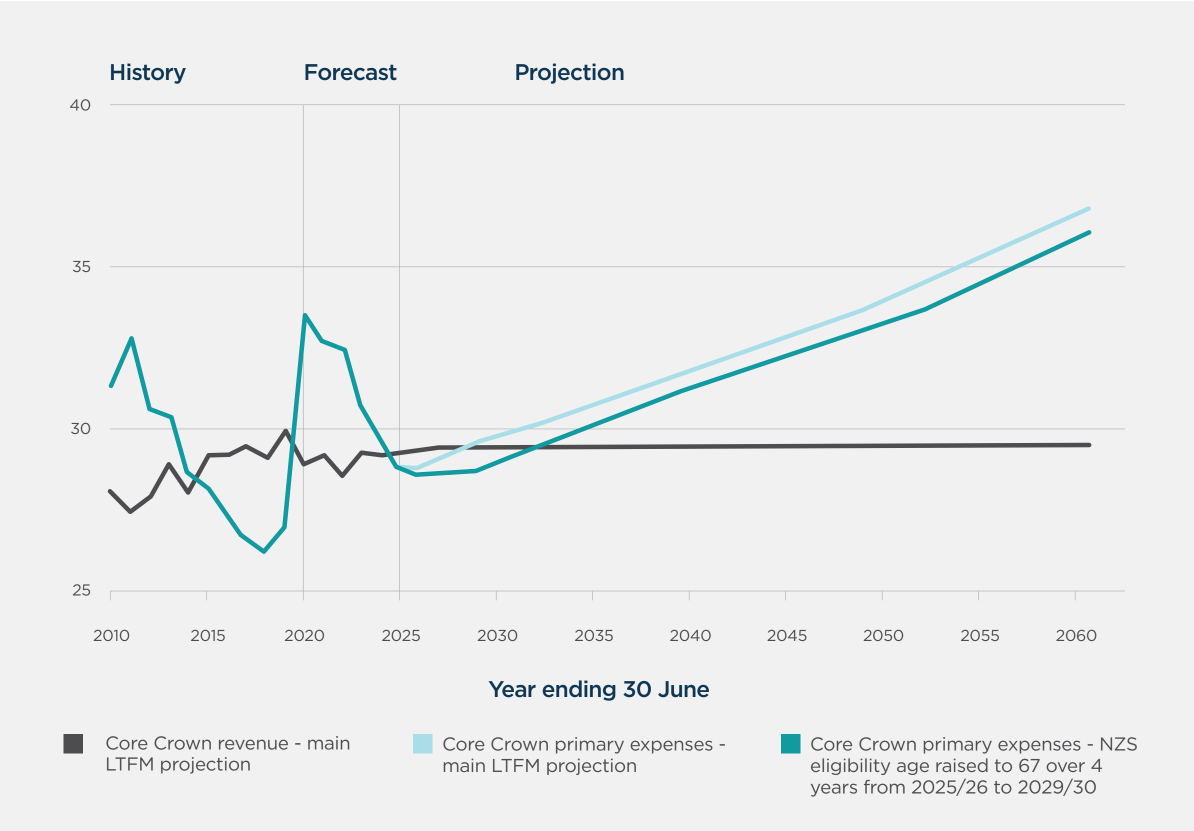
Table 2: Appropriation for NZ Super

	2022/23		2023/24	2024/25	2025/26	2026/27
	Final Budgeted $000	Estimated Actual $000	Budget $000	Estimated $000	Estimated $000	Estimated $000
Total Appropriation	19,562,219	19,523,219	21,628,878	23,211,875	24,698,724	26,405,758

Source: Treasury (2023:258)

In its latest Long Term Fiscal Statement (2021b), Treasury outlined the impact of such a change as a percentage of GDP. In a scenario where the increase commences from 2025/26 and is phased in over the four years up to 2028/29, increasing the age by six months every year, Treasury projected a gross reduction of around 0.7% of GDP once fully in place.

Figure 5 – Changes to expenditure on NZ Super as a proportion of GDP



Source: Treasury (2021b:60)

Different implementation approaches, such as phasing in over a shorter or longer period than four years, or commencing the change sooner or later than 2025/26, would modify when the fiscal reduction would apply. Two approaches have recently been suggested to increase the NZ Super age to 67. One would increase the age at a rate of two months per year from 2023, and the other has a longer time horizon, with gradual increases from 2044.

Obviously fiscal savings would occur sooner under the first approach. However, any such savings will need to be offset by measures to support those unable to stay in (or enter) paid work at age 65. This is considered in more detail in the analysis of options below.

WHAT CAN WE LEARN FROM OVERSEAS?

The impact of the recent change to raise the age of women's eligibility for the pension in the UK had negative impacts on their personal, financial, mental wellbeing and life satisfaction. The effects were larger for those women with low education and for those without a partner (Giusta and Longhi, 2021). See the case study below.

Case study

RAISING THE AGE OF ELIGIBILITY FOR THE STATE PENSION IN THE UNITED KINGDOM

Introduction

In 1995, the government of the United Kingdom passed legislation to gradually raise the age of eligibility for women to access the basic State Pension from age 60 to age 65, to align with the male age of eligibility of 65 years of age. It was to be implemented through incremental adjustments between 2010 and 2020. The age of eligibility shift was justified on the grounds of equal treatment as well as future savings, however, the reform generated public confusion and concern as well as negative financial and health consequences for cohorts impacted by the age of eligibility change.

The original adjustments were amended, accelerating the timing by two years to reach age 65 by 2018 instead of 2020, and then increasing the age for both men and women to age 66 by 2020 and age 67 between 2026 and 2028. The change was poorly communicated, with no systematic notification to impacted individuals. Communications only really began in 2009, with some women receiving notification in their late 50s that their new state pension age would be 66, leaving little time to plan.

The Work and Pensions Committee recommended that the government consider slowing down the timetable for future age increases, providing a transitional pension benefit for women affected by the age change, and ensuring future age increases are accompanied by a comprehensive communications strategy designed to lift public and individual awareness of proposed changes.

The age of eligibility change led to a 6.4% increase in the income poverty rate for the impacted women. Women in lower income households were impacted to a larger degree than women in higher income households. The change also increased labour market participation but the additional earnings from work only partially offset the removal of the public pension.

The age of eligibility changes also negatively affected the mental and physical health of some women. Impacted women in lower socioeconomic groups experienced clinically relevant declines in mental health, and an increase in self-reported clinical depression diagnosis.

The United Kingdom's reform experience represents a cautionary case study of the complex policy design and public communications challenges involved in age of eligibility reform. It illuminates potential social and economic consequences that may arise from an age of eligibility increase. It highlights the importance of providing a long lead-in time for an age change, clear and consistent public engagement on the changes, and consideration of health and financial wellbeing as negative outcomes may detract possible benefits of reform.

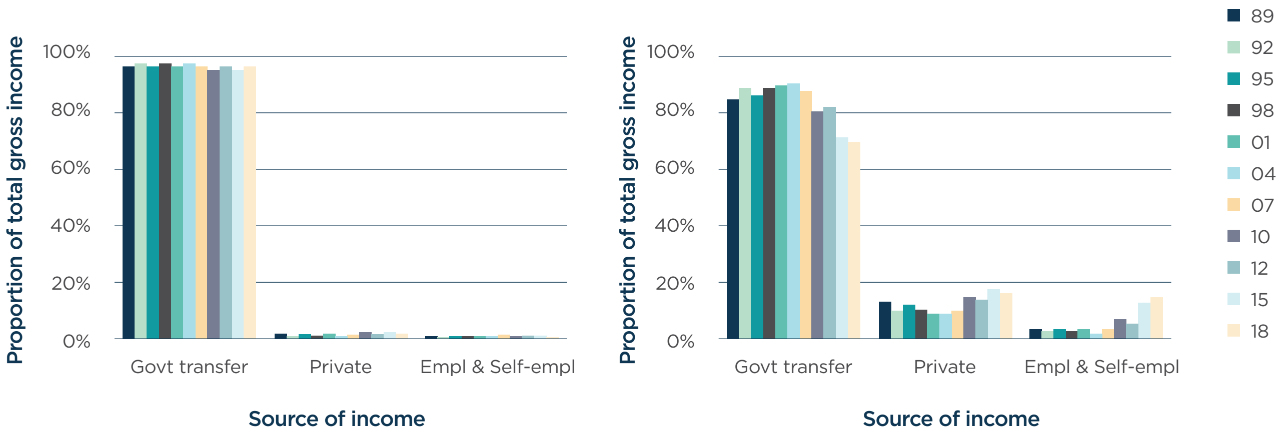
SOME PEOPLE WOULD REMAIN IN PAID WORK

Some people in paid work at age 65 would be able to remain in paid work until they are 67 (or beyond, as receipt of NZ Super does not require the cessation of paid work). This group of people are likely to be the least affected by any increase in the age of eligibility for NZ Super.

This group is a reasonable size. Stats NZ data for Q2 2023 show approximately 66,600 men and 58,900 women aged 65-69 years in paid work (Stats NZ, 2023a). Against a total population of 65-69 year olds, 127,170 men and 136,600 women (Stats NZ, 2023b), this equates to around 52% of men and 43% of women still in paid work.

This group is in the middle and upper income deciles. As shown in figures 6a and 6b below, those in deciles 5-6 receive a larger proportion of income from employment, compared to those in deciles 1-4 who are almost entirely reliant on NZ Super. As deciles break the total population (of over 65s) into 10 equal sizes, based on income received, we can see that around 40% of people aged 66 and over rely on NZ Super.

Figures 6a and 6b: Income of Economic Family Unit (EFU) by source and decile



Source: Perry (2019:187)

We know that a number of older people currently in paid work would like to be working reduced hours or on a more flexible basis. A survey of workers aged between 55 and 80 revealed that only half of those people wanting to work part-time or flexibly had such an arrangement. People whose work arrangements did not match their preference (such that they were either working full-time or retired when they would have preferred to be working part-time or flexibly) were more likely to be Māori, not have tertiary qualifications, worked in non-professional roles, and have greater levels of hardship (Alpass et al, 2015:6). These mismatches are likely to become more important over time as the labour force is ageing. While the median age was 36 in 1991, by the mid-2030s it is expected to exceed 43 years, and by 2061 over half the labour force could be older than 45 (Alpass et al, 2015:3). A third of the labour force is already 50 or older (Office for Seniors, 2022:7).

There may be also a small group of people who are not in paid work but can financially support themselves both before and after age 65.

Other groups of people will not be able to remain in paid work until the age of eligibility for NZ Super. Some people are not in paid work at the current age of eligibility, and some cannot continue in paid work. As a result there would be a role for the state to provide some form of direct or indirect assistance.

Status quo is the preferred option

As is always the case when considering options, the status quo remains available, and is our preferred option. Considered against the three criteria in the tables below, it would not reduce NZ Super expenditure, but it would maintain NZ Super as universal. It would not increase the disadvantage of Māori but neither does it decrease it. Additional detail is provided in table B0 in Appendix B.

If it is necessary to reduce the fiscal expenditure on NZ Super, more than one option should be analysed, rather than just a change to the age of eligibility. As discussed in this paper, important equity issues would need to be addressed if this blunt tool was considered, and affordability is not currently a strong rationale. A brief consideration of eight other options follows with more detail available in Appendix B.

Eight options for change

Eight options for change are assessed against three criteria (other criteria could also be considered). The first five options consider how we would support those aged 65 and 66 who may not be able to commence or remain in work if the age of eligibility changed.

Table 3: Options for supporting people aged 65 and 66

If you wanted to... then you could...	Reduce NZS expenditure	Maintain NZS as universal	Do not increase disadvantage of Māori
1. Provide a different benefit to some people aged 65 and 66	✓	✓	✓
2. Allow people to access their KS at age 65 instead of NZS eligibility age		✓	✓
3. Only raise the age for some people	✓		✓
4. Reduce age of eligibility for some people			✓
5. Reduce the amount of NZ Super if received before age 67	Potentially neutral		✓

OPTION 1: PROVIDE A DIFFERENT BENEFIT TO PEOPLE AGED 65 AND 66

If the age of eligibility was not kept at 65, some people would need some other form of support until the age of 67, and this is the first of two options that provide for it. It is an option that would particularly benefit manual workers and those people who have, or care for someone with, a health condition, injury or disability that limits their ability to participate in paid work.

Manual workers aged 65 and 66 may not be able to remain in paid work because it is too physically demanding and their prospects of alternative employment will be lower. This group is also a reasonable size. Stats NZ data (2018 census) show that 29% of the total workforce are in manual roles (using the major occupational sub-groups of labourers, technicians and trades workers, and machinery operators and drivers as the definition of manual work). Within the age group of 60 to 64 years old, this represents 51,240 people. Recent figures show that 22% of older Māori (aged 55 or over) in paid work are in a manual labour occupation and also that 25% of older Māori work part-time (Office for Seniors, 2023). If members of this group were unable to continue in their jobs, and could not secure alternative employment, they would need be supported by a main benefit. We assume this would be Jobseeker Support but see later note regarding issues with household level means-testing.

Analysis conducted as part of the New Zealand Longitudinal Study of Ageing found that workers who had been in relatively more physically demanding occupations tended to retire earlier than those in engaged in less physical labour-intensive occupations (Noone et al, 2014:14). Overseas studies show that those working in physically demanding occupations with little autonomy retire earlier than other workers due to the health demands of the job (Blekesaune & Solem, 2005). In Europe, research has found support for people in demanding occupations to retire earlier, and it has been a feature of policy discussion (Vermeer et al, 2015).

Fiscal impact = gains in reducing NZ Super expenditure would be decreased
by the amount of ex-manual labourers unable to stay in work
(new Jobseeker Support recipients x payment amount)

Some people aged 65 and 66 are not currently in, or have never entered, the labour force because they have, or care for someone with, a health condition, injury or disability that limits their ability to work. Prior to receiving NZ Super at age 65, many of them would have relied on the Supported Living Payment. As at September 2023, there were 22,194 people aged 60 to 64 receiving the Supported Living Payment, and we can assume that everyone would need to remain in receipt of it.

Fiscal impact = gains in reducing NZ Super expenditure would be decreased by
the amount of existing Supported Living Payment recipients who need to keep
receiving Supporting Living Payment
(ongoing Supported Living Payment recipients x payment amount)

Other people approaching the age of 65 are currently seeking paid work. As at September 2023 there were a total of 19,548 people aged 60 to 64 receiving Jobseeker Support. We can assume that some, if not all, of these people would remain unemployed between ages 65 and 66 and still receive Jobseeker Support. We know that older workers (aged 50 to 64) represent 40% of long-term (1-2 years) Jobseeker Support recipients (Office for Seniors, 2022:8).

Fiscal impact = gains in reducing NZ Super expenditure would be decreased
by the amount of existing Jobseeker Support recipients who remain out of work
(ongoing Jobseeker Support recipients x payment amount)

People in receipt of Supported Living Payment or Jobseeker Support are almost certain to have lower levels of savings (KiwiSaver and other savings) than those with a consistent employment history. Similarly, people who have been in part-time work, taken time out of paid work, or been employed in low paid work over their life course will also have lower levels of savings. This group will include women, who on average, earn less than men and spend fewer hours in paid work than men over their life course. The pay and savings gaps are larger again for wāhine Māori and Pacific women (Morrissey, 2022).

In order for people to continue or commence receipt of Jobseeker Support or the Supported Living Payment (as appropriate), eligibility would need to be extended so that people aged 65 and 66 can continue to receive these benefits, as they would currently be transferred to NZ Super (if they meet the residency-based eligibility criteria) when they turned 65. However, age is not the only criterion, and further changes are required in order to ensure that older people can receive Jobseeker Support even if their spouse remains in paid work.

Financial implications of adjustments required to support people until the age of 67:

For those already receiving Jobseeker Support and Supported Living Payment, using current year figures, for illustrative purposes only:

(current number of 3,993 Jobseeker Support recipients aged 64 as a proxy x current payment amount of $16,924* gross p.a. x 2 years = $135m)

+

(current number of 4,662 Supported Living Payment recipients aged 64 as proxy x current payment amount of $19,424* gross p.a. x 2 years = $181m)

= a combined total expenditure of $316m (or the reduction in fiscal savings from increasing the overall age of eligibility for NZ Super to 67)

This expenditure/reduced savings would be required to support around 18% of 65 and 66 year olds.

Any manual workers unable to stay in their job or to find another job would need Jobseeker Support. However, it is not possible to estimate how many people this might apply to, so no calculation is provided here.

*payment rate used is for a person in a relationship with no dependent children

Generally speaking, main benefits are income means-tested at the household level, meaning you have to declare the income of your partner to determine your eligibility. Without a change to introduce an individual entitlement to Jobseeker Support, partnered older people could find themselves without access to any form of income of their own, increasing their risk of experiencing poverty. Individual entitlement to main benefits was one of the recommendations of the Welfare Expert Advisory Group (WEAG, 2019).

This option could introduce design and administration complexity for MSD if the individual entitlement option was introduced. Regardless, MSD may see an increase in operational expenditure from having more people on administratively more complex main benefits, instead of the administratively simpler NZ Super.

In summary, this option maintains the universality of NZ Super but does not offer individuals any advantage from the status quo.

Additional detail is provided in table B1 in Appendix B.

OPTION 2: ALLOW PEOPLE TO ACCESS THEIR KIWISAVER AT AGE 65 INSTEAD OF NZ SUPER ELIGIBILITY AGE

Another way to support people aged 65 and 66 before they reach a new age of eligibility for NZ Super would be to allow them to access their KiwiSaver at age 65. Although this happens currently, that is because the age of access to KiwiSaver is the same as the NZ Super age of eligibility, and the two pieces of legislation refer to each other. It would be necessary to change the KiwiSaver legislation to 'decouple' the age of access from the age in the NZ Super legislation in order to maintain access at age 65.

In the majority of cases people aged 65 only have relatively small KiwiSaver balances. One of the main reasons for this is that KiwiSaver was only introduced in 2007. As at 31 December 2022, there were 39,233 people aged between 61 and 65 who had less than $10,000 in their KiwiSaver and a further 26,850 people had between $10,000 and $20,000. However, the average KiwiSaver balance of a person in that age group is higher at $51,054 (specifically $45,017 for women and $60,067 for men), meaning that some people have much higher KiwiSaver balances. Over time, the balances of this age group would be expected to increase, as they would have been in the scheme for a longer period of time than the current cohort of retirees.

This option is a simple way of assisting people to support themselves during the immediate period before eligibility for NZ Super. It reinforces the importance of NZ Super because it mitigates longevity risk (the risk of running out of money before you die). However, enabling people to access their own retirement savings before pension age runs the risk that those funds will be gone before the end of a person's life. That leaves NZ Super as their guaranteed lifetime income.

Additional detail is provided in table B2 in Appendix B.

OPTION 3: RETAIN THE AGE OF 65 FOR SOME PEOPLE

This option enables certain groups to retain eligibility for NZ Super at the age of 65 while increasing the age of eligibility for other people. It could be used to support those who are less likely to be able to stay in paid work until the age of 67. This group was identified in Option 1 as manual workers, carers, and those they care for. This option is more generous than Option 1, as people would receive the higher paid NZ Super, rather than the lower paid Supported Living Payment or Jobseeker Support.

There is the potential to include other groups in this option, if they would also be less likely to be able to stay in paid work until the age of 67, due to poor health. A rationale for determining the poor health status eligibility would need to be determined. As Māori (and Pacific People) generally have poorer health than non-Māori or non-Pacific people, they would especially benefit from this option.

Financial implications of adjustments required to retain the age of eligibility for certain groups:

For manual workers, for illustrative purposes only:

(using previous Stats NZ occupation categories of manual work, current estimate of 10,248 people aged 64 in manual work x current NZS payment amount of $22,869* gross p.a. x 2 years) = $468m maximum expenditure

For carers and those they care for, using a similarly illustrative approach, based on current recipients aged 64, as Supported Living Payment recipients generally move to NZ Super at age 65:

(using current number of 4,662 Supported Living Payment recipients aged 64 x current NZS payment amount of $22,869* x 2 years) = $213m expenditure

No calculation can be undertaken for those with poor health as numbers would depend on the definition of poor health that was determined for this purpose.

*payment rate used is for a person in a relationship with no dependent children

This would not be the first instance of recognising poor health within the retirement income system. There are provisions within Schedule 1 of the KiwiSaver legislation that enable pre-65 access for people who have a serious illness or a life-shortening congenital condition (PCO,b) and early access is a feature of similar schemes in other countries.

This option introduces design and administration complexity for MSD and removes the element of universality from NZ Super. There are also social contract risks associated with treating people differently.

Additional detail is provided in table B3 in Appendix B.

OPTION 4: REDUCE THE AGE FROM 65 FOR SOME PEOPLE

This option enables certain groups to receive NZ Super at an earlier age than others. This goes a step further than Option 3, by lowering the age of entitlement for NZ Super rather than simply retaining the current age of entitlement. Key groups would include manual workers, carers, and those they care for, and again there is the potential to include groups with poor health status (that would need to be defined).

Financial implications of adjustments required to reduce the age of eligibility for certain groups:

For manual workers, for illustrative purposes:

(using previous Stats NZ occupation categories of manual work, with 51,240 manual workers aged 60 to 64 years x current NZ Super payment rate of $22,869* gross p.a.) = $1.171bn expenditure per year (at full uptake)

For carers and those they care for, the increase in expenditure would be the difference between NZS and SLP payment rates, for an illustrative estimate:

(using current figure of 22,194 Supported Living Payment recipients aged 60 to 64 x current NZ Super payment rate of $22,869* gross p.a. = $507m less status quo expenditure for 22,194 Supported Living Payment recipients aged 60 to 64 x current SLP payment rate of $19,424* gross p.a. = $431m) = $76m increased expenditure per year.

No calculation can be undertaken for those with poor health as numbers would depend on the definition of poor health that was determined for this purpose.

*payment rate used is for a person in a relationship with no dependent children

As with Option 3, this option introduces design and administration complexity for MSD, removes the element of universality from NZ Super, and brings social contract risks.

Additional detail is provided in table B4 in Appendix B.

OPTION 5: ALLOW EARLIER ACCESS TO A REDUCED AMOUNT OF NZ SUPER

Another way to support those who are less likely to be able to stay in paid work until the age of 67 is to provide earlier access to NZ Super but at a reduced rate. For example, the standard payment rates of NZ Super would apply for those who apply to receive it age 67 (if that was the new age of eligibility), but NZ Super could remain available at age 65 (or an earlier age if desired), at a reduced payment rate.

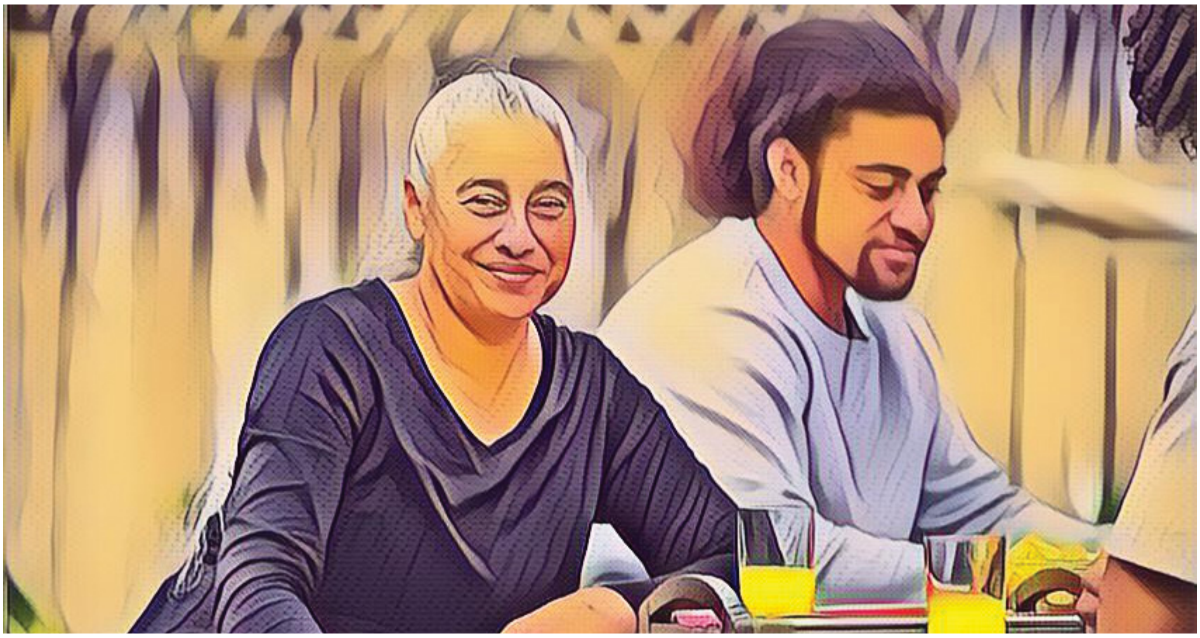
For integrity purposes, an election to receive NZ Super prior to the standard age of eligibility would have to be irreversible. It would require the lower rate to be sufficient for people's needs to avoid poverty in older age. Early access at a reduced rate is a feature of some retirement income systems overseas (for example, Canada and the USA) although generally for their tier 2 or tier 3 (compulsory and voluntary retirement savings schemes), rather than for their tier 1 (old age pension).

The groups that might be expected to choose such an option would be the same as for Options 3 and 4 above, including manual workers, carers, those they care for, and those with poor health status. For anyone whose health status was such that they were not expected to live in to later life, this option would provide an opportunity to cease paid work (or come off a lower paying benefit), and experience a period of relative financial security.

Amending NZ Super in a similar way has been previously suggested in New Zealand (NZ Government, 2013). As part of the confidence and supply agreement between the National and United Future Parties after the 2011 General Election, a discussion paper on 'Flexi-Super' was issued in 2013, which proposed giving New Zealand residents the choice to take NZ Super at a reduced rate from age 60, a standard rate at age 65, or an increased rate from age 70. It was proposed to have advantages including increased choice, flexibility, and fairness for people with shorter life expectancies and it was suggested that it could be fiscally neutral. Disadvantages were said to include the potential for hardship on the lower rate, for negative fiscal impacts for the Crown, and for complexity in a currently simple system. The proposal attracted some caution both in terms of conceptual basis and technical issues (Rashbrooke, 2013). The Government did not move forward with the proposal but it remains as an alternative to having an arbitrary and universal age of entitlement.

As with Options 3 and 4, this option introduces design and administration complexity for MSD, and brings social contract risks. The universality of NZ Super is maintained to the extent that it remains available to everyone but with variation in the amount received.

Additional detail is provided in table B5 in Appendix B.



Funding NZ Super in the future

The final three options focus on reducing expenditure on NZ Super or finding other ways to fund it. They are presented here and assessed against the same three criteria as Options 1 to 5 (other criteria could also be considered).

Table 4: Options for reducing NZ Super expenditure or funding it in an alternative way

If you want to... then you could...	Reduce NZS expenditure	Maintain NZS as universal	Do not increase disadvantage of Māori
6. Income-test receipt of NZS	✓		✓
7. Apply a tax surcharge to NZS if earning other income	✓	✓	✓
8. Change NZS to be an interest free loan repayable upon death	✓	✓	✓

OPTION 6: INCOME-TEST RECEIPT OF NZ SUPER

If fiscal savings were required, eligibility for NZ Super could be restricted, on the basis of other income. The level of income test would need to be determined but could be set, for example, at a level equivalent to NZ Super, or equivalent to the average wage, or at some higher level. The higher the level of income test, the fewer people would be restricted.

Inland Revenue data for the 2017/18 financial year showed that around 30% of the 732,004 superannuitants (218,606 people) had taxable income over $30,000 and around 4% (31,048 people) had taxable income over $100,000 (Inland Revenue, 2020). The percentage of superannuitants earning these amounts has increased since then. In the 2021/22 financial year, 33% of superannuitants (270,564 people) had taxable income over $30,000 and 6% (49,368 people) had taxable income over $100,000 (Inland Revenue, 2024).

The income-test could be applied to all superannuitants or could be selectively applied to a particular age group, such as 65-69 years, with no testing after the age of 70.

NZ Super does not provide a labour market disincentive and this is evident in the numbers of over 65s still in paid work. The extent to which introducing an income-test for NZ Super would impact labour market supply would depend on the level of potential earnings compared to the payment rate of NZ Super and the level at which the income test was set. Given the starting point for the calculation of the NZ Super payment rate is 66% (for couples) of the average ordinary time weekly earnings for full-time equivalent (TAAO, 2021b), undertaking full-time work, or part-time work at above average earnings, is likely to provide greater income than NZ Super. Whether a person would be eligible to apply for NZ Super while in paid work would depend on the level at which the income test was set and the level of their earnings (and any other income).

People who receive income from investments, rather than earnings, would be impacted to the extent their income was above the income-test.

Under this option, assets would not be considered as part of the test for eligibility. This seems fair as it is not unreasonable that some older people have accumulated assets over their lives.

However this option introduces design and administration complexity for MSD and requires liaison with IRD. It removes the element of universality from NZ Super and brings social contract risks.

Additional detail is provided in table B6 in Appendix B.

OPTION 7: APPLY A TAX SURCHARGE OR CLAWBACK

A tax surcharge could be applied to NZ Super if a person was earning other income, until the age of 67 or even 70. This option will be familiar to those with longer memories (it was in place from 1985 to 1998) but may not be remembered positively. The challenges previously faced by the tax surcharge were largely a consequence of the constant changes that occurred to NZ Super policy during that time (Preston, 2008). There may be merit in reconsidering this option in the context of a broader discussion about retirement policies.

Special tax rules already apply if a person remains in paid work after age 65 and also applies for and receives NZ Super. If NZ Super is less than their employment earnings, it is treated as secondary income, and taxed at the secondary income rates although these are the same tax rates as for main income (Inland Revenue, 2023b).

An alternative to a tax surcharge is a 'clawback'. This was proposed by St John and Dale as part of the 2019 Review of Retirement Income Policies, reflecting their concern that a proportion of NZ Super goes to very high income / high wealth superannuitants. Their proposal was for a universal tax-free grant at age 65, paid at the net rate of NZ Super, with a claw back for those with large amounts of extra income. They suggested it could be designed to have little or no effect on the vast majority of superannuitants, but would tax income on a separate, progressive scale, so that after a cut out point at a high income, the effect would be that there was no advantage to having the grant (St John and Dale, 2019).

OPTION 8: REQUIRE SOME ESTATES TO REPAY NZ SUPER

This option was proposed in a submission to the 2022 Review of Retirement Income Policies (Jenness, 2022). Under this option, the net amount of NZ Super payments would accrue as a loan, to be repaid from the estate of individuals whose wealth was above a specified threshold (greater than median net worth). There are compliance costs for families to be considered under this option but it ensures that people can still receive the pension during their lifetime and maintains NZ Super as universal. It also has the ability to impact (limit) the intergenerational transfer of wealth, by returning some capital to the Crown, rather than to family members.

A key decision would be the threshold at which repayment was required. The higher the threshold, the fewer people who would be required to repay their NZ Super, and the less money would be saved by the Government. The reverse would also be true, the lower the threshold, the more people who would be required to repay. If the limit was considered 'too low' it would strain the social contract. This option would be likely to attract significant public discussion.

PRE-RETIREMENT SAVINGS INCENTIVES

Regardless of whether NZ Super settings change, additional measures could be taken to support people to save for their retirement, in the form of savings incentives. This would take a longer-term perspective of supporting people in later life and could include, for example, reduced rates of tax on interest income or KiwiSaver investments.

Such incentives would be costly if applied to all retirement savings but they could be restricted to low balance investments to support those on low incomes. They could also be restricted to later life savers (say, over 55) but the greatest financial outcomes would be achieved with tax benefits earlier in life.

Across the OECD it is common for household savings to be concessionally taxed although there is significant variation between countries. Around half of OECD countries provide some type of tax-favoured savings account (OECD, 2018). However, these concessions come at a cost. For example, concessions provided for private pensions in OECD countries cost, on average, approximately 0.5% of GDP in lost tax revenue, with some countries foregoing tax revenue amounting to approximately 2% of GDP, such as Australia and Canada (OECD, 2023).

SUMMARY OF OPTIONS

We have discussed eight options for NZ Super, along with the status quo of no change to the policy, and the potential for incentives to encourage more pre-retirement private savings. The eight options are collated here for reference, assessed against three criteria, but other criteria could also be considered.

Table 5: Summary of options for NZ Super changes

If you wanted to... then you could...	Reduce NZS expenditure	Maintain NZS as universal	Do not increase disadvantage of Māori
1. Provide a different benefit to some people aged 65 and 66	✓	✓	✓
2. Allow people to access their KS at age 65 instead of NZS eligibility age		✓	✓
3. Only raise the age for some people	✓		✓
4. Reduce age of eligibility for some people			✓
5. Reduce the amount of NZ Super if received before age 67	Potentially neutral		✓
6. Income-test receipt of NZS	✓		✓
7. Apply a tax surcharge to NZS if earning other income	✓	✓	✓
8. Change NZS to be an interest free loan repayable upon death	✓	✓	✓

Conclusion and recommendations

This paper attempts to weave together a number of strands that impact different aspects of the retirement system in general and NZ Super in particular.

The paper concludes:

- NZ Super is the Government's primary contribution to financial security for a person's later life and ensures an **adequate standard of living for older New Zealanders.**
- The system needs to be **fair, stable and affordable.**
- NZ Super is the **eighth least expensive** pension in the OECD, as a proportion of GDP.
- NZ expenditure would continue to be well below the OECD average in 40 years without any change to the age of eligibility.
- The current age of eligibility for NZ Super is not low relative to other OECD countries: **70% currently have a pension age of 65 or below,** reducing to 53% by the 2060s.
- Discussion around changes to NZ Super needs to consider a **wide range of data** to inform decisions.
- Any change to the age of eligibility would **disproportionately disadvantage** manual workers, carers and those they care for, and those with poor health, due to differences in savings and wealth and ability to remain in paid work after the age of 65. Women, Māori, and Pacific Peoples are overrepresented in those groups.
- Extra benefits to support people through to a later age of eligibility would **reduce fiscal savings** from raising the age.
- Introducing income-testing would be fairer than raising the age of eligibility.
- Political support for a **stable long-term system** is crucial.

We recommend:

- A long-term political accord is important to best serve citizens and there is an opportunity to secure this. The Government should encourage Te Ara Ahunga Ora Retirement Commission to investigate the possibility of a **new cross-party accord** on the retirement income system to provide stability and certainty for future generations of retirees.
- At the very least, the number of parties who have made a **political commitment under the New Zealand Superannuation and Retirement Income Act 2001** could be expanded. This would signal their ongoing commitment to current policy settings and impose special obligations on the Government to disclose whether consultation has taken place with other listed parties and the results of the consultation.
- The **age of entitlement to NZ Superannuation should remain at 65.**
- **Only** if fiscal savings are essential,
  - **alternatives to raising the age of eligibility should also be considered,** and eight options have been outlined in this paper.
  - **income-testing** is a fairer way to reduce expenditure on NZ Super, compared to raising the age of eligibility, so NZ Super would not be paid to those who continue to earn significant income (for a period after 65, or while significant income is being earned).
  - **enhancements to KiwiSaver** should also be simultaneously considered with any NZ Super change, to assist future retirees to maximise their private savings.
- A **legislated and periodic review** (for example every nine years or so) should be undertaken to enable environmental, fiscal, and population changes to be formally and independently assessed by Government. This will provide data and a framework to inform political debate and decision-making and help encourage trust in the system which is important for younger people as they navigate their lives and try to save for their retirement.

Appendix A – Life expectancy for Māori

Work undertaken for the 2022 Review of Retirement Income Policies included a series of four papers on 'What does retirement look like for Māori?'. The research findings from these papers included calls for life expectancy to be considered in the development of policy options to present to Government to better support Māori in later life.

The third paper in the 'What does retirement look like for Māori?' series examined demography and included the table below.

Table A1: Current life expectancy differences at age 65 for Māori and other groups in NZ

	Māori	non-Māori	Pacific	Asian	Total
Number per 100,000 males who reach age 65	76,179	89,506	81,387	93,279	87,642
Number per 100,000 females who reach age 65	82,892	93,205	86,474	96,253	91,775
Male life expectancy at 65 years	15.4	19.6	16.2	22.6	19.3
Female life expectancy at 65 years	17.5	21.9	18.5	24.5	21.6
Balance between NZ Super benefit and working life contribution (males)	12.8	18.2	14.1	21.5	17.7
Balance between NZ Super benefit and working life contribution (females)	15.3	20.9	16.8	23.9	20.4
Number per 100,000 males who reach age 50	91,657	96,278	93,311	97,884	95,511
Number per 100,000 females who reach age 50	94,658	97,657	95,451	98,589	97,147
Deaths aged 50 to 65 years per 100,000 males	15,478	6,772	11,924	4,605	7,869
Deaths aged 50 to 65 years per 100,000 females	11,766	4,452	8,977	2,336	5,372

Source: Cook, L. (2022:12) What does retirement look like for Māori? Paper 3 - Demography

Average period life expectancy at birth is 73.4 for tane and 77.1 for wahine. The table shows increased life expectancy for those who reach the age of 65, of 80.4 for tane and 82.5 for wahine. Both figures are lower than for non-Māori men and women though, as life expectancy at birth is 80.9 for males and 84.4 for females, increasing to 84.6 and 86.9 if they reach the age of 65 (Stats NZ, 2021).

The difference between these figures and the life expectancy at birth figures is explained in part by the increased rate of death aged 50 to 65 for Māori compared to non-Māori (Cook, 2022).

The figures above are from period life expectancy tables, which provide a representation of current experiences, rather than any kind of forecast of what an individual might experience themselves. Of course, the figures are not deterministic, and while the mean average figure is stated, there will be people who live longer, but also (more frequently) people who live for a shorter period of time. This means the mean average figure will always be lower than the median.

What we can determine from the period life expectancy figures is that Māori experience a significant health disadvantage to non-Māori and are more likely to die younger. The health issues disproportionately faced by Māori also mean that they would be especially disadvantaged by any increase in the age of eligibility for NZ Super because poorer health makes paid work harder to find and retain. The New Zealand Society of Actuaries recently cited the 'significant visible differences' in lifespans in New Zealand as a reason to at least not increase the age of eligibility for NZ Super until there is evidence of the gaps closing (NZSA, 2024).

There is also the issue of healthy ageing to consider as we know that those later years are likely to be spent in poorer health. Globally, we are starting to see increasing health and life expectancy inequality between higher and lower socio-economic groups, within the same countries (UN, 2023:44). Locally, a Waitangi Tribunal report from the Wai 2575 kaupapa inquiry stated that, during the period from the late 1970s to the late 1990s, Māori had not benefited from the overall increase in life expectancy in Aotearoa New Zealand, as theirs had remained virtually static over that time (Waitangi Tribunal, 2023). Improvements are now being made albeit slowly (ASMS, 2020).

Appendix B – Options analysis

Table B0: Option 0 – Status quo	
Costs to government	Ongoing payment of NZ Super over the forecast period from 2023: $21.628 bn in FY23/24; $23.211 bn in FY24/25; $24.698 bn in FY25/26; $26.405 bn in FY 26/27.
Costs to individuals	Impact of funding NZ Super from tax revenue (in the future to be supplemented by distributions from the NZ Super Fund)
Benefits to government	Maintain provision of NZ Super under current settings
Benefits to individuals	Maintain provision of NZ Super under current settings
Implementation	None
Summary	Option continues the current situation and does not disadvantage any particular cohort.

Table B1: Option 1 - Provide a different benefit to those aged 65 and 66	
Costs to government	Fiscal expenditure (or the reduction in fiscal savings from increasing the overall age of eligibility for NZS to 67) would depend on the criteria used for eligibility. Assume Jobseeker Support and Supported Living Payment recipients. For those already receiving Jobseeker Support and Supported Living Payment, using current year figures, for illustrative purposes only: (using current number of 3,993 Jobseeker Support recipients aged 64 as a proxy x current payment amount of $16,924* gross p.a. x 2 years = $135m) + (using current number of 4,662 Supported Living Payment recipients aged 64 as proxy x current payment amount of $19,424* gross p.a. x 2 years = $181m) = a combined total expenditure of $316m (or the reduction in fiscal savings from increasing the overall age of eligibility for NZ Super to 67) This expenditure/reduced savings would be required to support around 18% of 65 and 66 year olds. Any manual workers unable to stay in their job or to find another job would need Jobseeker Support. However, it is not possible to estimate how many people this might apply to, so no calculation is provided here. *payment rate used is for a person in a relationship with no dependent children
Costs to government	Some increase in operational expenditure for MSD, through having more people on administratively more complex main benefits instead of administratively simpler NZ Super, and some administrative complexity if the income means-test was applied at the individual rather than household level for older people.
Costs to individuals	Challenge of dealing with means-testing requirements between the age of 65 and 67
Benefits to government	Maintains universality of NZ Super
Benefits to individuals	None compared to status quo (receipt of NZ Super at age 65)
Implementation	Legislative change required
Summary	Option recognises that some groups will require additional support if the age of eligibility for NZ Super is increased, and it maintains the universality of NZ Super, but comes with some administrative and complexity increases for MSD.

Table B2: Option 2 - Allow people to access their KiwiSaver at age 65 instead of eligibility age for NZ Super	
Costs to government	Nil from the change (but see note below)
Costs to KiwiSaver providers	Minor. Potentially some processing costs for KiwiSaver providers if withdrawals increase from current levels (although this is to be expected anyway as the over 65 cohort increases in size).
Costs to individuals	Retirement savings funds will be utilised (if desired, and potentially only in part) prior to NZ Super eligibility age. As is currently the case under the status quo, retirement savings funds, to which a person has full access, form part of asset-based means-testing. This would impact eligibility for secondary benefits, such as the Accommodation Supplement, which has a low cash asset limit. This may not be relevant for people who remain in paid work until age 67 but would be for people on a main benefit (if the age of access for KiwiSaver was maintained at 65).
Benefits to government	Providing people access to their retirement savings funds is likely to reduce demand for means-tested benefits (assuming people would be otherwise eligible), but support may still be required for those with low balances, if they are spent before reaching their 67th birthday.
Benefits to individuals	People can access their personal retirement savings. The average KiwiSaver balance of a person aged between 61 and 65 is $51,054. The average balance for women in this age group is $45,017 and the average balance for men is $60,067. However, these are average balances, and many people have less than this amount. For example, 39,233 people aged between 61 and 65 have less than $10,000 in their KiwiSaver and 26,850 have between $10,000 and $20,000.
Implementation	Legislative change needed to decouple KiwiSaver Act from New Zealand Superannuation and Retirement Income Act 2001 for age of permitted withdrawals.
Summary	A simple way of assisting people to support themselves during the immediate period before eligibility for NZ Super. However, due to the small size of most people's KiwiSaver balances, their funds may run out before age 67, or leave an insufficient amount for later life.

Table B3: Option 3 - Retain the age of eligibility at 65 for some people	
Costs to government	Fiscal expenditure (or the reduction in fiscal savings from increasing the overall age of eligibility for NZS to 67) would depend on criteria used for eligibility. Assume manual workers, carers and those they care for, and those with (specified) poor health. For manual workers, for illustrative purposes only: (using previous Stats NZ occupation categories of manual work, current estimate of 10,248 people aged 64 in manual work x current NZS payment amount of $22,869* gross p.a. x 2 years) = $468m maximum expenditure For carers and those they care for, using a similarly illustrative approach, based on current recipients aged 64, as Supported Living Payment recipients generally move to NZ Super at age 65: (using current number of 4,662 Supported Living Payment recipients aged 64 x current NZS payment amount of $22,869* x 2 years) = $213m expenditure No calculation can be undertaken for those with poor health as numbers would depend on the definition of poor health that was determined for this purpose. *payment rate used is for a person in a relationship with no dependent children
Costs to government	Increase in operational expenditure for MSD through increased administrative complexity (determining who is eligible for NZ Super at what age)
Costs to individuals	Risk of tension in the 'social contract' by having different ages of eligibility for NZS
Benefits to government	Recognition of individual situation rather than arbitrary age of eligibility
Benefits to individuals	Some people would benefit from public pension access at a more relevant age for them
Implementation	Legislative change required - preceded by consultation on which groups should retain NZ Super eligibility at age 65.
Summary	Option recognises that some groups of people are less able to stay in paid work until age 67 but it introduces design and administration complexity as well as the risks associated with treating people differently.

Table B4: Option 4 - Reduce age of eligibility for some people	
Costs to government	The fiscal expenditure on NZ Super would increase depending on the criteria used for eligibility (groups of people and age of eligibility chosen). Assume manual workers, carers and those they care for, and those with (specified) poor health. Assume age 60. For manual workers, for illustrative purposes: (using previous Stats NZ occupation categories of manual work, with 51,240 manual workers aged 60 to 64 years x current NZ Super payment rate of $22,869* gross p.a.) = $1.171bn expenditure per year (at full uptake) For carers and those they care for, the increase in expenditure would be the difference between NZS and SLP payment rates, for an illustrative estimate: (using current figure of 22,194 Supported Living Payment recipients aged 60 to 64 x current NZ Super payment rate of $22,869* gross p.a. = $507m less status quo expenditure for 22,194 Supported Living Payment recipients aged 60 to 64 x current SLP payment rate of $19,424* gross p.a. = $431m) = $76m increased expenditure per year. No calculation can be undertaken for those with poor health as numbers would depend on the definition of poor health that was determined for this purpose. *payment rate used is for a person in a relationship with no dependent children
Costs to government	Increased administrative complexity for MSD would result in additional operational expenditure.
Costs to individuals	Risk of tension in the ‘social contract’ by having different ages of eligibility for NZ Super
Benefits to government	Recognition of individual situation rather than arbitrary age of eligibility
Benefits to individuals	Some people would benefit from public pension access at a more relevant age for them
Implementation	Legislative change required - preceded by consultation on which groups should become eligible for NZ Super at a lower age. Consideration would need to be given to the start date (phasing of the change) to ensure equitable outcomes between people of different ages within the selected groups.
Summary	A step change option that recognises that some groups of people cannot be in paid work in later life. The option introduces design and administration complexity as well as the risks associated with treating people differently.

Table B5: Option 5 - Reduce the amount of NZ Super for people who access NZ Super before pension age	
Costs to government	Whether fiscal expenditure on NZ Super would increase or decrease, compared with the status quo, would depend on how many people took the lower rate and how long they received it for. People who can support themselves until the age of eligibility, and expect to live to see it, would be expected to wait until they reach pension age so that they can apply to receive the full amount of NZ Super. This approach would maximise the amount they receive if they live beyond pension age. This would not increase fiscal expenditure on NZ Super unless an increased pension option was also included, where people would receive more than the standard rate of pension, if they applied to receive it at an age beyond the standard pension age. People who cannot support themselves until the age of eligibility, or do not expect to live to see it, would be expected to apply to receive the lower amount of NZ Super. This approach may maximise the amount they receive if they live for a shorter period, but if they live longer, as the rate of NZ Super would be 'locked in', they may be financially disadvantaged compared to if they had waited to apply. Manual workers, carers and those they care for, and people with poor health may be interested in the option to receive NZ Super at an earlier age even if that is at a lower amount.
Costs to government	Increased administrative complexity for MSD would result in additional operational expenditure.
Costs to individuals	Risk of tension in the 'social contract' by having different ages of eligibility for NZ Super
Benefits to government	Allows recognition of individual situation rather than arbitrary age of eligibility
Benefits to individuals	Some people would benefit from public pension access at a more relevant age for them (lower or higher)
Implementation	Legislative change required - preceded by consultation on the lower age, the lower amount, and whether a higher age and amount should also be available. Consideration would need to be given to the start date (phasing of the change) to ensure equitable outcomes between people.
Summary	A step change option that provides individuals with more choice along with some financial risk. The option introduces design and administration complexity as well as the risks associated with treating people differently.

Table B6: Option 6 – Income-test eligibility for NZ Super	
Costs to government	This option would reduce fiscal expenditure on NZ Super by limiting eligibility based on income. It is not possible to quantify the amount of the reduction because that would depend on the income level chosen and whether it applied to all superannuitants or just those in a certain age group.
Costs to government	Increased administrative complexity for MSD (and IRD) would result in additional operational expenditure.
Costs to individuals	Risk of tension in the ‘social contract’ by removing the universality of NZ Super
Benefits to government	Provides a reduction in the fiscal expenditure on NZ Super
Benefits to individuals	The sustainability of NZ Super should be increased from the reduction in expenditure so that it will remain available to future generations of retirees when they need it.
Implementation	Legislative change required - preceded by consultation on the level of income at which the test should be applied.
Summary	A step change option that brings eligibility for NZ Super into line with eligibility for other main benefits. The option introduces design and administration complexity as well as the risks associated with treating people differently.

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