**Informing the 2019 Review – 133 questions that New Zealand needs answered**

Michael Chamberlain and Michael Littlewood

25 June 2019

Accessible at:

[www.alt-review.com](http://www.alt-review.com)

Each of the report’s 22 sections ends with a series of questions that New Zealand needs to discuss as part of the recommended comprehensive review of New Zealand’s retirement income framework – both public and private. There are 133 questions in all.

What follows are just the questions:

**2. Questions New Zealand needs to discuss about the economy:**

1. How robust are current projections of New Zealand’s economic future?
2. What are New Zealand’s economic strengths and how might we develop those by reducing barriers and thereby encourage them to emerge?
3. How can we better understand New Zealand’s limits to growth, including, specifically, the productivity conundrum?
4. What are the key risks to New Zealand’s economic future and how might we mitigate those?
5. What specifically is the government’s capacity to influence these issues positively and what do the answers to that mean for New Zealand’s regulatory environment?
6. How can we make investments that lead to greater economic growth or reduced risk or lower growth?

**3. Questions New Zealand needs to discuss on public vs. private economic claims:**

1. Do more savings in accounts like KiwiSaver schemes and the New Zealand Superannuation Fund improve New Zealand’s (not individuals’) ability to finance the retirements of increasing numbers of older citizens?
2. What is the international evidence on the economic impact of government-encouraged (or forced) private savings?
3. How do the total claims (private and public) on the economy by older New Zealanders today compare with the equivalents in other developed countries?
4. What are the expected trends in total claims (private and public) in New Zealand over the coming, say, 40 years?
5. How do New Zealand trends in total claims (private and public) compare with the equivalents in other developed countries?
6. How have other countries adapted those total claims (private and public) to changing patterns of work and retirement? What lessons might New Zealand draw from those examples?

**4. Questions New Zealand needs to discuss on New Zealand Superannuation’s cost:**

1. Are we convinced that the future cost of NZS will be the amounts paid each year and that will have nothing to do with the amount of money in the NZSF?
2. How robust are the Treasury’s projections in the ‘Long Term Fiscal Model’ to highlight the trends and what are the main risks to those? How can we improve them?
3. Why can’t we have an accessible model that allows us to see what the cost implications of different possible changes to the design of NZS? What, for example, are the implications of possible changes in the state pension age? What might happen if other aspects of the benefit design changed?
4. Are we clear what the purpose of the Treasury’s projections is and their significance to governments’ planning and individuals’ decisions about retirement saving?

**5. Questions New Zealand needs to discuss on the sustainability of NZS:**

1. Are we convinced that the future cost of NZS will be the amounts paid each year and that will have nothing to do with the amount of money in the NZSF?
2. How robust are the Treasury’s projections in the ‘Long Term Fiscal Model’ to highlight the trends and what are the main risks to those? How can we improve them?
3. Why can’t we have an accessible model that allows us to see what the cost implications of different possible changes to the design of NZS? What, for example, are the implications of possible changes in the state pension age? What might happen if other aspects of the benefit design changed?
4. Are we clear what the purpose of the Treasury’s projections is and their significance to governments’ planning and individuals’ decisions about retirement saving?

**6. Questions New Zealand needs to discuss on the review of NZS’s design:**

Based on the analysis in this section, here are the questions New Zealand needs to discuss on the design of NZS:

1. Should NZS be a universal pension (as now) or means-tested (assets, income or both)? How administratively do the income and asset tests work in Australia and how do Australians respond to those?
2. Should the state pension age be increased (as proposed by the last government)? What about earlier or, as some suggest, ‘flexible’?
3. Should the minimum residency period be 10 years, 20 years or more?
4. How much should NZS be for a couple?
5. How should NZS be re-valued each year? Why is there a floor?
6. Should NZS be pre-funded in full, partially (as now) or paid on a ‘pay-as-you-go’ basis (as was the case until 2001)? The discussion in the next section 7 (The place of the New Zealand Superannuation Fund) is relevant here.
7. Should single pensioners get more than each of a couple? How should the single person’s rate be set?
8. Which overseas pensions should be deducted under section 70? There is more on this in section 8 below (Overseas’ pensions and section 70 deductions).
9. Should ACC recipients lose their NZS after two years?
10. Should there be ‘approved’ absences overseas for the residence test?
11. How much should the ‘hospital rate’ be?
12. Should overseas residents be entitled to any NZS? Should that be tax-free?
13. How should all this be reviewed? We think the present three-yearly review isn’t working – there is more on this in section 21 below (The review process).
14. Then we need to agree the transition between current and future benefits (if changed).

**7. Questions New Zealand needs to discuss on the role of the NZSF:**

New Zealand needs a complete and independent review of the underpinning logic of the NZSF’s existence. How precisely does higher government debt and associated financial assets improve the security of future superannuitants’ pensions? What risks might this strategy involve? How should those risks be priced?

Even if, despite our recommendation to wind up the NZSF, it continues as now, how well has the NZSF performed against two key measures:

The government’s most expensive debt in each measurement period (that could be repaid if the NZSF were wound up)?

On an agreed risk-adjusted basis?

in either case, allowing for the deadweight costs of extra tax incurred by the contributions.

If the NZSF continues, how can we assure today’s taxpayers that, by paying more in taxes today (between 2019 and 2034), they will see a reduction in the taxes they will have to pay once the drawdowns begin?

Can we assure tomorrow’s taxpayers that the presence of the NZSF does not constrain, in any way, their ability to reduce NZS?

Does the presence of the NZSF increase the economic activity above the level of growth that otherwise would have occurred?

**8. Questions New Zealand needs to discuss on overseas pensions and section 70:**

1. Should New Zealand ‘look after’ (provide NZS benefits for) periods before an immigrant arrives in New Zealand? In other words, is the principle of ‘universality’ more important than what might be regarded as ‘equity’ as between the ‘obligations’ of different countries to their citizens’ periods of residence?
2. If NZS is not to be truly universal for immigrants, what is the fairest way of calculating their entitlements to NZS? The main alternatives are:
   1. Top up the overseas pension(s) to NZS – broadly the current DDP policy;
   2. Increase the New Zealand residency period and ignore the other countries’ pensions;
   3. Pay immigrants a proportionate amount of NZS based on the period of residency between the ‘minimum’ age (currently age 20) and the state pension age (currently 65) – that means New Zealand would pay no regard to the overseas pensions themselves.
3. If the overseas pension is to form part of the NZS calculation (option 2 a. above), which particular overseas state pensions should be counted?
4. If the DDP continues, why aren’t the pension arrangements of every country that provides immigrants examined and a guidance note issued by MSD for each country explaining why that programme is included in the DDP?
5. Again, if the DDP continues, why isn’t section 70 moved from the Social Security Act 1964 to the New Zealand Superannuation and Retirement Income Act 2001? NZS is an individual entitlement and needs its own tailored version of section 70.

**9. Questions New Zealand needs to discuss on tax subsidies for saving:**

1. Why does our government have a particular interest in the way New Zealanders save for retirement? That ‘interest’ is currently expressed through KiwiSaver (that we discuss in section 14 below) and through current tax breaks given both to KiwiSaver (estimated cost in the 2019 year: $801 m, rising to $840 m by 2019/20) and to the concessionary tax treatment of ‘Portfolio Investment Entities’ – there is more on that in section 17 (Income tax and saving vehicles). Where are the cost/benefit analyses to support these direct, costly interventions in New Zealanders’ saving behaviour?
2. Are we correct that tax breaks for retirement saving are complex, distortionary, expensive, regressive and inequitable?
3. Are we further correct that tax breaks for retirement saving probably do not ‘work’ (if by that we mean that they probably do not raise savings overall)? Where is the evidence that costly incentives for KiwiSaver (an accumulated cost to taxpayers of $10.1 billion to date) have increased household savings? We describe what evidence there is on KiwiSaver’s impact in section 14 below.
4. If the answers to either question 2 or 3 above are ‘yes’, can we agree that the government should not try to ‘incentivise’ people to save particular amounts in a particular way and in particular investment vehicles for a particular purpose?
5. Does the presence of tax incentives increase economic growth or productivity above the level that it would have been if they had not been there?

**10. Questions for New Zealand to discuss on compulsory private provision:**

1. What precisely has been the effect of Australia’s SG Tier 2 retirement savings scheme on:
   1. Australians’ overall (not just retirement) saving and wealth accumulation patterns?
   2. Public policy?
   3. Retirees’ income levels?
   4. The Australian financial services industry?
   5. Households’ business investments?
   6. Labour force participation patterns (before and after the state pension age)?
2. How do the income and asset tests work in Australia (and elsewhere, like Mexico, Chile etc.) and what have been the effects of those tests on Australians’ financial behaviour?
3. What lessons might New Zealand draw from the Australian experience?
4. Is there any international evidence that compulsory Tier 2 savings schemes ‘work’ by increasing overall household savings and by improving the security of retirement income claims against the economy? Why are countries that introduced compulsory Tier 2 schemes now unwinding them?
5. And what is the impact of compulsory Tier 2 schemes on economic growth and productivity?

**11. Questions New Zealand needs to discuss on retirement income policy settings:**

1. Should the government concentrate on things that only governments can do?
2. If ‘yes’, are there any other things that only governments can do (in addition to the five key areas described above) and that might contribute to the setting and maintenance of retirement income policies?
3. If governments should focus on other things, what might those be? What specifically would those add to the setting of public policy on retirement incomes? What might be the direct and indirect costs of those and can those costs, if any, be justified?

**12. Questions that the 2018 Census should be answering on home ownership (but probably won’t):**

1. Do the occupiers own the dwelling they are currently living in? That includes ownership through a family trust, a will trust, a family-controlled company or other indirect ownership.
2. If the answer to question 1 is ‘no’, how much rent does the occupier pay? If the answer to that is nothing or is a nominal amount, then who specifically owns the home (name and contact address) and what is their relationship to the occupier?
3. How much does the home-owner (including a family trust or other indirect owner) owe on a mortgage of the home? How much of that mortgage is to finance an investment in a family business or in another property?
4. The occupier should also have completed a dwelling census return in respect of any dwelling that is owned (directly or indirectly) by the occupier and that is unoccupied on the day of the Census. That did not happen. Such a return should have included information on why the dwelling is unoccupied on Census night.

Without New Zealanders’ answers to these questions, we cannot have a useful discussion about home-ownership levels and whether there are public policy issues that need addressing in this regard either generally or in specific regard to financial preparation for retirement

**13. Questions New Zealand needs to discuss on occupational superannuation schemes:**

Some of the following questions are connected to those in the next section 14 (KiwiSaver in the new environment) and also section 20 below (information and education):

1. What are employers currently doing about the retirement saving arrangements of their employees? The most recent, comprehensive information we have on this is a 2003 report prepared for the Periodic Report Group.
2. How have employers reacted to the restrictions introduced for ‘workplace savings schemes’ by the Financial Markets Conduct Act 2013?
3. How many have a superannuation scheme, other than KiwiSaver, that is currently open to new entrants? What are its main provisions? How does the employer see the future of that scheme in a KiwiSaver environment?
4. What are employers’ attitudes to extending their present roles into information/education programmes?
5. What do employers think of KiwiSaver in relation to their own HR objectives? How many employers think that KiwiSaver as it is, will be all that they will do about their employees’ retirement saving needs?
6. How many employers have a ‘total remuneration’ policy, as opposed to ‘pay + benefits’? Of the ‘pay + benefits’ employers, how many have formally adopted that policy, as opposed to having it by default (by doing nothing)?
7. How many employers help employees with information and education on issues associated with saving for retirement? Might they think of doing more? Might those that have no involvement think of starting some kind of information/education programme?

**14. Questions New Zealand needs to discuss on KiwiSaver:**

Some of the following questions overlap with questions in the last section 13 (Occupational superannuation – the role of employers):

Is KiwiSaver working? Subsidiary related questions include: are KiwiSaver members saving more for retirement than their non-KiwiSaver peers? Are the total net *financial* assets of KiwiSaver members greater than the totals of non-KiwiSaver peers? In other words, is so-called ‘behavioural economics’ working in the KiwiSaver environment?

Are New Zealanders saving enough for retirement whether or not they belong to KiwiSaver? If they are, that would undermine the case for ‘strengthening’ KiwiSaver.

What effect has KiwiSaver had on housing ownership patterns and housing debt as between members and non-member peers?

What effect has KiwiSaver had on remuneration patterns as between employers with/without ‘total remuneration’ policies and as between employers with preferred KiwiSaver schemes and those without. What proportion of employers have a ‘total remuneration’ policy? Has KiwiSaver affected that pattern?

What effect has KiwiSaver had on occupational superannuation schemes? What is the overall impact of KiwiSaver on workplace-related retirement saving schemes (including KiwiSaver)?

Who specifically benefits from the current tax subsidies to KiwiSaver (members’ occupation types; remuneration bands; distribution by age, sex, work status etc.)?

What effect has KiwiSaver had on the financial services industry in the last ten years and who benefits? Should New Zealand be concerned about the aggregation of KiwiSaver savings in the hands of a small number of providers, mainly the major trading banks?

If, as suggested in section 11 of this report (The role of the government), the government has no role in forcing or incentivising particular types of financial provision for retirement, what might be KiwiSaver’s role in a more rational policy environment? Here are some suggestions that require analysis and debate:

Remove auto-enrolment;

Remove ‘Member Tax Credits’;

Re-install the ‘kick start’ government grant for new members;

Remove default providers (if no auto-enrolment) or open up default status to all ‘qualifying’ schemes’ (if auto-enrolment retained);

Remove all rules about member contributions;

Remove compulsory employer contributions;

Allow access to benefits at any age and for any reason.

Questions 1 and 2 cannot be answered without a proper longitudinal study of household assets, liabilities and incomes. We look at this in the next section.

**15. Questions New Zealand needs to discuss on a new longitudinal survey:**

Some of the questions that follow relate to questions raised in earlier sections of this report such as sections 9 (tax subsidies), 13 (occupational superannuation) and 14 (KiwiSaver).

1. What lessons have we learned from the design and implementation of SoFIE? How can we do it better next time (we think there must be a ‘next time’)?
2. What lessons might we learn from the longitudinal studies in Australia, Europe, the United Kingdom and the United States?
3. Do we really know how or how much New Zealanders save for retirement now? Where are they getting advice and what is the extent and quality of that?
4. Do we really know whether New Zealanders need to save more for retirement than they do now? This will not be answered by asking New Zealanders whether they think they should be saving more but rather examining what they are doing about financial preparation for retirement (including buying and paying off the family home; building a business; acquiring skills that might suit post-‘retirement’ aspirations; potential inheritances etc.).
5. How do New Zealanders respond over time, both financially and behaviourally, to external changes (global and national financial conditions, labour market changes, technological changes, regulatory changes)?
6. What impact do family separations and divorce have on New Zealanders’ preparations for retirement?
7. Do we really know how New Zealanders and their associated households migrate financially from full-time work to full-time retirement?
8. How does the state pension age of 65 affect New Zealanders’ decision-making about financial preparation for retirement and the retirement decision itself?

There is more on the issues associated with questions 6 and 7 in the next section 16.

**16. Questions New Zealand needs to discuss on retirement data and experiences:**

1. We need to know much more about workforce participation of New Zealanders from age 50 onwards – when does the ‘career’ stop and the ‘retirement’ process begin and how does it progress? At those older ages, the analysis should be detailed – say, by each year of age and longitudinal (tracking particular workers).
2. What happens now at about the state pension age? In other words, how does the start of NZS affect decisions about paid employment (and so, how might changes to the state pension age affect those decisions)? This information could form the basis of a model that allows New Zealand to have a proper discussion about the state pension age. A data-driven discussion of this key public policy issue was absent from the recommendations of the Retirement Commissioner’s 2016 Review (and also from the last government’s announcement about the proposed increase to age 67 by 2040).
3. What influences the choice of work during the ‘retirement’ period and is that different in different parts of the country, for different groups of New Zealanders and for different ‘working life’ skills/qualifications?
4. How does paid work post-‘retirement’ help in financial preparations for ‘part-time’ and ‘full-time’ retirement? What lessons might New Zealanders learn from the experiences of current older workers?
5. What, if anything, are employers doing about retaining access to the skills of baby-boomer retirees? Is this an issue of ‘public’ importance?
6. How might the government help employers and New Zealanders to bridge information gaps?

**17. Questions New Zealand needs to discuss on income tax issues:**

1. Should all CIVs be taxed similarly?
2. Should individuals pay income tax on all their ‘income’ whether that has been directly received (as with pay or interest income) or indirectly received (as with additions to their account within a CIV)?
3. Should the Inland Revenue be calculating individuals’ tax (rather than employers and the managers of CIVs)?
4. Should all ‘income’ count when calculating income-tested welfare benefits?
5. If a CIV investor is tax-exempt (such as a charity) should any tax paid by a CIV be fully recoverable?
6. If the CIV investor has accumulated tax losses from earlier years or from the current year, should any CIV income be offset against such losses?
7. If an overseas CIV has paid any tax that can be attributable to an individual investor, should that tax be offset against any New Zealand tax liability on the same attributable income?
8. Rather than trying to define income exhaustively, should the Income Tax Act 2007 state some broad principles, specifying a list of considerations that the Commissioner of Inland Revenue should take into account when deciding what is ‘income’ and what is not?
9. Should the principles of ‘binding rulings’ be expanded to include a formal system of ‘practice notes’ that will give greater certainty of tax consequences and increased flexibility than the current court-based system?

**18. Questions New Zealanders need to discuss on disclosure issues:**

1. Do savers read the product disclosure statement (PDS) and do they understand the key components of the collective investment vehicle (CIV) covered by the PDS?
2. Does the PDS contain the important information that an investor should consider?
3. Has the PDS improved the quality of disclosure and access by ordinary savers?
4. What are the key things an investor should know about a provider and do all these have to be in a single document? What is the likely pattern of returns in terms of income and market movements?
5. What do savers actually know and what do they need to know about the collective investment products they already use? Where is the evidence?
6. Where precisely can the average saver get the help they need to understand the products they need to use? Saying they should seek advice from an ‘Authorised Financial Adviser’, a ‘Registered Financial Adviser’ or a ‘Qualifying Financial Entity’ adviser is unhelpful.
7. Does the FMA know what savers need to know and how is the FMA finding out whether providers of managed funds are delivering that information? For example, has the FMA run ‘mystery shopper’ programmes with providers? Has it benchmarked service standards for common transactions (joining, changing details, changing contributions, changing investment strategy etc)?
8. What are savers currently receiving on a regular basis? What is current ‘best practice’? How much do savers understand about the things they are being told? How can savers be helped in this communication process? Again, where is the evidence?
9. What are the current costs of compliance (initial and on-going)? Given that members ultimately pay for these, how can the regulatory regime work to reduce these? How can technology help? In other words, why must the key messages be reduced to a single, written document?
10. Why not increase the scope of the current ‘Disclose Register’ to include other key information about each CIV like investment returns and fees?
11. Has the latest requirement for the disclosure of KiwiSaver fees on the annual statement improved an investor’s understanding of fees and improved returns or reduced risk?
12. Will the new projection requirements lead to better decisions and allow savers to be better prepared for retirement?
13. How will we capture data to assess the value of the fees’ disclosure and the projected income disclosure to determine whether they have achieved their goals?
14. Has the Supervisor regime improved the position for investors?

**19. Questions that New Zealand needs to discuss on regulation:**

1. The FMA started on 1 May 2011 to, amongst other things rationalise the regulation of financial markets and to “…promote confident and informed participation in New Zealand’s financial markets”. With specific regard to superannuation schemes and other similar ‘collective investment vehicles’ how is it doing? What is it doing? How specifically might these activities promote that confident and informed participation?
2. In the seven years to 30 June 2018, the FMA has spent $217 million on all of its activities, including the supervision of ‘collective investment vehicles’. Has New Zealand received good value against the FMA’s stated objectives (“well-informed consumers and investors, healthy and robust businesses, competitive markets, good conduct by businesses and global recognition of New Zealand as a strong business environment.”)?
3. Given the large costs involved to schemes (members and sponsors) of the move to the new regulatory regime under the Financial Markets Conducts Act 2013, how is the new regime working? How specifically has the security of savers’ entitlements been enhanced by comparison with the previous regime? What have ‘supervisors’ added to the governance process and what do ‘managers’ think of the way things work now?
4. The government has intervened on the publication of fees for just KiwiSaver schemes. Why not extend that to all ‘collective investment vehicles’? How much do KiwiSaver members now understand about the fees they pay?
5. Why can’t the government require, as a condition of approval, that all ‘collective investment vehicles’ (not just KiwiSaver schemes) submit quarterly investment performance data to a central clearing agency (perhaps a university’s accounting faculty)? This would allow published comparisons to be made on a consistent basis.

**20. Questions New Zealand needs to discuss on information and education:**

1. What is the employer’s role in helping employees to understand what to do about retirement saving and other financial preparation for retirement (reducing debt, re-training, new skills etc.)?
2. What is the education system’s role in improving mathematical competence and financial literacy? We should start with teachers themselves as a discrete project.
3. What has happened to the ‘National Strategy for Financial Literacy? Where is the evidence that it is achieving the objectives established in 2008? Why haven’t more ‘annual’ reports been published?
4. Why isn’t the government collecting returns, expense and other data on collective saving vehicles, including KiwiSaver, and having that analysed by an independent body and publishing the results on a regular (say, quarterly) basis?
5. Does the CFFC’s web site *Sorted* work? How much does it cost? How successful is it?
6. Can the government make available a more useful on-line tool that would allow ordinary New Zealanders to make reasonable decisions about their retirement saving and other financial planning issues in the context of their household’s assets and liabilities?

**21. Questions New Zealand needs to discuss on the retirement income review process:**

1. What exactly have the six regular reviews of New Zealand’s retirement income policies achieved (recommendations made vs. recommendations implemented; quality and significance of recommendations and supporting data)?
2. Should the scope of the Retirement Commissioner’s work be returned to the recommendations of the 1992 Task Force?
3. How can we increase the Retirement Commissioner’s influence in the debates on policy issues associated with financial preparation for retirement? Limiting the scope of the Commission’s work may be part of the answer.
4. What should be the format of the needed national discussion?

**22. Questions for New Zealand to discuss on a stable political environment:**

1. Do New Zealanders want the political parties to debate and agree on policies associated with public and private provision for retirement? That debate cannot really start until many of the data gaps we have identified in this report have been filled.
2. Might the political parties themselves welcome that possibility (we should not expect that support to be expressed publicly)?
3. What is the appropriate framework for the needed debate on these issues?
4. Who should lead that debate and what resources might be needed over what period?
5. How should the research momentum be maintained over decades? Where should the ‘stewardship’ of the debate and the data rest?