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Retirement Commissioner
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Review of Retirement Income Policies 2019 submission

Thank you for the opportunity to submit regarding the Retirement Commissioner's tri-annual review of Retirement Income Policies, 2019.

Through our three membership brands, the Wellington Chamber of Commerce, Business Central and ExportNZ, our organisation represents around 3,000 businesses across the central and lower North Island. Our organisation is one of the four regional organisations that make up the Business New Zealand family and is also accredited through the New Zealand Chambers of Commerce network.

The Wellington Chamber of Commerce has been the voice of business in the Wellington region since 1856 and advocates policies that reflect the interests of Wellington's business community and the development of the Wellington economy as a whole. Business Central represents employers and provides employment, health and safety, and human resources advice, and advocates policies that reflect the interest of the business community.

Current employment data reported by the Commission for Financial Capability ('CFFC') shows that 23.7% of New Zealand's over-65 population is already in the workforce. This figure already represents one of the highest rates of labour force participation by over 65s in the OECD, and the CFFC forecasts it will steadily rise over the coming decades. New Zealand's retirement income policy needs to adapt to reflect our changing labour force demographics with many older people, either by choice or necessity, remaining in employment beyond the age of 65.

This submission reinforces several points of relevance to the broader business community about retirement income policy and changes in the workforce demographic. Four key statements summarise our position on policy development:

1. Given the ageing workforce, our members want to ensure the ongoing **affordability of NZ Super** and avoid any excessively rising costs of this universal benefit being passed on to businesses through taxation. We believe a programme of slowly raising the age of retirement alongside steady and sustainable economic growth will help to maintain the affordability of NZ Super for future generations and reflect changing workforce demographics.

2. For Kiwis to achieve material wellbeing in retirement, our members feel it is vital that **KiwiSaver is a trusted, safe and incentivised scheme** for all New Zealanders. We recommend a return to **visible value**, where government incentives and contributions demonstrate the importance and value we as a country place on financial preparation for retirement. This could be achieved through a return to dollar-for-dollar contributions, a raising of the government contributions cap, and maintaining flexibility around decumulation options to allow investment diversification.

3. As larger numbers of older workers remain in employment, our members wish to highlight the need for flexible employment options and removal of age discrimination. Flexibility ensures **that the workforce remains a safe and productive** driver of economic growth.

4. Homeownership, education and training, and employment history are all predictors of wellbeing in retirement. Therefore, we must promote economic growth and **enable young people to get ahead** by providing them with clear information about the costs of retirement, guidance on KiwiSaver contributions, and the importance of planning for their futures.

The Affordability of NZ Super

Thanks to steady economic growth over recent years, the future of NZ Super in the short term is secure. Given many Kiwis are enjoying longer, healthier lives and remaining in employment beyond the age of 65, the policy needs to respond to changing labour force demographics and future-proof the universality of this benefit.

In the first instance, our members feel that slowly raising the age of entitlement to NZ Super is an essential step to be adopted by the Government. We note this is consistent with the 2016 Review of Retirement Income Policies, which recommended increasing the age for eligibility for Super to 67 by 2034 - advice that has not been taken up by the current Government.

Today's taxpayers pay for today's superannuitants, so it makes fiscal and social sense to raise the age of entitlement, given that most Kiwis are willing and able to work beyond the age of 65.

In 2019, the average life expectancy for a New Zealander is 81.5 years of age. This means that given the current age of eligibility, the average Kiwi will receive NZ Super for 16.5 years (or 20.2%) of their life. Statistics New Zealand has indicated that if recent increases in life expectancy at birth continue, life expectancy could reach 96 years for males and females as early as 2068. Without a change in policy, this could mean that a child born in 2068 would receive NZ Super for 36 years (or 37.5% of their life). As life expectancy grows, lifting the age of entitlement maintains intergenerational fairness. We should begin this process now so changes are well signalled, and people can plan for their retirement.

The Ministry of Social Development predicts an income rise for over 65s from the current $4.8 billion to $22.8 billion from 2061. Increasing the age of eligibility will increase the net tax input from people over the age of 65, improving the affordability of this benefit and ensuring that the cost of NZ Super is not further passed on to taxpayers.

While the policy debate will inevitably involve consideration as to whether or not NZ Super continues to be a universal entitlement, we suggest this discussion should occur in the future after resolving the age of eligibility. Separating this debate ensures hard-working Kiwis who have paid tax across their working career do not feel disadvantaged by simultaneously raising the age of entitlement and introducing means-testing.

Our members recommend against the introduction of a new 39% top marginal tax rate for workers aged over 65. Such a policy is an age-specific penalty on some of New Zealand's most productive people who already make considerable tax contributions.

Moreover, our members re-emphasise the paramount importance of maintaining sustainable and long-term economic growth to provide the country with the tax revenue required to maintain the affordability of NZ Super. This is undoubtedly a priority for current taxpayers, in addition to future generations, as identified by the Guardians of NZ Super, whose expressed aim is "to reduce the tax burden on future taxpayers of the cost of New Zealand superannuation" by maintaining high-quality overseas investment to stimulate economic growth.

The Role of KiwiSaver: a call for visible value

To help all Kiwis aspire to material wellbeing in retirement, we recommend more significant incentives around KiwiSaver, a focus on policy stability, and smart investment and consumer education.

NZ Super was not designed to support the cost of housing, and 75% of those who currently receive NZ Super report the need for other sources of income (either through personal savings, investments and employment). CFFC says 19.2% of people over the age of 65 received supplementary assistance in 2019, and despite this assistance, 6-7% of Kiwis over the age of 65 live in conditions of material hardship. This is not good enough.

Evidence shows that Kiwis need to plan for retirement incomes with NZ Super as one element of their income. For this reason, our communities need educating on the importance of saving for their retirement; they need real information about what retirement will cost and how they can best prepare. Although there are now over 2.8 million members of KiwiSaver, this scheme is not mandatory, and for those who do not enrol, there is a likely path towards greater dependency on the state in the future. KiwiSaver is an essential element of this process, and the Government should be working to maximise the potential of this savings vehicle through incentives to both join and contribute to the scheme alongside considering the introduction of a mandatory sign-up in line with the model demonstrated in many other OECD countries.

We recommend a return to dollar-for-dollar government contributions to KiwiSaver and a raising of the government contribution cap. This higher tax credit cap should be raised to match a 3% salary contribution from a full-time minimum wage earner (projected to be $20.00 per hour from 2021). This would equate to a 19.96% increase from the current $1042.00 to $1250.00. By investing in KiwiSaver in this way, the Government would be placing **visible value** on the scheme. Our members support maintaining flexibility around KiwiSaver decumulation. In our view, any compulsory purchase of annuities disregards individuals' unique financial circumstances and would undermine public confidence in the scheme.

We wish to emphasise the success of KiwiSaver as an accumulation method and call for continued education and incentives for Kiwis to contribute towards, manage and successfully decumulate retirement funds both from KiwiSaver and from other sources.

KiwiSaver data reports published by CFFC acknowledge that gaps in KiwiSaver uptake and contributions are primarily due to insufficient income, lack of information or motivation, or time taken out of work to raise children or care for family members. There are examples of discrimination within the scheme; for example, against women who are working in lower-paid jobs than their equivalent male counterparts, or who have taken time out of the workforce to raise children or care for other members of extended whanau. This is a policy issue that needs careful consideration to ensure equal opportunities for material wellbeing in retirement.

Ensuring the Workforce Remains a Growth-Driving, Safe and Productive Group

Retirement income policy should focus on promoting support for older people to work productively, safely and effectively in the workplace. In particular, giving attention to programmes that facilitate removing labour market barriers by promoting equality and productivity in the workplace. Our members welcome the experience and capabilities older workers can bring, and through more innovative workplace strategies, businesses can maximise the knowledge and skills of older workers.

With more older people remaining in the workforce it is crucial to ensure protections are in place for businesses so they are not forced to retain older staff, on higher salaries, when they may no longer be fully capable and productive in their role. This is particularly relevant when considering employees who hold physically demanding or high-risk positions, which may become less suitable for older members of the workforce. There needs to be clear pathways for employees who wish to begin stepping back from full-time work or demanding roles. Our members would support the promotion of flexibility around employment contracts that facilitates the negotiation of flexible work hours, work with less responsibility and fewer physical demands, being able to take more unpaid leave, job-sharing, flexible part-time roles and age-specific provision of employment assistance services.

Enabling young people to get ahead

CFFC has acknowledged some of the most significant predictors of material wellbeing in retirement are found in the rates of homeownership, employment history and educational background. For this reason, enabling people to be financially secure and encouraging education and trade pathways that make homeownership and investment attainable for younger generations is also a hugely important aspect of retirement income policy.

Moreover, the risk factors for material hardship in later life (as identified by Massey University's report into *Wellbeing and Vulnerability in Retirement* as being not owning a home in later life, or owning a home with a mortgage, not being in the paid workforce long term, being single, having held a non-professional occupation, having no tertiary qualification, being of Māori descent or having poor health) can be identified long before the age of retirement.

Our social services should be working to identify at-risk people who fall into multiple categories of anticipated material hardship in retirement. This information should be used to help target financial planning advice through social services and making Kiwis aware of what retirement costs and how they best can plan ahead. Our members see the social investment value of this targeted advice as a preventative measure that contributes to the affordability of NZ Super for the future and ensures that higher taxation or excessive means-testing does not have to step in to cover the costs of this benefit.

Closing Thoughts

Our members are concerned that much of the advice in the 2016 Review has not been actioned. We view the inevitable raising of the age of entitlement as a fair reflection of the Kiwi workforce. It is essential that this is formulated into policy in order to manage the expectations of many working Kiwis who are planning to retire at 65.

As outlined above, we wish to see a return to the visible value of KiwiSaver with a commitment by the Government to demonstrate the importance of retirement saving by increased incentivisation and stability that rewards those who work hard to get ahead. Those who can afford to save while working should be encouraged to do so, providing greater financial security in retirement and mitigating future strains on state benefits.

To protect both businesses and employers, we need flexibility in the workplace that enables transitions from full-time or highly demanding employment into less demanding or part-time roles.

Finally, our political leaders need to step up and recognise that many of those who experience material hardship in retirement could have been predicted many decades in advance. These individuals should be targeted for early assistance, support in planning their finances, and frank discussions around what retirement will cost.

Yours sincerely,

John Milford
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Wellington Chamber of Commerce, Business Central