

input = output



**A FRAMEWORK FOR MAKING DECISIONS ON THE AGE
OF ELIGIBILITY FOR NEW ZEALAND SUPERANNUATION**

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input = output: Outline



- Discuss the constraints of PAYG financing
- Brief outline of model
- Caveats re job creation
- What no change means
- Exploration:
 - Follow the Aussies
 - No tax increase
 - One possible acceptable option
 - Longevity improvement

input = output: PAYG constraint



- PAYG equation

Number of pensioners $NP(t)$ times average pension amount $P(t)$

equals

number of workers $NW(t)$ times average wage $W(t)$ times average tax rate $T(t)$ needed for balance

input = output: PAYG constraint



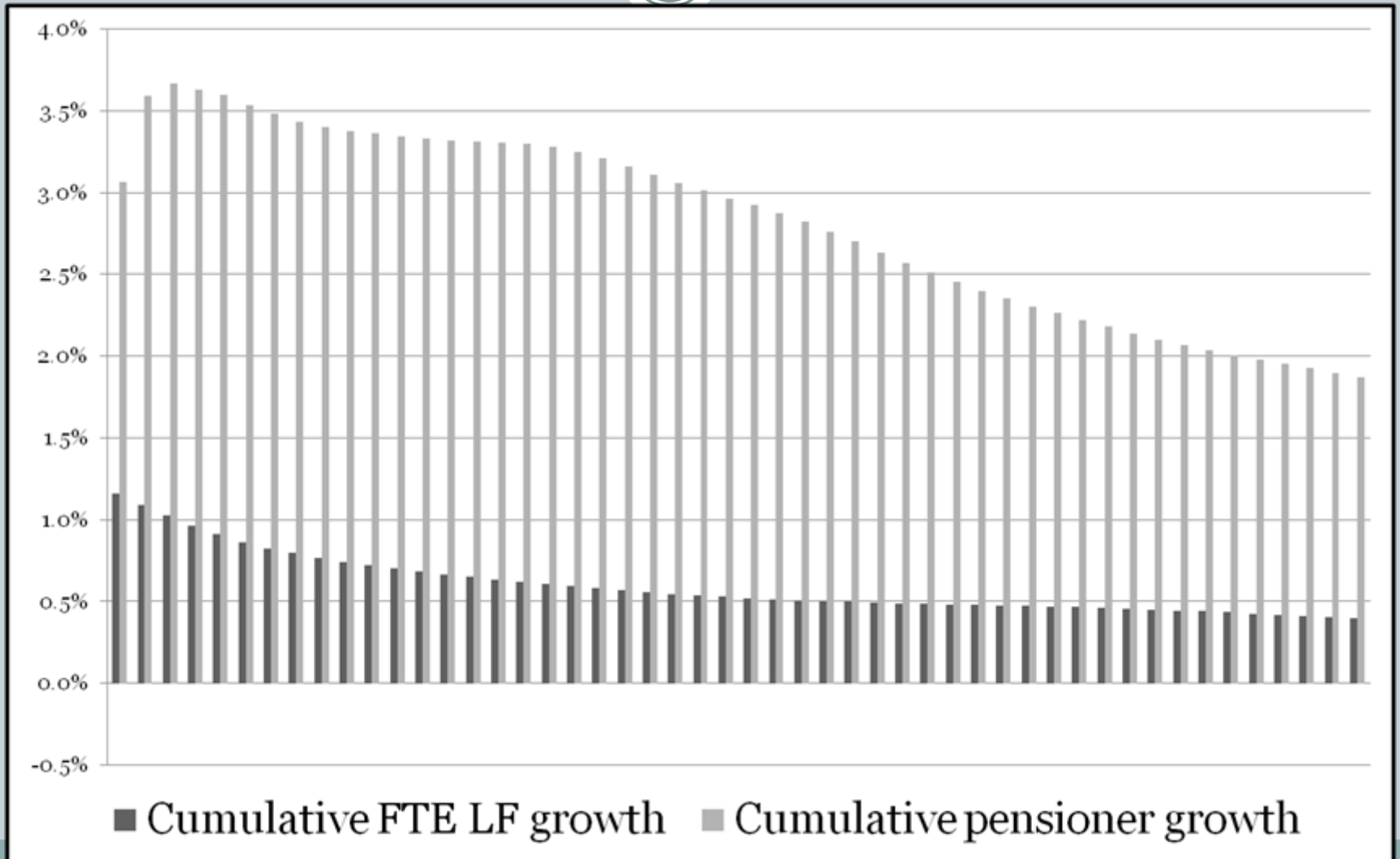
- $[P(t)/W(t)]$ is constant for NZS (more or less)
- Hence $T(t)$, the average tax rate on worker income for balance, depends on $[NP(t)/NW(t)]$
- Statistics NZ project cumulative rate of growth in NP to be four times as much as the cumulative rate of growth in NW over the period to 2051

input = output: PAYG constraint



- $[P(t)/W(t)]$ is constant for NZS (more or less)
- Hence $T(t)$, the average tax rate on worker income for balance, depends on $[NP(t)/NW(t)]$
- Statistics NZ project cumulative rate of growth in NP to be four times as much as the cumulative rate of growth in NW over the period to 2051
- So Houston, we have a problem

input = output: PAYG constraint



input = output: The model



- **Projects pensioner numbers**
- **Projects worker numbers**
 - Incorporates increases in participation, including 65+
 - Assumes increase in participation when age of eligibility increased
- **Expresses costs in current wage terms**
- **Calculates cost per worker net of recoveries**
- **Allows for NZSF as a smoothing mechanism**
- **Parameter driven**
- **Also age-related increase in health costs ditto**
- **Paper will be available!**

input = output: Caveats

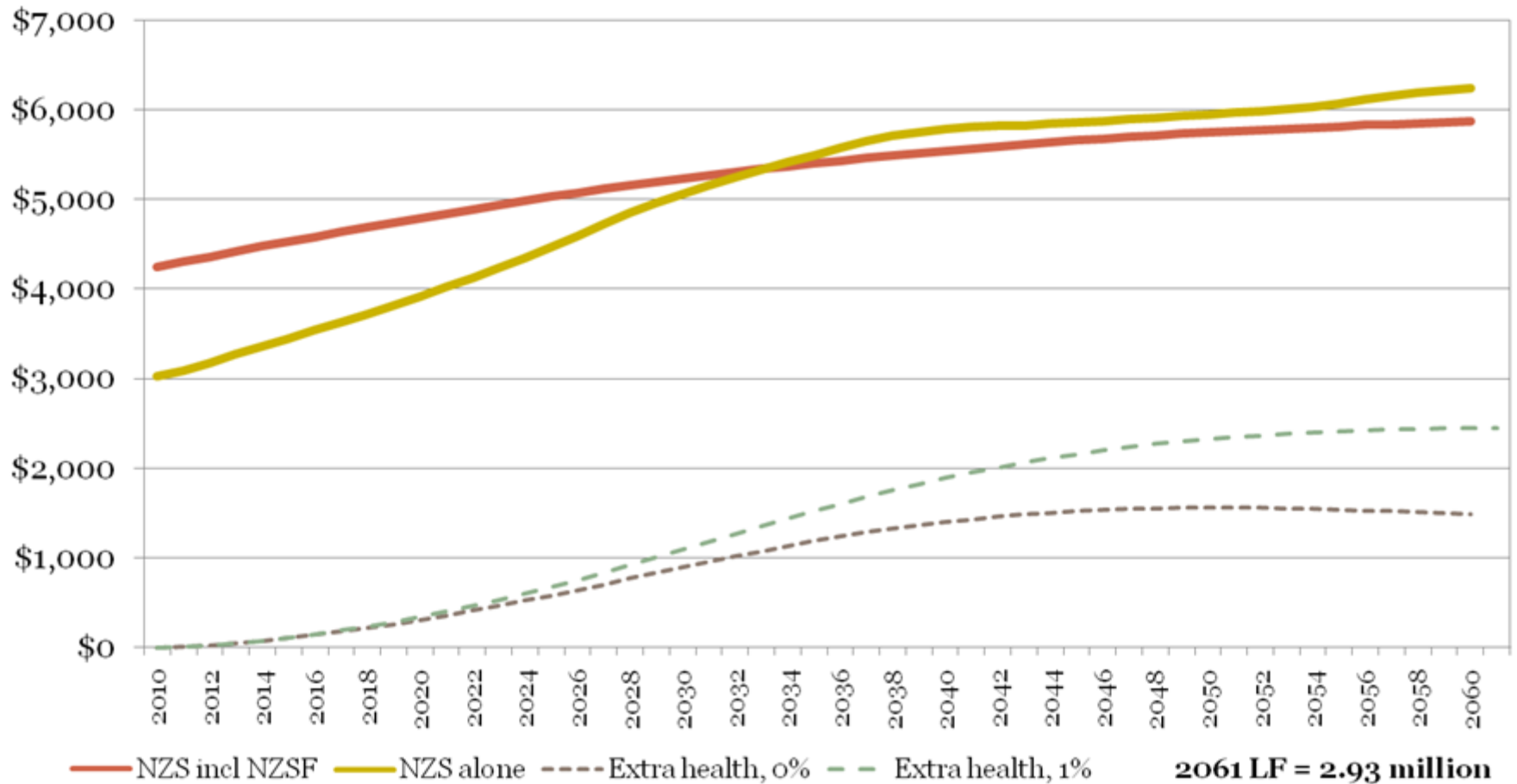


- Assumes increases in workers – but need jobs for them
- And must be private sector jobs
- Increase in age of eligibility may not be associated with jobs for all who want them
- Increase in age of eligibility has disproportionate effect on lower socio-economic groups
- Essential that older people have additional income to buy goods and services – hence KiwiSaver an important policy intervention

input = output: What no change means



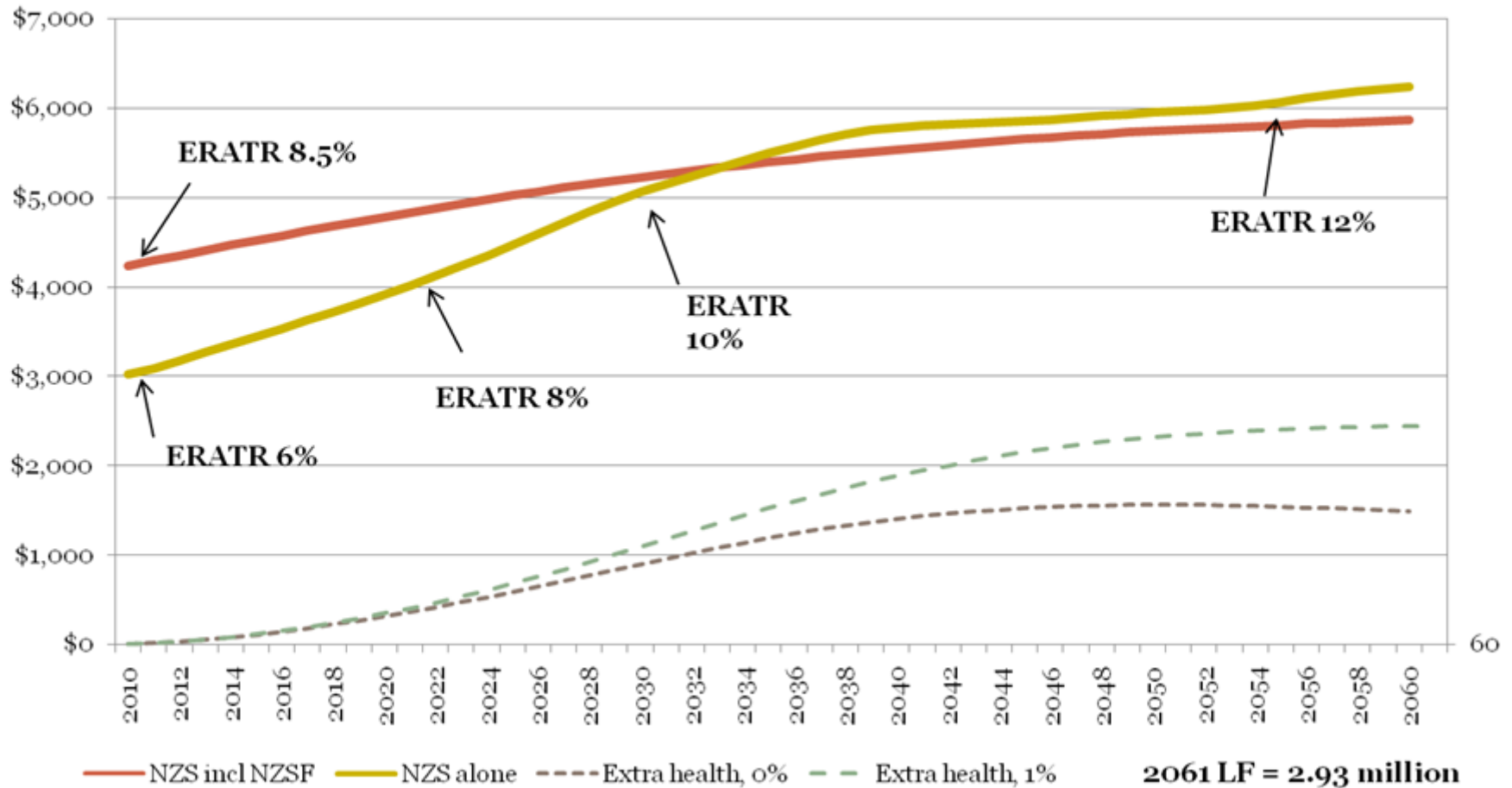
Cost per head of the working population, in \$real wage
StatsNZ medium projection: no change in eligibility age



input = output: What no change means



Cost per head of the working population, in \$real wage with estimated required average tax rate (ERATR)
StatsNZ medium projection: no change in eligibility age

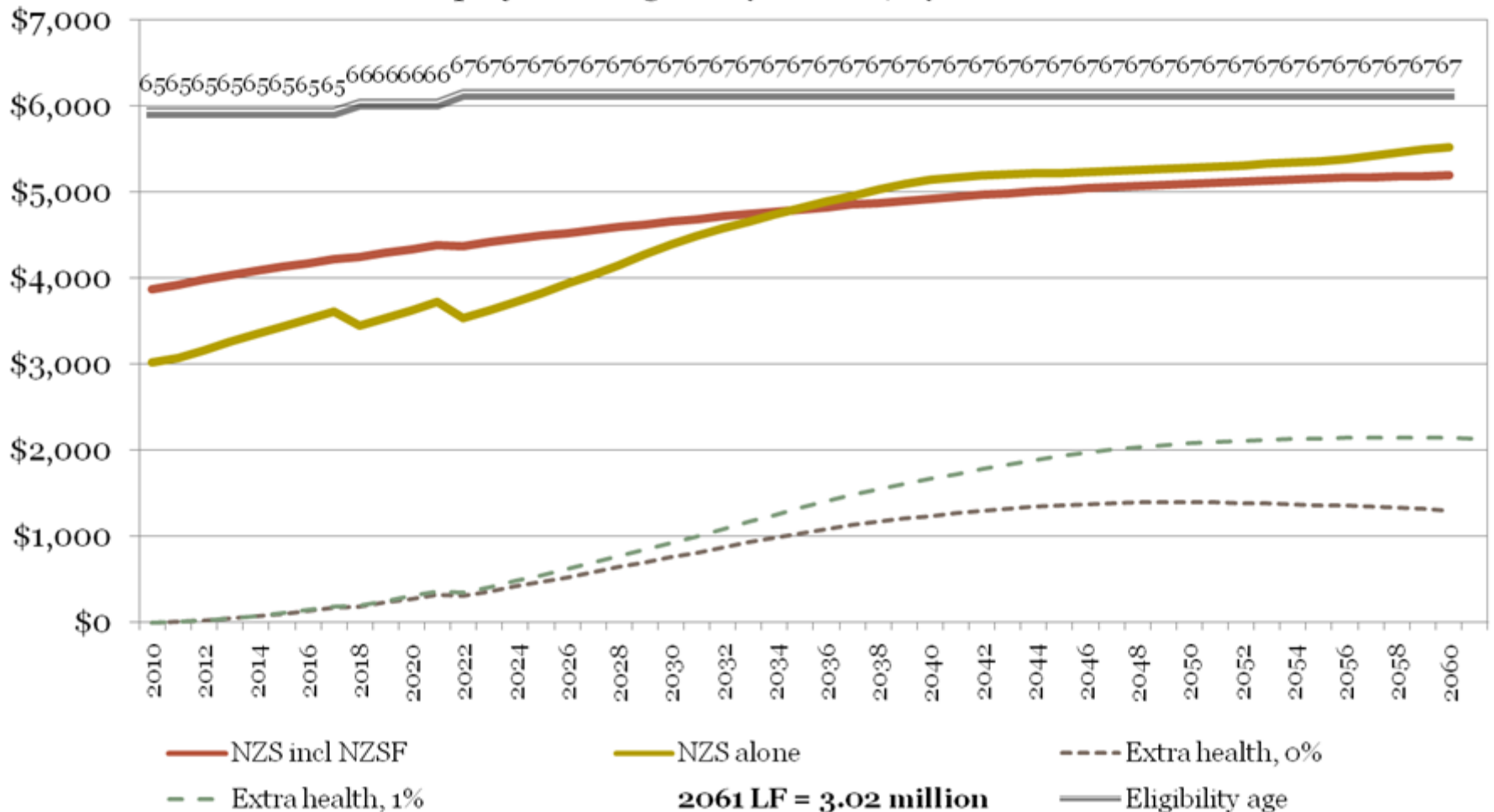


input = output: Do like our neighbours?



Cost per head of the working population, in \$real wage

StatsNZ medium projection: age 66 by 2018, 67 by 2022 (Australian action)

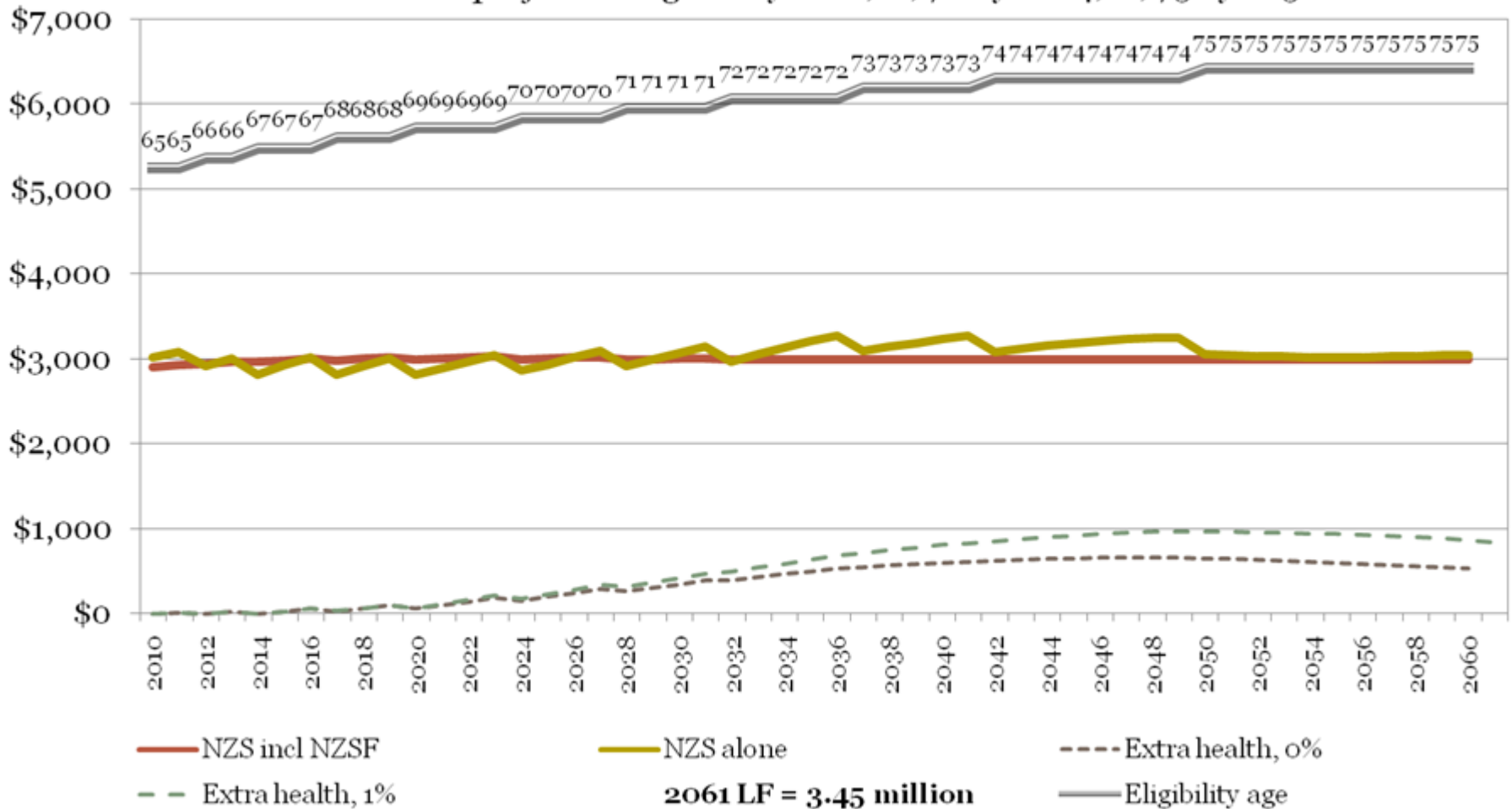


input = output: Hold cost at \$3,000 per head



Cost per head of the working population, in \$real wage

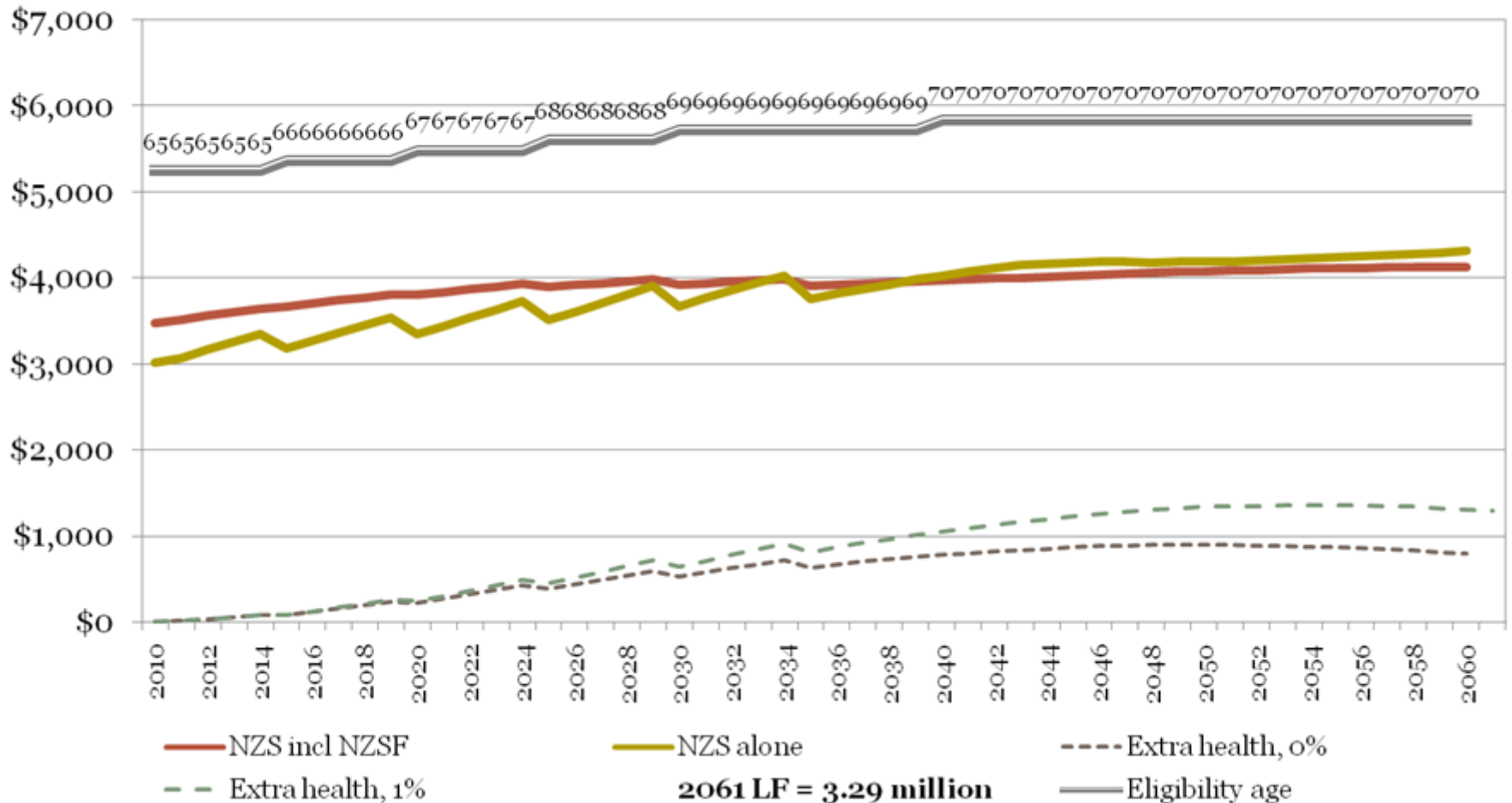
StatsNZ medium projection: age 66 by 2012, ..., 70 by 2024, ..., 75 by 2050



input = output: Fix cost at \$4,000 per head



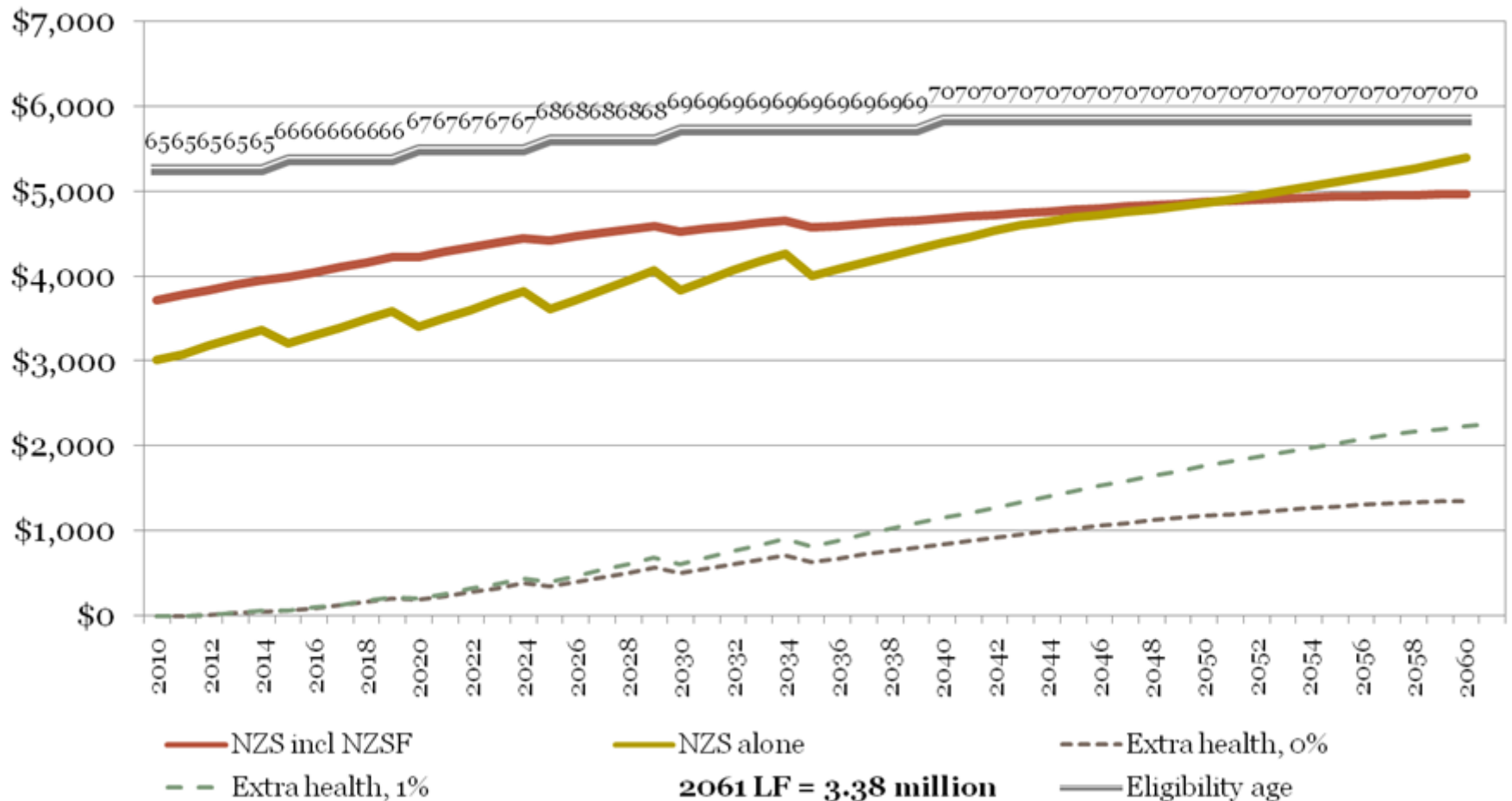
Cost per head of the working population, in \$real wage
 StatsNZ medium projection: age 66 by 2015, 67 by 2020..., 70 by 2040



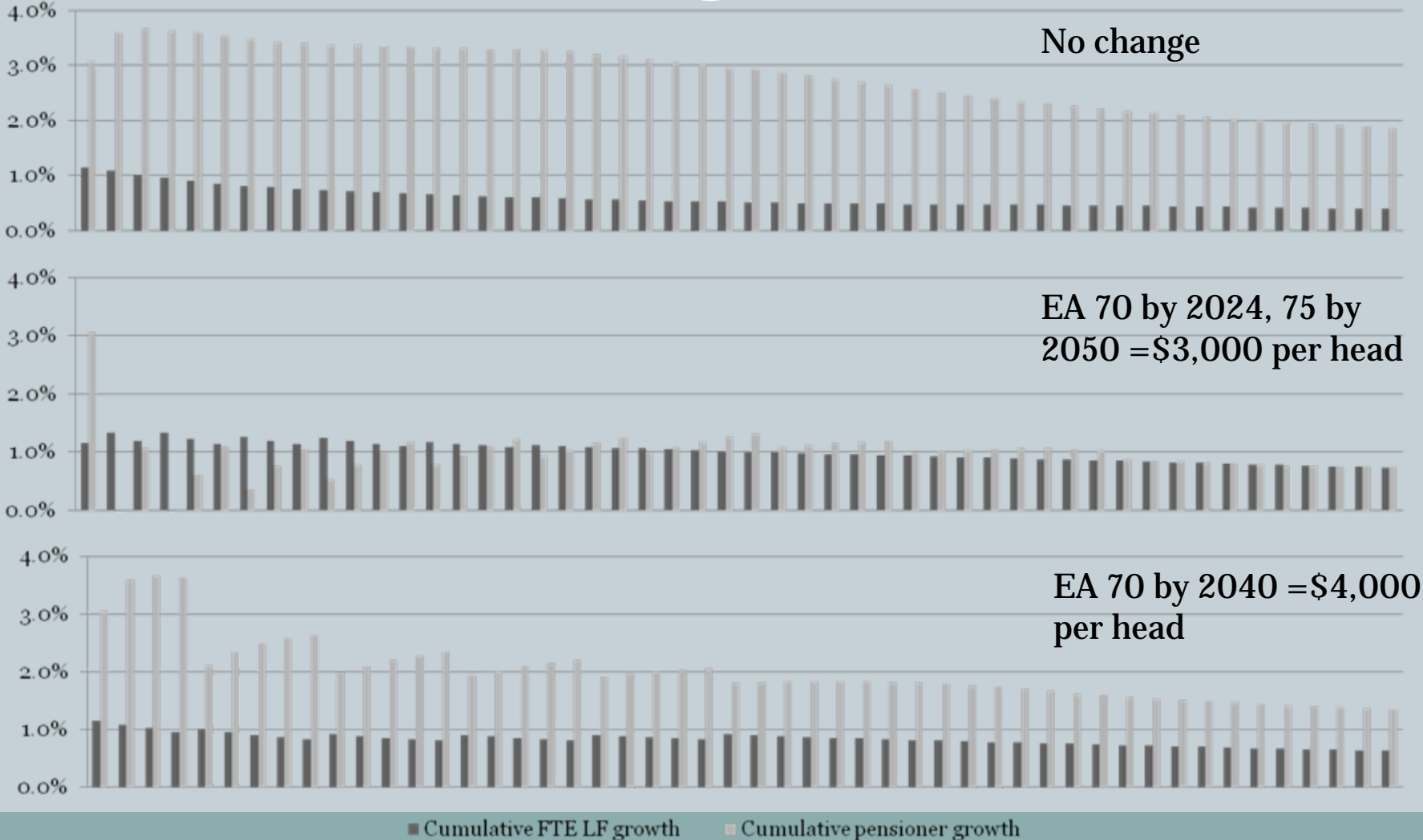
input = output: Fix cost at \$4,000 per head



Cost per head of the working population, in \$real wage
 StatsNZ very low mortality : age 66 by 2015, 67 by 2020, ..., 70 by 2040



input = output: Growth in NW(t) & NP(t)



input = output: Conclusions



- Intergenerational equity can be addressed by holding amount available for pensions to a fixed proportion of labour income
- The trade-off is increase in the eligibility age against the fixed contribution level (or other taxes/means-testing etc)
 - Model suggests current \$3,000 per head requires eligibility age of 75 (by 2050)
 - a one third increase in per head cost needed to bring it down to 70 (by 2040)
 - could consider higher increase in per head cost and less increase in age
- If fix an increase over current, need to invest the short/medium term difference sensibly
- Job creation is key – need to ensure older people can be active in the economy, both earning and spending
- If change age, must look after those disproportionately affected – including chronically ill

**Institute of
Policy Studies & Retirement Commission**



Retirement Income Policy Conference
Holiday Inn Wellington
22nd July 2010