

# **Retirement Income Policy and Intergenerational Equity: Concluding Thoughts**

# **Starting Point 1: Start from Where You Are**

- **In New Zealand, universal superannuation will continue to play a critical role in income of seniors**
- **Dispersion of labor market outcomes since 1970s (Whiteford) makes universal Super even more important in preventing senior poverty**

# Starting Point 2: Focus on Key Subjects and Problem Areas

| A HYPOTHETICAL REPORT CARD FOR NEW ZEALAND'S RETIREMENT INCOME SYSTEM |              | COMMENTS           |
|---|--------------|--------------------|
| <u>SUBJECT</u>  | <u>GRADE</u> |                    |
| Poverty Prevention  | B+           |                    |
| Income Replacement  | C            |                    |
| Long-Term Affordability   | B+           |                    |
| Clarity on Expected Retirement Income-NZ Super                        | B-           |                    |
| Clarity on Total Expected Retirement Income                           | C            |                    |
| Encouraging Continued Work after 65                                   | B            | Mixed signals      |
| Promoting Gender Equity   | A-           |                    |
| Exposure to Market Risk   | A-           | Exposure will grow |
| Exposure to Political Risk  | D            | Shows improvement  |
| Administrative Effectiveness and Cost-NZ Super                        | A            |                    |
| Administrative Effectiveness and Cost-Kiwisaver                       | C+           |                    |

# Affordability:

- **NZ Super cost projections are just “normally bad”**
- **Can't look at cost pressures of NZ Super in isolation from other spending pressures, especially health and long-term care (Coleman and Makhlouf)**

## Implication:

- **There will be strong, continuing (probably growing) pressures to reduce costs of NZ Super**

# **But will it happen, and if so in what form?**

- **Higher eligibility age for NZ Super?**
- **Some form of surcharge?**
- **More flexible take-up ages for Super?**
- **Lower Super level for later cohorts with enhanced role for KiwiSaver?**
- **Automatic increases tied to longevity?**
- **Some combination?**

## **The lesson from New Zealand history:**

- **Failure to provide long lead times for loss-imposing changes leads to sustainability risks (increase in retirement age from 60 to 65 is an exception)**

# Gender Issues:

- **NZ Super is generally good for women because it is not tied to full career of paid work**
- **Increased reliance on KiwiSaver or other labor-market-based schemes poses risks for women—need to consider ways to address—e.g.:**
  - **Requiring contributions splitting**
  - **Requiring survivors benefits**
  - **State contributions for time spent in are giving**

# **Options: Pre-funding NZ Super**

- **In the absence of a payroll tax, it is politically difficult to sustain pre-funding of New Zealand Super**

# Options: KiwiSaver

- **May need to rely increasingly on Kiwisaver for senior incomes, but need to think through issues of:**
  - **Mandatory nature and level of contributions**
  - **Gender**
  - **Low-wage workers, especially Maori/Pacific**
  - **Problems in payout phase**
  - **Inheritability of asset accumulation**

# **Changing Behavior—Labor Market Participation:**

- **How can New Zealand encourage increased labor market participation by seniors while recognizing that some workers cannot do so?**
- **Does this mean raising eligibility age for NZ Super or are there other mechanisms to improve the “choice architecture”?**
- **Need to think through ways to:**
  - **facilitate flexible/part-time work for older workers**
  - **Facilitate work for persons with partial disability**

# **The Bottom Line 1:**

- **The time to start debating reforms is now**
- **Building agreement and stability among the political class is critical**

# **The Bottom Line 2:**

**Focus on all three political challenges:**

- Adoption**
- Implementation**
- Sustainability**