***NEW ZEALAND BUSINESS ROUNDTABLE***

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# *SUBMISSION ON THE NEW ZEALAND SUPERANNUATION BILL*

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**FEBRUARY 2001**

# NEW ZEALAND SUPERANNUATION BILL


**Summary**

- The pre-funding proposal is largely an accounting exercise with no direct economic impact on the retirement income problem. As now spelled out, it is essentially a tax-smoothing scheme. At their peak, capital withdrawals would cover no more than 14 percent of the annual cost of New Zealand Superannuation (NZS). Because the level and conditions of access to NZS remain unchanged, the long-term burden NZS imposes on the government's finances and the economy's capability to produce the goods and services needed by people in retirement remain unaltered.

- From a financing point of view, the more logical approach would be to reduce debt further in the period ahead and/or cut taxes rather than establish a massive government-directed investment fund. Any benefits from pre-funding in terms of discipline on other elements of government spending could be largely achieved by publicly reporting future NZS liabilities.

- By promoting the notion that NZS can be maintained in its present form and that the Fund will solve the superannuation problem, the government is undermining past attempts to highlight the gravity of demographic trends and to encourage people to assume personal responsibility for their income in retirement. A significant change in behaviour will not occur if the form of NZS remains unaltered. The key requirement in any sound approach to retirement income is to extend the process of reducing the generosity of NZS and making access to it more restrictive for the next generation of retirees, while protecting those currently in retirement.

- It follows that the pre-funding proposal contained in the Bill is a distraction from the central issues in retirement income policy which are the performance of the economy, which underpins the living standards of the elderly and is undermined by high spending and tax burdens, and the form of the public safety net. The debate should be refocused on these issues through a process

designed to facilitate public and inter-party support for a stable long-term policy.

# 1 Overview

1.1 This submission is made by the New Zealand Business Roundtable an organisation comprising primarily chief executives of major New Zealand businesses. The purpose of the organisation is to contribute to the development of sound public policies that reflect overall New Zealand interests.

1.2 The Business Roundtable has taken a close interest in superannuation issues and has contributed to all government reviews undertaken since the mid 1980s. Government policy on superannuation is a significant issue for superannuitants, people of working age and the wider community. NZS is the government's largest spending programme.

1.3 Policy on superannuation has generally been moving in the right direction. The age of eligibility is being raised to 65 years and the level of NZS has been reduced relative to wages. These measures have produced substantial fiscal savings without imposing undue hardship. The main decision that we regard as unsound was the abolition of the surcharge from April 1998. The proposal to lift the minimum level of NZS to 65 percent of the net weekly ordinary time wage, which is contained in clause 16 of the Bill, is also a step in the wrong direction.

1.4 NZS remains a serious problem because it transfers an excessive level of income to retirees, particularly to those who are well off by any standard. NZS thereby crowds out consumption opportunities for people of working age. It unduly discourages private provision for income in retirement and participation in the workforce by people aged over 65 years. NZS also imposes large deadweight costs on the community because marginal tax rates are higher than otherwise. The transfer of income from people on low or modest incomes to people who are well off is inequitable.

1.5 The key requirement in any sound approach to retirement income is to extend the process of reducing the generosity of NZS and making access to it more restrictive for the next generation of retirees, while protecting those currently in retirement. The government's objective of providing more stable and certain superannuation arrangements cannot be achieved unless these matters are addressed. The OECD, the IMF and other expert commentators have continued to advise that, by international standards, NZS is a generous scheme.

1.6 The pre-funding proposal contained in Part 2 of the Bill is largely an accounting exercise with no direct economic impact on the retirement income problem. The long-term burden that NZS imposes on the government's finances and the economy's capability to produce the goods and services needed by people in retirement would be unaltered by the establishment of the Fund.[1]

1.7 The cost of NZS is determined by the level of superannuation payable and related eligibility rules. They would not change (aside from the increase in the minimum level of NZS) and thus the ratio of NZS to GDP would be largely unaffected. This ratio is forecast by the Treasury to rise from about 4 percent presently to a peak of over 9 percent. What is more, NZS is forecast to be equal to 9 percent of GDP in every year from around 2050 to 2100 when the Treasury forecasts of December 2000 end.

1.8 The main feature of the proposal is the provision for annual capital transfers to the Fund up to around 2020. The transfers would be invested in assets. In the absence of tax increases or reductions in operating spending, there would be less finance than otherwise for capital spending and debt repayment. Thus lower capital spending, higher net debt, or both would be required to make capital contributions to the Fund. Similarly, the withdrawal of accumulated capital from the Fund after 2020 would reduce net borrowing, fund capital spending, or both. Treasury's forecasts show that capital withdrawals would, at best, be equivalent to only 14 percent of the annual cost of NZS (net of tax). This is a small amount and is probably within the margin of error for projections so far into the future.

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1 Second and subsequent round effects may affect this and other conclusions noted.

1.9 The total amount of NZS paid to retirees each year would continue to be charged against the government's operating revenue. Even when the Fund is being drawn down, the cost of NZS – gross of any withdrawals from the Fund – would be charged to operating revenue. Thus the claim on government operating revenue would be unchanged. This treatment is required to properly record the cost of NZS in the Crown's operating account. It means, however, that the operating balance would not be affected directly by the establishment of the Fund. The operating balance would be reduced by higher debt servicing costs than otherwise but such costs would be offset by the net earnings on the Fund's assets.

1.10 From a financing point of view, the more logical approach would be to reduce debt further in the period ahead and/or cut taxes rather than establish a massive government-directed investment fund. Any benefits from partial pre-funding in terms of discipline on other elements of government spending could be largely achieved by publicly reporting future NZS liabilities.

1.11 The record of successive governments in managing commercial activities provides little confidence that the Fund would be invested in the best interests of the wider community. While the Bill contains some measures aimed at reducing the risk from political pressures, they are unavoidably partial.

1.12 The guardians face weak incentives to act in the wider community interest. Current and future retirees have little direct interest in the performance of the Fund because their income in retirement is set independently of the return on the Fund. It is underwritten by the government's ability to tax.

1.13 Superannuation policy will remain contentious and unduly uncertain until a sound policy that is fair both to retirees and to people of working age is implemented with the support of the main political parties and the public. The partial pre-funding of NZS, as proposed in the Bill, would not contribute to a sound and fair policy. The detailed design of the scheme has not been explained to the public, and the merits of the proposals have not been debated widely.

1.14 There would be few, if any, public benefits from transferring statutory entitlements to NZS from the existing legislation to the proposed legislation but sizeable costs in terms of parliamentary time, publicity, printing and compliance. Work and Income New Zealand will continue to administer NZS, the machinery provisions of the Social Security Act 1964 will still apply and supplementary assistance will continue to be available under the Social Security Act.

1.15 The Business Roundtable submits that the Bill should not be enacted. Instead the government should establish a process designed to facilitate inter-party agreement that commands support from the general public on superannuation provision to apply to future retirees, and it should focus on setting in place a growth strategy that will raise the living standards of the community, including future retirees.

1.16 The balance of this submission is presented in 3 sections. The next section (section 2) presents an analysis of the proposal to establish the Fund. Alternative directions for retirement income policy are discussed in section 3. Our conclusions are presented in section 4.

## 2. An analysis of the Fund

2.1 The level of government spending and taxes would essentially be unaltered by the proposals contained in the Bill. The annual capital contribution to the Fund is to be made 'below the line'. It is discretionary. Taxes are not to be raised or current spending cut to build up the Fund. The government has indicated, for example, that it does not propose to cut spending this parliamentary term to increase surpluses. Any future reductions in spending are vague and uncertain. The government increased the long-term target for expenses as a ratio of GDP by 17 percent from 30 percent to 35 percent in the March 2000 Budget Policy Statement.

2.2 A move to a fully funded scheme requires the working-age population to pay twice through higher taxes or through lower current spending while taxes are held constant. This would require the government's operating balance to be higher than otherwise. A move to fully fund NZS is not proposed because "it would require a massive reallocation of government expenditure and would be unrealistic."[2] A move to a partially funded scheme requires the working-age population to contribute more than the cost of NZS payable to retirees and also requires the operating surplus to be higher than otherwise. There is nothing in the Bill or the official papers that commits the government to achieving a higher operating surplus.

2.3 The level of NZS is to be set independently of the amount of the Fund and its rate of return. According to Dr Cullen, "Labour wants to ensure that … the future retired … share the same relative standard of living as the present retired."[3] What is more, the Fund is eventually to be reduced to a zero balance leaving present arrangements intact, despite the Treasury's prediction that the ratio of NZS to GDP would still be around the peak level of 9 percent as the Fund is run down. Thus the Fund will have no direct impact on the level of NZS in the future.

2.4 The government correctly acknowledges that the "economic implications of pre-funding are not as significant as the economic implications of the retirement income policies being financed – that is, NZS rates and the tax policies accompanying them."[4] The government does not propose to change the eligibility rules for NZS or the level of NZS, aside from increasing the wage floor. Part 1 of the Bill generally provides for existing arrangements to continue but under new legislation.

2.5 The proposed Fund would not achieve its stated public policy goal. The government's Regulatory Impact Statement states that "The public policy objective of pre-funding is to address the future increase in NZS costs."[5] The proposal in the Bill would not do this. The annual ratio of NZS to GDP would be unchanged. Similarly, the ratio of NZS to government operating revenue would be unaltered.

2.6 For the same reasons, the proposal in the Bill would not alleviate the burden of NZS on future workers despite the following claim by the minister of finance:

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2 Cullen, Michael (2000a), Pre-funding New Zealand Superannuation: Funding Arrangements, report to the Cabinet Policy Committee, Office of Hon Dr Michael Cullen, 6 September, p 1.

3 Cullen, Michael (1999) 'Littlewood Report Rebutted', Labour Party press release, 17 November 1999.

4 Cullen, Michael (2000a), p 4.

5 Cullen, Michael (2000b), Regulatory Impact Statement, report to Cabinet Policy Committee, Office of Hon Dr Michael Cullen, 6 September, p 1.

> Although there are currently about 6 working age people per superannuitant, by 2050 there would be only about 2. It is both unfair and unrealistic to expect that relatively small working age population to have to meet those future costs.

2.7 The reality is that the unfair situation described by the minister is largely unchanged by the Bill. Future workers would be required to produce most of the goods and services consumed by retirees and they would largely bear the cost of providing NZS to retirees.

2.8 Clause 45 of the Bill proposes that the annual cost of NZS (net of income tax) be transferred to the Fund for the purposes of paying entitlements to superannuitants. This leaves the substance of present arrangements unaltered.

2.9 The Bill also provides for transfers to the Fund by way of capital contributions (clauses 42, 43 and 44). As a consequence, funds available for capital spending and debt repayment would be lower than otherwise. Crown liabilities (excluding the Fund) would be higher and/or assets (other than Fund assets) would be lower than otherwise. Thus the transfer of capital contributions to the Fund when the Crown holds debt is equivalent to borrowing to invest in the Fund's assets. If governments could prudently accommodate a future increase in spending by borrowing and investing in risky assets, they would have implemented such a strategy long ago. There is no reason to single out NZS for financing in this way; if the method were valid it would be applied to other government programmes.

2.10 The point that the proposal involves government borrowing to invest in assets could be demonstrated by preparing Crown accounts in which the Fund is consolidated with other government entities on a line-by-line basis.[6] Such accounts would show that the Crown's operating surplus is little changed but net debt and financial assets are increased massively as the Fund is built up. The Committee could ask the Treasury to forecast such accounts, with and without the Fund, annually for the life of the Fund.

2.11 The pre-funding proposal would not raise the productivity of the labour force or increase the ratio of workers to retirees (for instance, by encouraging people over 65 years of age to remain in the workforce, or through immigration).

There is, therefore, no reason to believe that consumption in the future would be increased. The material welfare of future retirees depends on the level of goods and services available for consumption during their retirement. Thus they are ultimately dependent on a productive economy generating the necessary flow of goods and services to meet their needs. People cannot eat dollar notes. As Michael Joseph Savage correctly observed, "It does not matter how much we try to manipulate the money system we cannot give the people any more than they are able to produce."[7]

2.12 The minister of finance has argued that an increase in productivity does not help deal with the problem of an aging population because wages will increase as productivity increases and NZS will rise with them in line with the wage band.[8] Thus, in his view, increasing the size of the economic cake does not help address the superannuation problem. This view, however, is mistaken. First, increases in capital productivity and innovations raise total factor productivity and may enable GDP to increase without necessarily increasing wages and NZS. Secondly, people not previously available for employment and the unemployed may be prepared to take up employment without requiring an increase in real wages. This is one reason why the level of employment and the economy expanded substantially in the 1990s without a large increase in real wages. Thirdly, the link between real wages and NZS could be changed. It is certain to change if the number of workers for each superannuitant falls to two around 2050 as the minister predicts.[9,10]

2.13 Aggregate savings would not be increased by the creation of the Fund. The government does not intend to increase its savings. This would require higher taxes and/or lower government spending on consumption goods and services.

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6 Crown agencies and SOEs are not presently consolidated on a line-by-line basis. It is intended, however, to move to this basis shortly.

7 Savage, Michael, debate on introduction of the Social Security Bill, 1938.

8 Cullen, Michael (2000c),'Denying Superannuation Problem Helps No One', *New Zealand Herald*, 4 April.

9 Cullen, Michael (2000d), '1st Reading NZ Superannuation Bill', Office of Hon Dr Michael Cullen, 13 December.

10 The present living alone rate of NZS is equal to about 44 percent of the average wage before tax. Thus a ratio of, say, six workers for every superannuitant living alone would require a tax of about 7.3 percent just to fund NZS. At a ratio of two workers for every superannuitant, the tax would need to increase by 300 percent to 22 percent. This tax rate is around the present average rate of income tax. Additional tax would be required to fund other government services. It is implausible to argue that such a massive increase in taxes could be imposed on workers to maintain the relative income standards of a growing ratio of superannuitants to workers. Adjustments to the level of NZS, other government services and tax rates are all likely.

The government has given no indication that it intends to raise taxes further or to cut such spending in response to the increased burden of NZS. While the proposal to make capital contributions to the Fund may put pressure on capital spending, such as the construction of school and health care facilities, any reduction in capital spending would affect the allocation of savings rather than their level. There is no reason why private households would increase their savings. On the contrary, to the extent that the government convinces people that pre-funding would ease the problem of funding NZS in the future, private savings could well fall.

2.14 Investing in equities does not increase the risk-adjusted return on assets. The Crown would simply assume more financial risk than otherwise. Borrowing to invest in equities and other high-risk investments further accentuates the financial risk involved. If the government assumes more financial risk, other investors would carry less risk. The level of risk associated with the underlying real assets is unaffected by financing arrangements. Such arrangements merely redistribute the risk among different classes of investors.

2.15 Investment in offshore equities is unlikely to increase the level of imports that can be sustained in the future. If there is an increase in capital outflows while the Fund is being built up, there must (other things being equal) be an offsetting capital inflow or a change in the level of the current account balance (higher exports and/or lower imports). In these circumstances a change in the level of the current account is unlikely given that the fiscal position and private savings would not be changed. Higher government borrowing than otherwise and changes in private sector capital flows are likely to match the outflow of capital to acquire offshore investments. These processes would reverse as the Fund is drawn down.

2.16 The record of successive governments in managing commercial operations provides little confidence that the Fund would be invested in the best interests of the wider community. While the Bill contains some measures aimed at reducing the risk from political pressures, they are unavoidably partial. The legislation, for example, can be changed by a majority of parliament. The requirement in clause 73 to consult other political parties could be repealed if it proves to be inconvenient to a future government with sufficient votes.

Compliant guardians can be appointed. The minister of finance has wide power to dismiss guardians (schedule 3, clause 10). The proposed legislation has already been altered to accommodate the Green Party's view that the Fund should not be invested in activities that are judged to be unethical.

2.17 A fundamental problem is that the guardians face weak incentives to act in the wider community interest. Current and future retirees have little direct interest in the performance of the Fund because the level of NZS is set independently of the Fund's financial performance. NZS is underwritten by the government's ability to tax. The Bill also exempts the guardians from personal liability provided they act in good faith, and the Fund is to indemnify the guardians for the costs of certain civil actions (schedule 3, clause 8). Those provisions go further than the indemnity that a company is permitted to provide to a director under section 162 of the Companies Act 1993.

2.18 The Fund is projected by Treasury to rise to 49 percent of GDP or about $50 billion in today's terms. The investment decisions of the guardians have the potential to distort the pattern of investment. Their preferences may, for example, be vastly different from that of other investors. The experiences of the BNZ, DFC and ACC illustrate the potential risk to taxpayers when government agencies that are subject to weak governance arrangements make poor decisions.

2.19 The proposal also raises the following issues:

- The Bill proposes that capital contributions cannot be withdrawn before 2020 (clause 47). However, the investment of the Fund in government bonds would have the same economic effect as a capital withdrawal. This highlights the illusory nature of the Fund.

- The minister of finance's statement that the Fund "will finally give superannuitants some certainty about what the government will be able to provide for them" is groundless.[11] The government's stance has the potential to undermine the thrust of education programmes encouraging people to recognise that NZS is a problem and exhorting them to save for their retirement.

- The idea that the Fund could be modified to incorporate individual accounts lacks logic. Suppose the proposed transfers for annual expenses and capital contributions are allocated to individual accounts within the Fund with no other changes in the method of financing or entitlements. In this case the balance in an individual's account would have no effect on the level of NZS payable and would thus be irrelevant to the account holder. The level of capital contributions allocated to each individual's account would be arbitrarily determined because it would be unrelated to the level of tax paid by each account holder. Practical issues about who should be recognised as an account holder would arise (eg citizens, residents, immigrants, children and refugees). The balance in accounts is unlikely to be permitted to be withdrawn by account holders (or their estates) should they emigrate or die before reaching 65 years of age because this would diminish the Fund. If funds could be withdrawn, the proceeds of government debt would, at the margin, be distributed to account holders and the government would be left with a liability that was not matched by a related asset. If, however, income-related contributions are credited to individual accounts and the level of such accounts affects entitlements, the proposal would be similar to the compulsory retirement savings scheme that was massively defeated in the 1997 referendum.

## 3. Alternative directions for retirement income policy

3.1 Over the past 16 years New Zealand has been moving toward a sounder policy on superannuation. There is now broader acceptance that, for the majority of people, retirement income should be a personal responsibility, not a taxpayer responsibility. There is greater understanding that living standards in retirement are ultimately dependent on the productivity of the economy, not financial arrangements. The cost of NZS has been reduced by increasing the age of eligibility, lowering its level relative to wages until the recent increase, and – until the decision to scrap the superannuation surcharge – by targeting.

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11 Cullen, Michael (2000d).

3.2 The 1997 argument over the Retirement Savings Scheme was not about public versus private provision; the underlying premise was that private provision should increasingly be the norm and the issue was whether it should be compulsory or voluntary. That argument has been settled, at least for the foreseeable future. The result of the referendum should give confidence that, given proper information, debate and leadership, the community is capable of changing its views and coming to sound conclusions.

3.3 There is now no political constituency for tax concessions for savings, which essentially amount to bribing people with their own money. The minister of finance's TET proposal (whereby the earnings of superannuation funds would be exempt from tax but benefits paid would be taxed) is unlikely to proceed because, among other things, it is very costly to introduce. Selective concessions, as opposed to general reductions in spending and taxation, are not the way to go.

3.4 Because some people will not be able to provide for their own retirement, other forms of income security are required. Arguably family and voluntary sources should be the means of first resort, but the state needs to provide an ultimate safety net.

3.5 The long-run tradition in New Zealand has been to view policies for income security in retirement as part of the general safety net. Unlike many other countries, benefits have always been flat rate rather than income-related and they have been funded from general taxation rather than compulsory contributions based on income. New Zealand's initial Old Age Pension of 1898 provided benefits at a very modest level to claimants who were 65 or more years of age – a high qualifying age relative to life expectancy at that time. Moreover, the benefit was subject to strict income and assets tests, and to tests of reputable behaviour – there were strong incentives for personal responsibility. Retirement income policies remained generally sound and stable until the electoral bidding wars of the 1970s.[12]

3.6 Viewed in safety net terms it is hard to see how the government's welfare responsibility for people in old age differs from its role in respect of those facing other lifetime contingencies, namely to protect people from hardship.

3.7 Families are normally expected to be responsible for providing for their own incomes, and the role of the government is limited to providing support to those without other means in the case of events such as sickness, invalidity or unemployment. The only difference from other benefits is that in the case of old age there is no explicit test of incapacity to earn an income once a certain qualifying age is reached.

3.8 There are no sound efficiency or equity grounds for a universal benefit, and the fiscal costs and deadweight losses associated with such a scheme are large. The Periodic Report Group signalled its support for some form of targeting in its 1997 assessment. It is hard to argue that a retired millionaire's income should be supplemented by taxes on low-income workers who are struggling to support their families. In the case of the next income group, the broad category of middle-income earners, all that is happening with a non-targeted benefit is that the government is taxing one group of people only to return the money to people in a similar category, with all the compliance, administration and deadweight costs associated with such 'churning'. It is only the category of low-income earners and people without resources who should be the object of public policy, on either efficiency or equity grounds, through targeted assistance.

3.9 The only significant advantage of a universal benefit over a targeted benefit is that because it is not abated against other income retirees do not face a 'penalty' for saving. This advantage, however, is more than offset by the higher taxes and therefore general savings disincentives for all taxpayers associated with having to fund a costly universal scheme.

3.10 The arguments against a straightforward targeted benefit do not stand up. It sits logically with the rest of the welfare system which is needs-based; it is the option most consistent with an ethos of individual responsibility; and because it involves the lowest fiscal cost it is the option most conducive to economic growth. It is the approach that is applied to people over the age of 65 who do not qualify for NZS, for instance because they cannot satisfy the residency

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[12] For further elaboration, see Thomson, David (1998), *A World Without Welfare: New Zealand's*

requirement. It also happens to be the option historically favoured in New Zealand and it is accepted as the appropriate form of public provision, without significant political controversy, by Australia. The Australian scheme includes an assets test which is a logical element of any targeting regime, as experience with the surcharge showed.

3.11 NZS remains a generous benefit relative to policies in other countries. A high level of benefit discourages private provision. It is hard to see the grounds for a level of benefit higher than the invalid's benefit, which is intended to support a person on a long-term basis. Consistent with a safety net approach, the 1988 Royal Commission on Social Policy proposed that NZS should be set at the (lower) level of the invalid's and other long-term benefits.

3.12 A reduction in benefits for people in or near retirement who are fully dependent on them is not necessary, with the important proviso that New Zealand does not lapse into stagnation or economic crisis again. In that case all bets would be off. On the other hand, it is hard to see why future cohorts of retirees should not be required to plan on the basis that public provision will be no more generous than the general safety net.

3.13 The increase from 60 to 65 in the qualifying age for NZS is proceeding smoothly (assisted by some transitional measures). It has been the main reason for the fall in the fiscal costs of NZS as a proportion of GDP. It has also encouraged workforce participation by those over 60 years of age, a positive factor for economic growth and arguably beneficial in social terms.

3.14 With better health and rising life expectancy there is scope to extend the working life of most people who would otherwise be dependent on NZS beyond 65. People who are in poor health or are otherwise unable to work would automatically qualify for assistance under the general safety net. Over time an increase in the qualifying age in the range of 68 – 72 is suggested. People would, of course, be free to retire earlier on their own savings.

3.15 The only hope of achieving consensus and stability is to build retirement income policies on a sound conceptual foundation. Policies in the recent past lacked such a foundation and proved unsustainable. Poorly conceived ideas

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*Colonial Experiment*, Auckland University Press with Bridget Williams Books, Auckland.

like the compulsory retirement savings scheme could not withstand intense scrutiny and debate, and the pre-funding proposal will sooner or later suffer the same fate.

3.16 Policies to promote economic growth must be brought back to centre stage. New Zealand badly needs a set of policies more conducive to economic growth and labour force participation than at present. Microeconomic reforms aimed at improving the productivity of both labour and capital are likely to be more effective in raising the rate of growth than policies aimed at lifting domestic savings.[13]

3.17 In respect of private provision, the focus should be on ways to reduce policy-induced impediments to greater private savings, especially through lower taxes to give people more scope to save from higher after-tax income. In respect of public provision, there is a good prospect of achieving a public consensus around the idea of a public safety net just as there is solid public support for a state role of last resort in other welfare settings. Most people are happy to help people who need help, but are not keen on seeing their taxes going to those who don't. Equity and efficiency arguments for other approaches, such as those involving universal payments, are weak and stand little chance of being politically sustainable over the long run.

## 4. Conclusion

4.1 Policy on superannuation has generally been moving in the right direction. NZS remains a serious problem, however, because it transfers an excessive level of income to retirees, particularly to those who are very well off by any standards.

4.2 There are no reasons why further moves towards a more limited safety net should not be feasible over the next few years. It is hard to argue for more generous public provision for those without resources in old age than for other long-term welfare beneficiaries, and against a higher eligibility age as life expectancies increase.

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13 See Makin, Tony (1999/2000), 'Prioritising Policies for Prosperity', *Policy*, Summer, p 19.

4.3 The pre-funding proposal contained in the Bill is largely an accounting exercise with no direct economic impact on the retirement income problem. The long-term burden NZS imposes on the government's finances and the economy's capability to produce the goods and services needed by people in retirement would be unaltered by the establishment of the Fund. The cost of NZS is determined by the level of superannuation payable and eligibility rules. They would not change (aside from the increase in the minimum level of NZS) and thus the ratio of NZS to GDP would be unaffected.

4.4 From a financing point of view, the more logical approach would be to reduce debt further in the period ahead and/or cut taxes rather than establish a massive government-directed investment Fund.

4.5 The record of successive governments in managing commercial activities provides little confidence that the Fund would be invested in the best interests of the wider community. The guardians face weak incentives to act in the wider community interest.

4.6 Superannuation policy will remain contentious and unduly uncertain until a sound policy that is fair both to retirees and to people of working age is implemented with the support of the main political parties and the public.

4.7 The pre-funding scheme contained in the Bill is a distraction that should be put to one side so that the debate can again focus on the performance of the economy and the public safety net.

4.8 The government should establish a process designed to facilitate inter-party agreement that commands support from the general public on superannuation provision to apply to future retirees, and it should focus on putting in place a growth strategy that will raise living standards of the community, including future retirees.