

NEW ZEALAND BUSINESS ROUNDTABLE

Submission on the New Zealand Superannuation
Amendment Bill

June 2004

Executive Summary

- This submission on the New Zealand Superannuation Amendment Bill (the Bill) is made by the New Zealand Business Roundtable, an organisation comprising primarily chief executives of major New Zealand business firms. The purpose of the Business Roundtable is to contribute to the development of sound public policies that reflect overall New Zealand interests.
- Our submission focuses on the proposal to repeal the requirement to prepare periodic report group (PRG) reports.
- Independent assessments of government policies on retirement income are useful to facilitate informed debate and to assist in furthering a consensus on superannuation policy. The proposed functions of the retirement commissioner and an ongoing work programme by the Retirement Commission do not remove the need for such reports.
- The Business Roundtable recommends that a requirement for such reports to be prepared at intervals of 5 years be inserted into the New Zealand Superannuation Act 2001.

Introduction

- 1.1 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. New Zealand Superannuation (NZS) constitutes the government's largest spending programme.
- 1.2 If enacted, the Bill would repeal the Retirement Income Act 1993 and transfer the main provisions relating to the functions, powers and appointment of the retirement commissioner to the New Zealand Superannuation Act 2001. The Bill would remove all statutory references to the 1993 Accord on Retirement Income Policies (the Accord), including the present requirement for periodic reports on

retirement income policies to be prepared by an independent report group.

- 1.3 Section 2 discusses the proposal to abolish periodic reports on superannuation policy. Section 3 presents our conclusions and recommendations.

2 Periodic reports on superannuation policy

- 2.1 Policy on superannuation (or, more broadly, income in retirement) has been unstable since the mid-1970s when the Labour government introduced the New Zealand Superannuation Scheme and made contributions to it (or an approved alternative scheme) compulsory. The National government wound up the New Zealand Superannuation Scheme and introduced National Superannuation (now known as NZS) with excessively generous universal benefits funded from current tax revenue. National Superannuation replaced arrangements which, for most of New Zealand's history, were mainly of a safety net character (with the level of old age benefits being set at the same rate as comparable invalids, sickness and unemployment benefits).
- 2.2 The only hope of achieving consensus and stability on retirement income is to build policies on a sound conceptual foundation and to promote informed debate about them. Government policies on retirement income have broadly moved in the right direction over the last 20 years, although we regard the recent establishment of the New Zealand Superannuation Fund (NZSF) as unwarranted. The cost of NZS has been reduced by increasing the age of eligibility and reducing its level relative to wages. There is broader acceptance that, for the majority of people, retirement income should be a personal responsibility, not a taxpayer responsibility. There is also greater understanding that living standards in retirement are ultimately dependent on the productivity of the economy, not on financial arrangements such as NZS or the NZSF.

- 2.3 The Accord was a worthwhile initiative to promote consensus and certainty on policies affecting income in retirement. Although the Accord is now moribund, its underlying objectives remain valid. Such mechanisms can be helpful in reducing politicisation of superannuation policies. These are especially vulnerable to opportunistic political decisions because superannuitants who benefit immediately tend to be more influential in the political process than taxpayers at large, and because the full costs of poor policies are often borne in the distant future. The tension between the interests of superannuitants and people of working age will increase as the ratio of retired people to the total population increases.
- 2.4 The Accord led to the establishment of the office of the retirement commissioner. It has played a constructive role. The Bill proposes to insert provisions relating to the office of the retirement commissioner into the New Zealand Superannuation Act. The Business Roundtable endorses the thrust of that proposal. We think the related requirement for an independent assessment of policy on income in retirement should also be added to the Act.
- 2.5 The Retirement Income Act 1993 states, "A report on the retirement income policies being implemented by the Government in New Zealand ... shall be prepared by the 31st day of December 1997 and at 6-yearly intervals thereafter." The government's superannuation policy is thereby scrutinised by an independent expert group at regular intervals. The public has the opportunity to make submissions to the reviews.
- 2.6 The PRG reports and earlier government enquiries such as the 1992 Task Force on Private Provision for Retirement have made a valuable contribution to policy on income in retirement. We say this despite the fact that, in our view, the most recent PRG report was disappointing and failed to make adequate recommendations on the direction of policy over the medium term. The terms of reference for the 2003 PRG report fell short of its statutory mandate by attempting to exclude an examination of policy relating to the New Zealand

Superannuation Fund and by focusing on second or lower order issues, as Susan St John has correctly noted.¹ The 2003 PRG should have had greater regard to its statutory mandate and the Accord in preparing its report and examined such policy. Notwithstanding these shortcomings, reports prepared by PRGs and earlier task forces have assisted in promoting a better-informed debate on superannuation policy and helped to constrain political opportunism, which has caused much harm in the past.

- 2.7 The task of developing sound and stable policy on superannuation that commands wide public support is, however, far from complete. The 2003 PRG, for instance, noted:

We find the current system of voluntary private provision and a universal pension is working reasonably well for the currently retired and those approaching retirement ... There is no room for complacency about the current system's ability to provide for future cohorts.²

The 2003 PRG considered that a 6-yearly review was too infrequent to inform retirement income policy. It recommended that such reviews be replaced by the establishment of an ongoing work programme by the Retirement Commission, with the assistance of an advisory group. It also recommended that the Retirement Commission, in consultation with its advisory group, review retirement income policy by the end of 2007 (ie an interval of four rather than six years from the completion of the 2003 PRG report). According to the PRG, that review should report on progress and change in retirement income policy and the risks and opportunities identified in the 2003 PRG report, highlight the issues needing policy attention and assess the proposed work programme and whether it should be continued.

- 2.8 The PRG's recommendations that an ongoing work programme be established and that periodic reviews be undertaken somewhat more frequently are supported. However, the recommendations give insufficient weight to the role of the PRG process and PRG reports in engaging the public and informing debate. Moreover, there is a

¹ *New Zealand Herald*, 24 June 2004.

² Periodic Report Group (2003), *Retirement Income Report 2003*, Periodic Report Group, Wellington, p 8.

strong argument for periodic reviews to be undertaken by independent experts appointed from time to time for the purpose rather than by the retirement commissioner with, or without, an advisory group. According to the 2003 PRG's recommendation, the advisory body would largely comprise representatives of interest groups rather than people appointed because of their relevant expertise.

- 2.9 The Bill does not incorporate fully the PRG's recommendation. There is no provision for the appointment of an advisory group. Moreover, there is no provision for regular stocktakes of policy such as the recommended 2007 report. The commissioner's functions in relation to policy are significantly constrained (clause 93 refers). The commission is, for example, to "develop and promote methods of improving the effectiveness of the *retirement policies ... implemented by the government*", to monitor the effects of *retirement policies that are being implemented* and "to advise on *retirement income issues, when requested to do so by the minister*" (emphasis added). Although the commissioner would have a broad function to "deliver to the minister a report ... on any retirement income issues that he or she considers the minister should be advised of" (clause 95 refers), that function falls well short of an unambiguous mandate to undertake a wide-ranging review of policy on a periodic basis.
- 2.10 Although the explanatory note to the Bill states that it implements the 2003 PRG's recommendation to abolish the requirement for periodic reports, it is apparent that that step had been planned. The explanatory note records that the minister of social development and employment wrote to parliamentary parties in December 2003 advising them of the government's intention to repeal the Retirement Income Act, including the requirement for PRG reports. This was several months before the government decided to accept (in part) the 2003 PRG's recommendation.

3. Conclusions

- 3.1 The Bill proposes to insert provisions relating to the office of the retirement commissioner into the New Zealand Superannuation Act. The Business Roundtable endorses the thrust of that proposal.
- 3.2 The Bill would remove all statutory references to the Accord on retirement income policies, including the present requirement for periodic reports to be prepared by an independent report group. A compelling case for the repeal of the provision and its replacement with the proposal contained in the Bill has not been made.
- 3.3 The Business Roundtable recommends that a provision requiring an independent assessment of policy on income in retirement be added to the New Zealand Superannuation Act 2001. Such reports should be prepared at intervals of 5 years.