SUBMISSION BY THE
NEW ZEALAND BUSINESS ROUNDTABLE

National Superannuation Bill

NOVEMBER 1991

NATIONAL SUPERANNUATION BILL

1.0 Introduction

1.1 This submission is made on behalf of the New Zealand Business Roundtable (NZBR), an organisation of chief executives of major New Zealand business firms. The purpose of the organisation is to contribute to the development of sound public policies which reflect overall New Zealand interests.

1.2 The general analysis on which our comments are based is an NZBR study, *Retirement Income Provision,* which sought to address the retirement income issue in a comprehensive way. A copy of the study accompanies this submission.

2.0 General Approach

2.1 The central finding of the NZBR study is that the future welfare of retired New Zealanders is fundamentally dependent on an increased output of goods and services from the economy. In the absence of a superior economic growth performance, private financial claims on resources or promised state benefits will be of little avail. In thinking about retirement income policies, therefore, the need for an overall economic programme which will improve New Zealand's poor long-run growth performance must occupy a central place.

2.2 Fiscal policy and the aggregate tax burden are major influences on the growth performance of the economy. The current level of outlays on National Superannuation represents a major component of government expenditure and the tax burden. It has made it difficult for governments to achieve balanced budgets and has contributed to the alarming accumulation of debt. Claims to National Superannuation have not been met out of a government fund and past taxes have been used to pay for services enjoyed by present generations. It would be surprising if the presentation of the government's balance sheet does not reveal a negative equity position. The government's current financial position remains in a critical state and is showing signs of deteriorating. Unless action is taken to reduce spending, interest rate pressures are likely to re-emerge, the private sector will be squeezed in competing for resources and New Zealand's credit rating will be once again at risk. The alternative of raising taxes in the present weak state of the economy would stifle the prospects of an economic recovery, and over the longer term the maintenance of an oppressive tax burden would sap New Zealand's growth potential. It follows that there are pressing fiscal reasons for economies in all major spending areas including National Superannuation.

2.3 There is also a pressing need to send a strong and immediate signal to the community that more reliance must be placed on private retirement income provision. The NZBR study concluded that individuals can and will save for retirement provided a sound environment for savings is created and the public scheme is not so comprehensive as to substitute for such savings. Tax concessions or compulsory savings schemes (which are similar to taxes in many respects) were not seen as necessary to motivate private savings; indeed by increasing effective tax burdens and hence economic distortions they were seen as undermining the potential of the economy to grow and generate a larger flow of savings. In respect of increasing the level of national savings, the elimination of financial deficits and a shift to surpluses is widely acknowledged to be the best option open to the government. We consider that the creation of an environment in which individuals would need to make their own savings plans if they wished to enjoy a retirement income above a modest level, with the government underwriting those who were unable to provide for themselves, is the preferable approach to an overall retirement income policy.

2.4 On the basis of this analysis, the key features of a redesigned public superannuation scheme were seen as being:

- a higher eligibility age;
- a lower benefit rate relative to average earnings; and
- tighter targeting of retirement benefits,

in conjunction with transitional arrangements which reduced the fiscal burden as rapidly as possible while protecting to the maximum possible extent those in retirement who were not in a position to adjust to policy changes.

3.0 Evaluation of recent policy changes

3.1 Although the process has been unnecessarily protracted and disruptive, we believe that retirement income policy has moved in the right general direction in recent years. We also perceive a considerable measure of common ground as having emerged between the main political parties, which is important for policy certainty and stability in respect of retirement planning. We are doubtful, however, that the position reached is yet fully adequate and sustainable for the long term.

3.2 **Private provision:** The previous government removed the concessional tax treatment of superannuation income and rejected arguments for compulsory arrangements. Both decisions were in line with the conclusions of our analysis.

3.3 **Qualifying age:** The previous government decided to increase the age of eligibility to 65 years starting in 2006. We support the decision to bring forward this move and to implement it over a 10 year period. This will make an important contribution to the fiscal problem and send a more urgent message in respect of private provision. Given time to plan, many people would be in a position to save or to extend their working life beyond present retirement ages (which are at present often artificially curtailed). As the budget decision (now rescinded) to move to age 70 for one component of the pension indicated, there is a case for looking at options for extending the qualifying age beyond 65. We believe they should be seriously considered in the period ahead.

3.4 **Benefit levels:** The previous government adopted a policy of allowing the benefit level to fall to 65 percent of the average wage for married couples. This remains a relatively high level. We consider there is a strong case for aligning the benefit rate with that paid to other long-term beneficiaries (e.g. invalids) as recommended by the Royal Commission on Social Policy. As a step in that direction we support the government's decision to freeze the rate until 1993 and link future adjustments to the CPI but consider more research should be done to provide a basis for relating the benefit more accurately to the basic consumption requirements of the elderly. This might, for example, enable the government to consider reductions in the benefit rate for future retirees (say those currently aged 55) while maintaining a rate set according to the current formula for those in retirement.

3.5 **Targeting:** We support the government's objective of targeting the benefit more tightly, but agree that the budget proposals were poorly designed and unsustainable. The subsequent move away from a universal component is a positive step which establishes further common political ground on superannuation. However, we do not believe that a satisfactory overall targeting scheme has yet been devised and we are extremely concerned about the damage to the fiscal outlook resulting from the latest decisions. The increase in the surcharge to 25 percent is a partial solution but the decisions in respect of the exemption thresholds seem dubious. The case for any threshold seems weak, for the same reasons that recent governments have not elected to include an income threshold in the basic New Zealand income tax scale, in particular the consequence that marginal tax rates are correspondingly higher. We also believe that in the medium term there is a strong case for complementing the income test with a test on assets both on equity grounds and to avoid the diversion of income into asset forms.

4.0 Conclusion

4.1 New Zealand's economic outlook remains extremely difficult. It is in the interests of the whole community, including the retired elderly, to support decisions which will lead to a more sustainable retirement income scheme and contribute to economic growth. In the absence of growth, the capacity of the economy to support the elderly will be in doubt and future governments may be forced to consider much harsher options. Pre-emptive early action to put in place sustainable arrangements is strongly commended.

4.2 The elements of an approach to retirement income policy based on private provision without distortions to savings patterns or forms, and a modest public scheme which would encourage many to opt for full or supplementary private provision, have been taking shape in recent years. The measures included in the Bill represent additional steps in that direction. In terms of further improvements we would give current priority to a reduction in the exemption thresholds and commend further consideration to raising the age of eligibility, reducing benefit rates for future retirees and introducing an asset test.