

# Private Provision for Retirement

---

## The Way Forward An Outline

*Final Report of the Task Force on  
Private Provision for Retirement*

*December 1992*

# The Task Force

---

## Private sector members:

Jeff Todd (Chairman)	New Zealand Senior Partner of Price Waterhouse
Falcon Clouston	Consultant on investment issues and financial markets
Angela Foulkes	Secretary of the New Zealand Council of Trade Unions
Michael Littlewood	Employee Benefits Manager, Fletcher Challenge Limited
Patricia Schnauer	Barrister and Solicitor, Schnauer and Co

## Public sector officials:

Kaye Barwood	Manager, Tax Policy and Systems Section, Treasury
Peter Leniston	Director, Human Resources Policy, State Services Commission
Peter Rodger	Senior Adviser, Department of the Prime Minister and Cabinet
David Simmers	Unit Manager Social Policy Agency (Retirement and Incapacity), Department of Social Welfare

## Secretariat:

Peter Rodger (Manager), Brent Alderton, Liz Gray and Melanie Renner

## Task Force address:

Task Force on Private Provision for Retirement  
P O Box 55  
WELLINGTON

Telephone	04-471-9787
Facsimile	04-473-7357

ISBN 0-477-01632-4

# Choosing the right option

---

## The process

It is just over a year since the Task Force was appointed to recommend how New Zealanders could be encouraged to save more towards retirement. In that time we have produced two reports, *The Issues* (December 1991), and *The Options* (August 1992), which detailed three options for encouraging private provision - improved voluntary provision, tax incentives, and a funded compulsory regime. Following publication of each of these reports we held a series of meetings and seminars throughout the country to seek people's views on the issues and options.

## The preferred option - improved voluntary

Having evaluated the three options against the criteria of a good return on savings, financial security, fairness, flexibility and affordability, and having listened to a very wide range of comment and criticism of our 'model' options, the Task Force came to a unanimous conclusion to recommend:

- **improved voluntary private provision, and**
- **its integration with continuing public provision (National Superannuation) paid on an income-tested basis, plus**
- **agreed rules for reviewing the preferred regime every six years, reinforced by**
- **public and political consensus and a much improved public understanding of retirement provision issues.**

We have also established that the mix of policies contained in this approach is most likely to achieve public consensus and support, and is therefore most likely to achieve the goal of encouraging New Zealanders to save more for their retirement.

## Not the status quo

We cannot stress too strongly that the approach we have chosen is **not** a 'do nothing' option. In fact, it requires very significant changes in the area of disclosure of information about savings plans, education of savers, and regulation and controls that improve the saving environment. Simply continuing with the status quo would fail to address the problems we face today, and would totally fail to prepare New Zealand for the challenges that lie ahead.

## Building political consensus

The National Government and both the Labour and Alliance Opposition parties agree with improved voluntary private provision. We have also been greatly encouraged by the constructive response of all three parties to the clear message expressed by many individuals and groups of New Zealanders who want consensus and long-term stability for retirement income policies.

This is of particular importance because, of the three options, the improved voluntary regime will require the greatest commitment from governments for it to be a success. In particular it will require the government to establish - and issue clear signals on - a credible long-term approach to public provision.

## **Improving public understanding**

If the new voluntary regime is to work, it must include measures to address the problem of poor public knowledge of the issues relating to retirement provision. Lack of knowledge, lack of trust in savings schemes and advisers, lack of trust in the stability of the political and economic environment, and an inability to set realistic personal saving targets emerged in our consultations as the major barriers to increasing private saving. We recommend urgent action to address all these concerns.

### ***The Way Forward***

The recommendations which form the new retirement provision regime we are proposing, and information about our selection and consultation processes, are outlined in this booklet, and detailed in our full report, *The Way Forward*. This report is available from Bennetts, GP and selected Whitcoulls bookshops.

# The proposed regime

---

## Public provision

A key feature of our proposed regime is how it links in with public provision (National Superannuation). For the private and public provision systems to work together effectively, the public system needs to be stable - not subject to constant change. If people are to plan their retirement saving, they need to know exactly what they can expect from the government in the long term and be confident that it will be there when they retire. At present, the political parties individually and collectively do not provide clear and believable signals on the long-term shape of National Superannuation.

We therefore propose a number of measures to stabilise public provision policies until the first review in 1997 (see page 10) can establish a consensus on the longer term.

## We recommend that:

- agreement be reached on the following key rules applying to National Superannuation through to the 1997 review:
  - indexation of National Superannuation to the Consumer's Price Index;
  - restricting the movement in the after-tax level of National Superannuation for a couple to between a "floor" of 65% and a "ceiling" of 72.5% of the after-tax average ordinary time weekly earnings;
  - the current arrangements for phasing in 65 as the age of eligibility;
  - and
  - an effective income test, based on the current surcharge.
- a review of public and private retirement policies be carried out in 1997 and every six years after that;
- an independently managed work programme be established, to prepare information for the review; and
- measures be introduced to promote policy certainty, especially in areas where the public and private systems interact. These require the government to:
  - *extend the surcharge* to include income from all savings products, e.g. life bonds;
  - *provide transition measures for the 55+ Benefit*. For the income test for the 55+ Benefit, people who were in receipt of a private pension before 1 April 1992 should be allowed a 50% exemption on that pension from the time they turn 60. This same principle applies to some other benefits, and this should be taken into account in implementing this recommendation;
  - *review the surcharge exemption level of pensions annually*. We think the current exemption level of 50% for the capital component is fair but should be reviewed each year; and

- *exempt the capital component of overseas-sourced pensions from surcharge*, to the extent that this component can be identified. Consideration should also be given to applying the surcharge to the *after-tax* amount of overseas-sourced pensions.

## **Other taxation policies**

We have concluded that the current neutral taxation treatment of savings, where contributions and earnings on them are taxed and final payments are tax free, should be retained. However, we identified a number of problems with aspects of the current tax regime.

### **We recommend that:**

- superannuation schemes not automatically be subject to tax on capital gains on share or property transactions. Instead, the tax treatment should reflect, as far as possible, the tax status of members. In particular, liability for tax should depend upon the purpose for which the scheme purchased the particular asset;
- the current tax-exempt status of all savings paid out be 'entrenched' through legislation, to provide savers with some protection against the possibility of future tax policy changes;
- tax impediments to the use of reverse annuity mortgages (a type of home equity conversion loan) be removed, if possible;
- the Government issue inflation-indexed bonds if remaining tax and other issues can be resolved. The availability of inflation-indexed bonds would offer greater security to the real (after inflation) after-tax value of people's savings and help promote the development of better retirement income products; and
- possible tax impediments to the use of Maori authorities as vehicles for long-term savings be investigated and addressed if substantiated.

## **Better information about savings plans and products**

When people look at a long-term saving plan, they need clear, accurate, comprehensive information to help them make the right decisions. The information should be designed to help prudent but non-expert savers make useful comparisons between similar savings plans.

### **We recommend that:**

- providers be required by regulation to make certain information available about the savings plans and products they offer. This requirement should apply consistently to all 'managed funds' (i.e. products that are commonly used by people for retirement savings e.g. superannuation schemes) and should include information on:
  - costs of joining a savings plan;
  - charges for administering and managing the investments;

- costs of leaving the plan - either before or at the time the member's investment matures;
- an estimate of the money a saver could expect to get if he or she left the plan after the first, second or third year;
- how long it might take for the saver to receive at least their own contributions back on withdrawal;
- information on the provider of the plan or product, the manager, and the type of fund in which the money is invested;
- what members or investors can do if they are dissatisfied with how their investment performs or the conduct of the seller;
- what assumptions have been made in projecting expected returns on their investment; and
- information on how various levels of inflation could affect the investment, especially its impact on risks and returns to the saver.

The complete list is set out on pages 71-72 of the full report.

While savings industry groups are generally supportive of a move to improve the quality and suitability of information available to savers, we do not think it sufficient to wait for the industry to improve standards voluntarily. Minimum requirements covering these issues should apply to all relevant savings products and plans.

### **Better information about advisers and sellers**

Better information should also be available to savers about the people they turn to for financial advice.

#### **We recommend that:**

- financial advisers be required by regulation to provide information about:
  - their qualifications and experience;
  - any financial interest they might have in the outcome of the advice they give; and
  - how money is transferred from the saver to the chosen investment.
- these and other regulations be administered and reviewed by the Securities Commission, which should also encourage the development of specific codes of conduct.

Proposals for implementing the recommendations are outlined on page 11. This work should be completed and the new system in place by the end of 1993 at the latest.

## **A Savings Ombudsman**

There needs to be an effective way of resolving disputes between savers and members of the savings industry that is cheap, fast, and accessible.

### **We recommend that:**

- a Savings Ombudsman be appointed to hear disputes involving 'managed fund' products or services.

## **Education**

People need education and training to equip) them to look after their own interests in planning and providing for retirement.

### **We recommend that:**

- all New Zealanders have access to education programmes on budgeting and preparing for retirement, including:
  - young people, through the standard school curriculum;
  - employees, through programmes held in the workplace; and
  - those outside the workforce, through public information programmes;
- the Retirement Commissioner (see page 11) coordinates the education programmes, including designing resource materials in consultation with teachers, the Ministry of Consumer Affairs, the savings industry, and employer and employee groups.

## **Information**

Educating people to cope better with retirement issues, and requiring better disclosure by providers, advisers and sellers (see above), are only part of the solution.

### **We recommend that:**

- the Retirement Commissioner (see page 11) ensures that people receive clear, accurate information on current trends in retirement provision, and other areas of society or the economy that affect savings and the elderly; including:
  - patterns of voluntary private savings - how much people are saving, and in what types of products, rates of return on investments, and a comparison of all of these with the assumptions used at the time of the previous review;
  - performance of major participants in the new retirement regime such as the financial sector, employers, educators, regulators. Savings Ombudsman;

- evidence of people's ability to afford to save for their retirement including statistics on how much people earn, spend, and own;
- current and future effects of the age mix of the population;
- labour market statistics including size and composition of the workforce, earning levels, and continuity of employment;
- statistics on people moving from full-time work to retirement, and on self-employment, part-time employment, ages of retirement, age when pensions are drawn;
- standards of living of people wholly reliant on National Superannuation and whether their income is adequate;
- economic performance;
- affordability of National Superannuation;
- overall government financial picture, including the share of the elderly in total spending compared with other groups;
- international trends and issues in the provision of retirement income; and
- other economic and social changes and policies which affect savings, and the elderly. These could include health and education costs, and statistics on housing, marriage break-ups, life expectancy, and the way we care for people in our community.

This information would improve people's understanding of the context for their personal retirement decisions.

There is also a need for a service similar to the Australian Financial Information Service which can provide unbiased advice on the information savers need to make an investment decision, without recommending a particular type of investment.

### **We recommend that:**

- a free counselling, information and referral service be set up to provide information and factual advice on public and private provision for retirement.

This public information service should be coordinated by the Retirement Commissioner.

People also need to be better informed about the implications of a marriage break-up for their retirement provision.

**We recommend that:**

- information be made available on the options people have for splitting superannuation entitlements in the event of marriage break-ups.

We also believe that the courts should rely more than at present on the ‘wait and see’ approach, because this is more likely to give each spouse an equal share of superannuation entitlements. This would require a change to Section 31 of the Matrimonial Property Act.

# Maintaining the new regime

---

## The six yearly review

The success of the new private and public retirement policy mix will need to be assessed at intervals to ensure it remains sustainable through changing economic and social circumstances.

### We recommend that:

- retirement policy be reviewed every six years, with the first review taking place in 1997. If the electoral cycle should change, a new formula should be used to avoid the review coinciding with an election year.
- the Review Group be an independent body comprising private sector members and public officials under an independent chair. The precise terms of reference for each review should be drawn up at the time, to ensure topical issues are covered.

We recognise the risk that the improved voluntary regime we propose may not achieve the required changes in people's saving behaviour. If, at the time of the 1997 review, there has not been sufficient improvement in long-term private saving, we think it inevitable that the review team would need to give serious consideration to recommending a compulsory savings regime.

## The retirement policy 'work programme'

### We recommend:

- a 'work programme' for the periods between reviews to gather information on retirement provision, and carry out research and analysis. The purpose would be to monitor the operation of retirement policies in preparation for each review, and provide much of the material for the public information programme (see pages 8-9). Both the government and opposition parties could propose items for research and analysis.

## Retirement Commissioner

### We recommend that:

- the position of a Retirement Commissioner be set up to take over from the Implementation Group (see below), and manage the various programmes we have proposed. The particular functions to be carried out by the Commissioner would include:
  - completing the introduction of the agreed changes to the improved regime, and monitoring progress;
  - providing the government with information on ways to strengthen and improve the regime;
  - encouraging private retirement provision through the continuing programme of public education and information to individuals, employers and others; and

- managing the work programme of information gathering, research and analysis.

The public, the industry and the political parties will need to be confident that the Commissioner has the expertise, resources and independence to do a thorough job, and will reinforce policy stability in the period between reviews. Rather than the Commissioner being - or being seen to be - an instrument of continual change, the main focus would be the collection and publication of factual information.

The Commissioner should be a statutory officer attached to the Department of Social Welfare, working closely and co-operatively with all public and private agencies with an interest in retirement policy.

## **Implementation**

### **We recommend that:**

- an Implementation Group be established by the Prime Minister early in 1993, charged with managing the implementation of our recommendations as they are approved by the Government.

The Group should complete its work by December 1993, or earlier if the Retirement Commissioner is in a position to take over.

# Consultation and selection

---

## The consultation process

The Task Force asked for and listened to the opinions of many New Zealanders on the issues and the three options. Our seminars were attended by civic, Maori, and Pacific Island community leaders, young people, women's groups, those who provide financial services, employee and employer groups, beneficiaries, those on low incomes, the unemployed and retired people. We also received submissions and letters from both groups and individuals.

A number of issues were raised frequently, and we took people's reservations and suggestions on these into consideration when making the recommendations outlined in this report. We were also able to correct some of the unnecessary worries people had about provision for retirement. For example, some people thought that private provision was intended to replace public provision, i.e., National Superannuation. There was a great deal of support for political agreement which would make for a stable retirement income regime, free from constant change and from party politicking.

Issues discussed included:

- the need for a strong commitment to change in order for the improved voluntary regime to work;
- whether the regime was affordable in the long-term;
- the need for better education and information under any new regime; and
- whether things which currently discouraged people from saving would be removed under this option.

At different seminars, similar views were expressed by similar groups. Key concerns were that:

Maori                      the new regime should allow a collective as well as an individual-based approach to retirement.

Women                    the new regime should not disadvantage the low paid or people whose work at home and in the community is unpaid.

Pacific Islanders        low income earners should not be disadvantaged, and community-based schemes should be possible.

Retired people            the new regime should improve policy stability.

Low-income earners    low-income earners should not be forced to save what they could not afford.

Younger people         a flexible regime should be chosen.

There was general support for flexibility, and for a smooth and gradual change from the current system to the new regime. Our improved voluntary scheme is the best way of meeting these concerns.

## **The selection process**

We felt that it was important that any new retirement income regime should have five key attributes. It should:

- provide a good return on savings;
- provide people with financial security;
- be fair;
- be flexible; and
- be affordable.

When we measured each of the three options (improved voluntary, tax incentives, and compulsory savings) against these attributes we found that the improved voluntary regime came closest to fulfilling them all.

The key weaknesses of the tax incentive option are that it would be unfair on low-income earners who would pay more tax to pay for the scheme but would have less money to save to take advantage of tax concessions; and it would cost the government more in tax incentives than it would save in National Superannuation payments.

The key weaknesses of the compulsory savings option are that it would be large, complex and expensive to administer; low-income earners may be forced to give up other necessities in order to save; and its likely immediate impact would be lower economic growth.

The strengths of the improved voluntary option are that it would provide a good return on savings because it would promote more efficient, competitive markets; it would provide financial security through stable policies built on political and community consensus; it would be fair because it accommodates the differences in the circumstances of individuals and groups; and it would be flexible and more affordable, allowing people to choose how, when and how much they save.