

Appendices



APPENDICES

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Appendix A: Terms of reference for this Review

Terms of Reference for the Retirement Commissioner's 2007 Review of Retirement Income Policy

The New Zealand Superannuation and Retirement Income Act 2001 requires the Retirement Commissioner to conduct a review of retirement income policies before the end of 2007.

The Government has policies relating to both the public and private provision of retirement income.

Public provision of retirement income is provided through New Zealand Superannuation, Veteran's Pension and the operation of the New Zealand Superannuation Fund. The Government also has policies to encourage the private provision of retirement income to supplement public provision. This is currently being implemented in two major ways:

- » Through programmes run by the Retirement Commissioner aimed at educating people about the need to save for retirement.
- » By the introduction of the KiwiSaver scheme from 1 July 2007.

There is now a broad level of agreement on the parameters for New Zealand Superannuation. In addition, many of the issues surrounding the private provision of retirement income were subject to consideration and debate during the passage of the KiwiSaver Act 2006.

The 2007 Review is to focus on those aspects of retirement income policy that build on this foundation and should include:

- » In relation to the government's retirement income policies, an update of and commentary on the trends, and the likely future developments, since the production of the 2003 Periodic Report, that will affect, or will be likely to affect, the provision of retirement income. The commentary should identify any areas of risk, and should include (but not be limited to) areas such as:
 - owner occupied housing
 - level and composition of personal assets and debts
 - social attitudes of younger people in relation to consumption and savings.
- » Commentary on any current policy settings which may be acting as a barrier to the continued employment of older people.
- » Identification of any areas of policy development needed to enhance employment opportunities for older people, and for people with disability who want to work.
- » Identification of the problems facing efficient utilisation of assets accumulated pre-retirement to meet the need for regular and predictable income at different stages of ageing, and suggestions as to potential solutions.
- » Commentary on the risks, opportunities and barriers relating to the use of home equity products and any suggestions for change.
- » An independent assessment of the effectiveness of financial education available to and used by New Zealanders, utilising arms-length research.

Appendix B: Structure of the Review

Project Team

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2007 Review Advisory Group	Paul Costello, General Manager, Future Fund, Australia Professor Gary Hawke, School of Government, Victoria University of Wellington Susan Guthrie, Consultant Economist Dr. Susan St John, Retirement Policy and Research Centre, University of Auckland
Officials Reference Group	Artemisia Kousis, Treasury Cathryn Ashley-Jones, Statistics New Zealand Justine Gilliland / Caroline Ramsey, Ministry of Economic Development Karen Threadwell, Department of Labour Leith Comer, Te Puni Kōkiri Michael Nutsford, Inland Revenue Department Nick Pole / Michael Papesch, Ministry of Social Development Shenagh Gleisner, Ministry of Women's Affairs
Retirement Income Interest Group (RIIG)	Alan Yates, NZ Bankers Association Bruce Kerr, ASFONZ David Hutton, Institute of Financial Advisers Peter Conway, NZ Council of Trade Unions Phil O'Reilly, Business NZ Vance Arkinstall, Investment Savings and Insurance Association
NGO Reference Group	Graham Stairmand, Grey Power Jacqui Te Kani, Māori Women's Welfare League Jean Fuller, National Council of Women Kerry Dalton, Citizens Advice Bureau Philippa Read, EEO Trust Raewyn Fox, NZ Federation of Family Budgeting Services Simon Laube, Age Concern Sue Chetwin, Consumers' Institute Wendi Wicks, Assembly of People with Disabilities
Reference Group, Independent Review of Financial Education	Sally Boyd, NZ Council for Educational Research Sharon Ellis, Education Review Office Suze Strowger, Ministry of Education

Appendix C: Background papers commissioned for this Review

The views expressed in the background papers are, in each case, those of the author and do not necessarily reflect the views of the Commissioner.

The papers are available on www.retirement.org.nz.

Davey J A (for the Institute for Research and Ageing) (2007) *Home equity release products in New Zealand: risks and opportunities*.

Hurnard R (2007) *Managing assets and income in retirement*.

Hyman P (2007) *Retirement Income – Issues for Women*.

Infometrics Ltd (2007) *Assessing the Australian retirement income system, with comparisons to New Zealand*.

McGregor Dr J (2007) *Employment of older workers*.

Mersi P (2007) *Tax issues relating to retirement income provision*.

NZIER (2007) *Younger people's attitudes towards consumption and saving*.

Preston D (2007) *Working papers for the 2007 retirement income report*.

Roorda Research and Evaluation Ltd (2007) *Independent assessment of the effectiveness of financial education available to and used by New Zealanders: A Snapshot*.

Te Puni Kōkiri (2007) *Key issues for Māori preparing for retirement*.

Wicks W (2007) *Disabled people and provision for retirement*.

Appendix D: Progress on 2003 Periodic Report recommendations

Previous reviews of retirement income policy were undertaken every six years. The last one was undertaken by the Periodic Report Group in 2003. In 2005 the New Zealand Superannuation and Retirement Income Act 2001 was amended to give future responsibility for reviews to the Retirement Commission, and for such reviews to be undertaken every three years, commencing in 2007. This 2007 Review therefore comes just four years after the previous review. In that time there has been progress on some of the 2003 recommendations. Others have been overtaken by events, such as the implementation of KiwiSaver and other legislative changes.

The following chart provides an update of progress on the recommendations of the 2003 Periodic Report Group.

2003 RECOMMENDATION	CURRENT POSITION
<p>Private provision: The risks and opportunities The Periodic Report Group 2003 (PRG2003) recommends that:</p>	
<p>» The Retirement Commission take responsibility for co-ordinating the ongoing monitoring of risks and opportunities to private provision, initially focussing on:</p> <ul style="list-style-type: none"> – the impact of increasing financial liabilities on private provision for retirement – the impact of student loans and home ownership on private provision for retirement – the impact of labour force participation by those aged 65 plus on net worth, retirement income and decisions to retire. 	<p>» The Retirement Income Steering Group (RISC), consisting of government agencies with an interest in retirement income policy, was established to co-ordinate inter-agency research related to retirement income, and to draw up and report to Ministers annually on the retirement income work programme.</p> <p>» The Retirement Commission monitors and reports on progress in relation to work on the ongoing monitoring of risks and opportunities to private provision. The Commission monitors research being undertaken and released, and includes this on their website as it becomes available.</p>
<p>» We need ongoing data and research to give estimates of net worth at different points in time. The Household Savings Survey has been an important step forward, but only a first step, and should be repeated. This would enable the analysis of cohort effects (such as the impact of household debt) and ongoing patterns of saving, and the testing of policy changes on savings behaviour.</p>	<p>» The Survey of Family Income and Employment (SoFIE), a longitudinal household survey, is being undertaken and reflects this recommendation.</p> <p>» The Household Savings Survey is planned to be repeated in 2011.</p>
<p>» A research fund, managed by the Retirement Commission with guidance from an independent panel of experts to be appointed by the Retirement Commissioner, is established to extend and develop research on household saving behaviour.</p>	<p>» Government announced it agreed in principle that a research fund be established. A budget bid was developed. However, research on and evaluation of the KiwiSaver initiative became a higher priority.</p>

Work-based savings

PRG2003 recommends that:

<ul style="list-style-type: none"> » The Government establish a Work-based Savings Group (WSG) to develop an agreed approach to promote work-based savings by the end of 2004. » The WSG membership should include employers, unions, academic experts, officials, the financial services industry, and be chaired by the Retirement Commissioner. » The WSG should focus its work programme on: <ul style="list-style-type: none"> – education through the workplace for employees – minimising regulatory and compliance costs – scheme design and best practice – training and resource support for employers and unions – sector or industry-wide approaches to facilitating work-based savings – reducing the costs for employers to provide access to work-based savings – assistance for small employers to encourage work-based savings – assistance for those on low incomes to access work-based savings – getting employees started saving for retirement. 	<ul style="list-style-type: none"> » A Work-based Savings Group was established. » The WSG membership included an economist, lawyer, actuary, the Retirement Commissioner and representatives from the financial sector. Officials were in attendance. » The terms of reference for the WSG, and their subsequent work, addressed much of the recommended work programme. » An implementation timeframe was included in the report of the WSG. » A subsequent implementation group was established. » KiwiSaver has been the final result.
<ul style="list-style-type: none"> » The WSG should set milestones to assess changes in the membership of work-based savings schemes. 	<ul style="list-style-type: none"> » It is expected that this will come out of Government Actuary monitoring of work-based schemes, including KiwiSaver.
<ul style="list-style-type: none"> » The Government consider the possibility of extending the new public service savings scheme beyond the core public service; in particular, providing for organisations in the wider state sector to opt into the new scheme. 	<ul style="list-style-type: none"> » With the Budget 2007 enhancements to KiwiSaver, Ministers confirmed that they expect that KiwiSaver schemes will become the core savings vehicle in the State sector over time, with State sector employers and employees being treated on the same basis as their private sector equivalents.

2003 RECOMMENDATION	CURRENT POSITION
Personal financial education and information	
PRG2003 recommends that the Retirement Commission:	
» Promote workplace seminars and either provide them itself or contract providers to do so.	» Workplace seminars have been provided within the context of KiwiSaver.
» Extend the <i>Sorted</i> programme to include more information, targeted information and supplementary written materials. » Increase its promotional campaigns to encourage New Zealanders to use <i>Sorted</i> and other PFE programmes.	» Ongoing enhancements to <i>Sorted</i> and associated promotional campaigns have been made.
» Provide a face-to-face or telephone information service to supplement <i>Sorted</i> .	» A pilot programme in New Plymouth indicated a lack of demand for a telephone service. » 0800 SORT MONEY has been implemented, and evaluation is underway.
» Enhance and extend its provision of information about public provision.	» Further information on public provision has been provided on both retirement.org.nz and sorted.org.nz.
» Establish a methodology to make fees for savings products more transparent.	» Attempts to make fees transparent are being made with the KiwiSaver product offerings.
» Develop criteria for assessing the appropriateness of savings products and advice for retirement saving.	» sorted.org.nz includes information about types of savings products and an 'advice checklist'.
Issues for women, Māori and Pacific peoples:	
Women	
PRG2003 recommends that:	
» The Retirement Commission make it a key education priority to increase the knowledge of women about the need to save for retirement on their own behalf. We recommend a particular focus on the periods in women's lives when they have disposable income.	» The Retirement Commission is working alongside the Ministry of Women's Affairs in this area. » Some specific information for women is included on <i>Sorted</i> . » Seminars with women's groups have been held.
» The Retirement Commission develop criteria for a 'best-practice' vehicle for retirement savings that accommodates the needs of those people with periods of broken employment or reduced earnings during their working life.	» Recommendation overtaken by the development of KiwiSaver.
» Efforts continue to be made to close the gender pay gap in the state sector and recommend these efforts extend across the labour market.	» The Department of Labour set up a unit to work on the gender pay gap.

2003 RECOMMENDATION	CURRENT POSITION
<p>Māori PRG2003 recommends that:</p>	
<p>» The Retirement Commission, in consultation with Te Puni Kōkiri, develop a research programme to address the information gaps regarding Māori experience and attitude to savings and to facilitate a better understanding of Māori attitudes to retirement saving.</p>	<p>» Some work has been undertaken, within the analysis of SoFIE, specifically on Māori.</p>
<p>» If it is successful, the financial education pilot programme for young Māori, developed in partnership between the Retirement Commission and Ngāi Tahu, is extended.</p>	<p>» The initial pilot was extended to a further five schools. It showed positive financial education gains for children.</p> <p>» The information gained is the basis for discussions with other iwi.</p>
<p>» The Retirement Commission and Te Puni Kōkiri work with interested Māori organizations to assess the feasibility of those organisations taking an active role in the provision of savings and insurance services for the organisations' beneficiaries.</p>	<p>» Ngāi Tahu has established their Whai Rawa Savings Scheme.</p>
<p>Pacific peoples PRG2003 recommends that:</p>	
<p>» The Retirement Commission work with Pacific communities to facilitate education programmes, tailored to the Pacific peoples, which highlight the benefits of preparing for retirement. These programmes should take into account the important characteristics of Pacific peoples we have identified, such as the existing commitments to the church, the extended family and the community.</p> <p>» The Retirement Commission, in consultation with the Ministry of Pacific Island Affairs, facilitate research to see whether the current arrangements in which extended family groups establish trusts for various events, such as weddings and funerals, could be involved in superannuation funds and insurance schemes.</p>	<p>» The KiwiSaver work-based education programme has included material targeted to Pacific peoples.</p> <p>» Further work in this area has still to be actioned.</p>
<p>Taxation of savings PRG2003 recommends that the Government:</p>	
<p>» Make it a priority in its tax work programme to resolve the tax non-neutralities arising from the indistinct capital/revenue boundary.</p>	<p>» The new portfolio investment entity (PIE) rules which came into force on 1 October 2007 remove the previous capital/revenue boundary by:</p> <ul style="list-style-type: none"> – placing all Australasian share gains on capital account – introducing the fair dividend return (FDR) rule for all non-Australian portfolio share investment. <p>These rules mean that people who invest via managed funds are treated similarly to direct investors.</p>

2003 RECOMMENDATION	CURRENT POSITION
» Continue its work to resolve disparities in the treatment of international investments.	» See above re: the PIE rules and FDR changes.
» Revisit options, such as those developed by the Working Party on Taxation and Life Insurance and Superannuation Fund Savings (TOLIS), to address inequities in the taxation of superannuation funds and life insurance companies.	» The PIE rules allow investors in PIE to be taxed at their marginal tax rate, capped at 33% (30% from 1 April 2008).
» For equity reasons, either remove the tax advantage for employees earning over \$60,000 on employer contributions to superannuation funds or make it available to all taxpayers irrespective of their marginal tax rate.	» The SSCWT rules were amended from 1 April 2007 to deal with excessive salary sacrifice arrangements by including the amount of the employer contribution in the income that is used to determine the applicable SSCWT rate. As part of the policy development the issue of increasing the top SSCWT rate to 39% was considered. The Government decided that the top SSCWT rate would remain at 33%.
» Review the fund withdrawal tax and remove it if there is no compelling evidence it is successfully acting as an anti-avoidance mechanism.	» Officials recommended to Ministers that fund withdrawal rules not be reviewed, as officials were monitoring the impact of salary sacrifice arrangements on the then recently enacted SSCWT rules to determine where there is any significant risk of tax avoidance. As a result of that monitoring, the SSCWT rules were modified.
Financial services market and regulation PRG2003 recommends that:	
» The Government remove the prospectus requirement from employer superannuation schemes, as proposed in the Business Law Reform Bill currently before Parliament.	» The prospectus requirement was removed.
» The Ministry of Economic Development and the Government Actuary review how much leakage is taking place from employer superannuation schemes because of written consent requirements for member transfers, and assess whether it is practical to better facilitate transfers in cases where transfer provides equivalent benefits.	» A new mechanism was introduced for all superannuation schemes to facilitate transfers without member consent, where the transfer provides equivalent benefits.
» The Retirement Commission promote best practice guidelines for dispute resolution for group and employer superannuation scheme members.	» The guidelines were completed and have been circulated.
» The financial services sector develop an agreed approach to self-regulation of financial advisers and report to Government with a comprehensive proposal by the end of 2004.	» The Ministry of Economic Development is establishing regulations around Adviser membership of Approved Professional Bodies, with legislation being prepared.
» The Government's proposed review of the tax rules applying to life insurance consider the tax barriers to the development of annuities; in particular, home equity reverse annuity mortgages.	» The Government has announced that it is reviewing the tax rules for life insurance. That review is expected to cover annuity related issues.

Implementing PRG2003's proposed work programme

PRG2003 recommends that:

<ul style="list-style-type: none"> » An ongoing work programme, based on the Government's response to PRG2003's recommendations, is established to replace six-yearly reviews. » The Retirement Commissioner monitors the progress of the work programme. 	<ul style="list-style-type: none"> » The RISC group, referred to above, was established and some funding has been provided to the Retirement Commissioner for her monitoring role.
<ul style="list-style-type: none"> » The Retirement Commission establishes an advisory group to provide a mechanism for stakeholders to provide input into the work programme. 	<ul style="list-style-type: none"> » The Retirement Income Interest Group has been established. Membership includes representatives from: CTU, Business NZ, ASFONZ, Investment Savings and Insurance Association, Institute of Financial Advisers, NZ Bankers Association.
<ul style="list-style-type: none"> » By the end of 2007 the Retirement Commission, in consultation with the advisory group, review retirement income policy. The review should: <ul style="list-style-type: none"> – report on progress and change in retirement income policy – report on the risks and opportunities identified in the PRG2003 report – highlight the issues needing policy attention – assess the proposed work programme approach and whether it should be continued. 	<ul style="list-style-type: none"> » New legislation has provided for the Retirement Commission to undertake reviews of retirement income policy every three years.

Appendix E: Submissions received

Written submissions are available on www.retirement.org.nz. Submissions were received from:

- » Age Concern
- » AMP Financial Services
- » Bank of New Zealand
- » Boyd Klap
- » BT Funds Management (NZ) Ltd
- » Business NZ
- » Business Pacific Trust
- » Disabled Persons Association
- » Equal Employment Opportunities Trust
- » Institute of Financial Advisers
- » Investment Savings and Insurance Association (ISI)
- » Len Bayliss
- » National Council of Women
- » NZ Council of Trade Unions
- » NZ Society of Actuaries
- » PMW van Bussell
- » Reserve Bank of NZ
- » Safe Home Equity Release Plans Association (SHERPA)
- » Securities Industry Association
- » Sentinel
- » Tower Employee Benefits Limited
- » University of Auckland Retirement Policy and Research Centre
- » Westpac NZ Limited