A way forward for NZ Superannuation

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Welfare

- Cashflow based
- Look through variations
- Most unaffected by population changes
- Exceptions are health and retirement

National Party

- Keep age 65
- Maintain 66% of NAW

Labour Party

- Committed fair universal superannuation
- Will ensure the future sustainability
- Will consider options to achieve this

NZ First

- Maintain NZS with eligibility at 65 years
- Universal non-contributory publicly funded pension scheme with no means-testing.

Green Party

- Replace with two-tier benefit system
- Universal base rate (enough to live on)
- Add-ons for specific circumstances (e.g., dependants, disability, or chronic illness)

Maori Party

- *No specific policy*

Act Party

- Short term: Abandon NZ Super Fund and subsidising KiwiSaver

- Medium term: raising the age of entitlement and index it to reflect further increases in longevity

- Long term: NZ Super to be a safety net for those genuinely unable to provide for themselves.

United Future

- Flexi-super - choice to take superannuation at reduced rates earlier than age 65, or at an increasingly enhanced rate after the age of 65

- Compulsory Kiwisaver

Cost

- Defined by benefits payable
- Actual Cashflows
- Paid for by Contributions (funding)
- Longevity will affect cost

Recognition of Cost

- One-Off Recognition
  - Up front (birth)
  - At retirement

- Accrual of Cost
  - Over pre-retirement period
  - Or just Working Life
  - Or as Benefits Paid (actual)

Inter Generational

- Can be “fair” to each generation

- Experience Gains/Losses
  - Adjust contributions
  - Adjust Benefits

- “Insure” Benefits
  - Gains/Losses affect “insurer”

Cashflow Based

- Cost recognised based on Cashflows
- Cost Assigned to current taxpayers
- Not allocated to when cost incurred

Cashflow Based

- Will work when:
  - Actual accrual of cost
  - In proportion to cashflows

Growing Population

- Stable longevity
  - Actuarial cost higher than cashflows
  - PAYG is sustainable forever

- Why sustainable?
  - Don't pay full $ cost
  - Shortfall related to population growth
  - So % underfunding stays stable

Growing Stops

- If Growth stops or slows
  - Sustainable “cost” rises
  - PV of difference paid back
  - Shorter payback period
  - So cashflows above cost
- This is Boomer situation

NZ Superannuation Fund

- Cashflows are Capital not Expenses
- So accounting “cost” unaffected
- Not true pre-funding
- Nor cost smoothing

Q&A 10 October 2000

- **How will contributions to the Fund be treated in the government's accounts?**

- Contributions to the Fund cannot be recognised as an expense of the Crown because the Crown ultimately controls the Fund. Recognition of a liability on the Crown's balance sheet is also unlikely to be acceptable under generally accepted accounting practice.

Q&A 10 October 2000

- **Can't the government borrow when the future cost of NZS rises?**

- The future higher cost of NZS is not a temporary peak, but a permanent higher plateau. If the government tried to borrow to cover the rising cost, it would have to look at permanently-escalating debt, which is clearly unsustainable.

Q&A 10 October 2000

- **What are the benefits of setting up a fund versus paying off debt?**

- We are balancing two fiscal priorities in paying down debt and pre-funding superannuation. It is important to keep government debt low and we have set out long-term objectives for debt that will ensure that it remains low. However, we believe we can achieve these debt objectives and smooth the costs of superannuation at the same time.

Q&A 10 October 2000

- **What are the benefits of setting up a fund versus paying off debt?**

- Making explicit annual provision for funding of future NZS obligations brings home to the present the cost of these obligations. Without this discipline, the demands of current expenditure would dominate and continuing to pay down Crown debt much below the objectives we have set would not receive the same priority once it reaches even lower levels.

NZ Superannuation Fund

- Withdrawals allowed when:
  - Smoothed “cost” less than cashflow
  - Formula is upper limit (not obligation)

- Longevity and no age change
  - May never draw on fund

Solution

- Calculate “affordable” cost
- Base benefits on actuarial cost
- Projected costings allow adjusted age
- Fund drawdown over Boomers retirement

Solution

- Separate Longevity from Boomers
- Smoothed cost okay proxy
(but reporting issue)
- Universal needed foreseeable future
(not enough individual savings)

What is the Answer

COMMUNICATION!

Questions?