Tax Working Group Public Submissions Information Release

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

New Zealand Superannuation – Public Provision – Decency, Dignity and Affordability

This submission is made by a retired financial planning adviser who has worked in two jurisdictions, the UK and New Zealand, and is familiar with the Australian retirement planning framework. My CV is available upon request.

The "Superannuation Regimes" in all three of the above jurisdictions have pros and cons. The outgoing National Government demonstrated little grasp of retirement planning. NZ First has always had a better understanding. This "summary submission" sets out a public retirement planning framework that is substantially pros, no cons and offers the newly minted New Zealand coalition the benefit of an experienced practitioner's insight into what will work while providing future generations of kiwis dignity and financial security in retirement. I invite you to read on and then preferably, respond with an invitation to discuss the matter further.

New Zealand's National Superannuation:

- Is adequate, must not be deferred beyond age 65 but must be rendered affordable to future generations of tax-payers.

UK:

- Tax-led savings into pension plans;
- Pros of pensions: accumulated retirement fund *cannot be squandered*, provides *income security for life*;
- Cons: accumulated fund is not inheritable;

Australia:

- Pros: *Compulsory* retirement saving and *stable legislation*. Accumulated fund *inheritable. No cost of tax incentives*;
- Cons: No income security, accumulated fund may be squandered due to unlimited capital access/draw-down at retirement.

New Zealand's retirement provisioning should learn from these models and adopt the pros while avoiding the cons. Here's a blend of "pros" I have not seen raised anywhere else:

The Fundamentals:

1. Build on the KiwiSaver infrastructure framework by making contributions compulsory, increasing the percentage contribution over 10 years to 10% of earned income as a minimum;
2. Introduce a limit on the portion of capital that can be drawn down at retirement to 10% of total. The balance of the accumulated KiwiSaver kitty has to be retained in a registered, professionally managed fund, but is transferable between such funds;
3. Introduce a range of "percentage income options" and "risk-return investment options" that set the level of regular "income payments" for the retiring saver. The highest % level allowable must offer a high probability that the accumulated capital sum, after any capital draw down, is not totally exhausted before the likely age of death of the retiree. For example, with an accumulated fund of NZ$1 million, a maximum % income level of 5% net, the retirement 'income' is NZ$50,000 per annum, payable fortnightly in arears. Subject to professional investment management being mandated with a 'moderate to high' or 'high' risk-return investment strategy,

then over the multi-decade retirement timeframe, this superannuitant's KiwiSaver retirement kitty is highly likely to last intact or only modestly depleted;
4. With a higher level of 'income' level, the accumulated fund is likely to reduce over time but the level of depletion should be limited by the 2 variables in 5 below so as to ensure with a high probability, that the retiree's retirement kitty lasts most of their expected lifespan;
5. The 2 variables are therefore (i) % rate of drawdown and (ii) level of risk/return investment strategy;
6. The accumulated fund is inheritable.

Complimentary Refinements:

1. Provided that the legislation is stable, after 30 years of this retirement provisioning framework, a means test should be introduced for National Superannuation as the state's retirement pension is known. By then, this would be fair. Before then, it would not be defendable.
2. The vital benefit of the long-term introduction of a means test for National Super is the substantial reduction in cost to the Government of this benefit that then facilitates increased funding of the public health system which by then, will be stretched due to the bay-boomers.
3. Debate and devise a way to top up the retirement contributions of those taking time out of the work force for parenting reasons so that women (predominantly) are not financially penalised for the vital role of parenting. This "evening up" might occur via the eventual means test but would be fairer and more secure if achieved at the "savings side" of the timeline.
4. Actuarial inputs should help define the range of:

- Risk-return options;
- % income options;
- Combinations thereof;
- Be reviewed on a 5-yearly basis.

Long Term Benefits:

These are:

- National Superannuation entitlement age not deferred beyond 65;
- Financial security *throughout* retirement;
- Inheritable retirement fund balance *aids those left behind*, not pension providers (e.g. Insurance companies providing pensions per UK model);
- Cost of National Super *reduced* without age of eligibility deferral.

Thank you for reading this far.

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