



Office of Hon Jacqui Dean

Minister of Commerce and Consumer Affairs
Minister for Small Business

Associate Minister for ACC
Associate Minister of Local Government

7 JUN 2017

Diane Maxwell
Retirement Commissioner
PO Box 106-056
Auckland City 1143

Dear Ms Maxwell

Thank you for preparing the 2016 Review of Retirement Income Policies (the Review).

I acknowledge the extensive amount of work that has gone into the Review and your commitment to making the findings accessible to the general public. The high level of public engagement with retirement income policy throughout the review has been encouraging.

The Review has been carefully considered by the Government, which has led to the response provided under the relevant headings below.

New Zealand Superannuation (NZ Super) settings

Increase the age of eligibility for NZ Super to 67 years (recommendation 6.1)

As you will be aware, the Government has announced its intention to increase the age of eligibility to 67 over a four year period between 2037/38 and 2040/41. This is needed to ensure the continued fairness and sustainability of NZ Super. Giving an extended period of notice would ensure families and individuals have time to adapt to these changes.

Increase the length of residence required for NZ Super from 10 years to 25 years (recommendation 6.2)

The Government has also announced its intention to increase the length of residence required for NZ Super. The Government proposes that individuals only be eligible for NZ Super after 20 years as a resident (including five years after age 50). This change improves fairness in retirement income policy and brings New Zealand's settings closer to other OECD countries.

Resume Crown contributions to the New Zealand Superannuation Fund and suspend New Zealand Superannuation Fund tax payments (recommendation 4.1)

The Government remains committed to restarting contributions to the New Zealand Superannuation Fund when core Crown net debt falls below 20 per cent of GDP. The 2016 Budget Policy Statement indicated that this is likely to be in 2020/2021.

In the interim, the Government is still of the position that taxing the New Zealand Superannuation Fund investment returns provides better investment signals for those managing the Fund.

Remove the non-qualifying partner option (recommendation 6.3)

The Government considers that retaining the non-qualifying partner option is necessary to provide low-income couples with the means to smoothly transition to retirement. This is because the majority of non-qualifying partners are people approaching the age of eligibility for NZ Super.

Reform the direct deductions policy for overseas state pensions (recommendation 6.4). This includes removing the spousal deduction, excluding voluntary contributions to state pensions, and publishing a list of deductible pensions

The Government does not support removing spousal/partner deductions. The purpose of spousal/partner deductions is to ensure that couples with an overseas pension receive the same level of government-administered retirement income as lifelong New Zealand couples.

The Government supports voluntary contributions to state pensions being excluded from direct deductions, and is currently considering clarifying this in legislation.

While the Government is not in favour of publishing a list of overseas pensions that are deducted from NZ Super and social security benefits, the Ministry of Social Development will consider how to improve the accessibility of information through its website.

KiwiSaver*Increase the minimum employer and employee contribution rate from 3% to 4% (recommendation 1.1)*

The Government is not proposing any immediate changes to the minimum employer and employee KiwiSaver contribution rates. There is limited evidence that this recommendation would raise savings rates. It could also make it more difficult for low-income workers to contribute to KiwiSaver, while increasing costs to employers.

Add an automated option to allow members to increase their contribution rate over time (recommendation 1.2)

In principle, providing greater flexibility of contribution rates is desirable as it could have a positive impact on savings. However, the automated option could be complex and therefore involve high compliance and administrative costs. Therefore, the Government is not considering such a change at this time.

Add additional employee contribution rate options of 6% and 10% (recommendation 1.3)

The Government supports increasing the range of contribution rates. The addition of 6% and 10% contribution rates is likely to have a positive impact on savings. More work is needed to consider compliance costs for employers and administrative impacts for Inland Revenue before the Government can commit to making this change.

Decouple the age of access to KiwiSaver funds from New Zealand Superannuation (recommendation 1.4)

The Government has announced its intention to decouple KiwiSaver from the age of eligibility for NZ Super. This will provide greater security of access to funds for KiwiSaver members, allowing them greater flexibility in choosing when to retire.

Allow people over 65 years to join KiwiSaver (recommendation 1.5)

The Government has also announced its intention to allow people over the age of 65 to join KiwiSaver. This change will provide access to a lower-cost managed fund for those aged over 65 and who have not previously joined KiwiSaver.

Change the name of the 'contributions holiday' to 'savings suspension' and reduce the maximum renewable time for savings suspensions to one year (recommendation 1.6)

The Government supports this recommendation, in principle, and is considering these changes, recognising that they could have a positive impact on savings.

Require KiwiSaver providers to disclose the total dollar cost of all fees on KiwiSaver annual statements (recommendation 1.7)

The Government has announced changes to make KiwiSaver annual statements more informative and transparent for members. Regulations are being developed to require the disclosure of additional information, such as the total dollar cost of all fees, the total amount that the investor's account grew by over the year, and summary transaction figures detailing the money that has gone in and out of the investor's account during the year. Changes will take effect from 2018.

Undertake research to understand the reasons why members are not contributing and consider changing the name of the Member Tax Credit (recommendation 1.8)

The Government is undertaking work to understand the reasons why members are not contributing, but considers that there is no significant benefit to changing the name of the Member Tax Credit.

Increase the coverage of KiwiSaver (recommendation 1.9)

The Government supports this recommendation, in principle. As per your recommendation, further work needs to be done to assess the impacts of, and options for, introducing additional ways for members to contribute to KiwiSaver.

Align KiwiSaver participation information and data reporting (recommendation 1.10)

The Government does not propose any immediate changes to KiwiSaver reporting periods. Aligning KiwiSaver reporting years to the year ended 30 June would impose additional administrative costs on providers and the Financial Markets Authority.

Membership of more than one KiwiSaver scheme (recommendation 1.11)

The Government agrees with your view on the policy setting which allows membership of only one KiwiSaver scheme. Given there are few significant benefits to joining more than one scheme, the Government is not progressing change in this area at this time.

Improve engagement of default KiwiSaver fund members with their fund (recommendation 1.12)

The Government will continue to monitor default funds and KiwiSaver providers' reports to the Financial Markets Authority to establish whether active decision making by members is increasing.

Total remuneration approach a disincentive for KiwiSaver (recommendation 1.14)

The Government is not considering changing the total remuneration approach as it applies to KiwiSaver at this time. The Government considers that the current approach is satisfactory as it provides flexibility to employers and employees.

Decumulation

Monitor decumulation options and provide tools and information on decumulation (recommendations 1.13 and 2.1)

The Government will continue to monitor current decumulation options and potential future products. Providers are beginning to offer more options for accessing funds in retirement. The

Government agrees that as KiwiSaver balances and demand increases, it is expected that KiwiSaver providers will innovate and offer more drawdown options for members.

Response to the ageing workforce

The Government recognises the importance of older workers in the workforce. As the proportion of older workers grows in the future, the Government is considering ways to address the implications of the ageing workforce, to support older workers and businesses.

National conversation and attitude change towards older workers (recommendation 3.1)

The Office for Seniors is exploring the economic value and business opportunities that an ageing population can create in its Business of Ageing project. The Office for Seniors will update the economic model for its Business of Ageing publication later this year, which quantifies the economic contributions made by people aged over 65.

Provide retraining and career support for people over 50 years (recommendation 3.2)

The Ministry of Social Development provides employment services to all benefit clients. Flexible working arrangements are available to more employees as a result of the Employment Relations Amendment Act 2014. No action on employment services specifically for people aged over 50 is currently planned.

Improve tools and capability to help businesses manage an ageing workforce (recommendation 3.3)

The Government working group is exploring options on how Government can best partner with the business sector to assist businesses with an ageing workforce. The Ministry of Business, Innovation and Employment (MBIE) is developing an online tool to help small businesses create tailored policies for their workplace, including a flexible work policy.

Supporting vulnerable groups

Improve financial capability (recommendation 5.2)

Raising New Zealanders' level of financial capability is a Government priority. The Government is committed to supporting the Commission for Financial Capability and the Ministry of Social Development, and encouraging other organisations, to provide financial capability programmes that reach New Zealanders of all ages. Since 2013, funding for a range of budgeting services programmes funded by the Ministry of Social Development has increased, with an increased emphasis on community-led programmes that take a social investment approach to raising financial capability.

Increase the provision of suitable housing for older people (recommendation 5.5)

MBIE is working on a number of policies and work programmes to support the property market to function well. This includes ensuring that a range of housing types are delivered at a range of prices, in a range of locations, to provide people of all ages with housing options that meet their needs. The government, community and private sector all have a role in contributing to meeting this need.

Support for those caring for others, including consideration of the support provided to older carers in the next Carers' Strategy Action Plan (recommendation 5.6)

The Carers' Strategy Action Plan was developed through a partnership between government agencies and the New Zealand Carers Alliance, to improve support for those caring for family members with a health condition or disability. Consultation with carers has identified older people caring for family members as a group with a need for specific advice to help them in their role. As a result, an information resource has been developed to assist older carers as part of the

Carers' Strategy Action Plan for 2014-2018. The Government will also consider including support for older carers in the next Carers' Strategy Action Plan, to be decided upon by mid-2018.

Review and adjust supplementary allowances (recommendations 5.4 and 6.5)

The Government is committed to providing supplementary assistance to support people in particular situations or with specific ongoing costs, or who are in hardship and require one-off or temporary assistance.

Concluding comments

I recognise the importance of retirement income policy. The Government is already implementing many of the recommendations from the Review, and considering areas that require further research. The Government is committed to exploring further developments in this area where appropriate.

The Government looks forward to working with you towards the goal of helping New Zealanders prepare for retirement across a lifetime.

Yours sincerely



Hon Jacqui Dean
Minister of Commerce and Consumer Affairs