



COVERSHEET

Minister	Hon Kris Faafoi	Portfolio	Commerce and Consumer Affairs
Title of Cabinet paper	2019 Review of Retirement Income Policies Proposed Government Response	Date to be published	9 October 2020

List of documents that have been proactively released

Date	Title	Author
22 July 2020	<i>2019 Review of Retirement Income Policies Proposed Government Response</i>	<i>Office of the Minister of Commerce and Consumer Affairs</i>
22 July 2020	<i>DEV-20-MIN-0145</i>	<i>Cabinet Economic Development Committee</i>

Information redacted

YES

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

In Confidence

Office of the Minister of Commerce and Consumer Affairs

Cabinet Economic Development Committee

2019 Review of Retirement Income Policies: Proposed Government Response

Proposal

- 1 This paper seeks Cabinet's agreement to release a response to the Retirement Commissioner (the Commissioner) on the 2019 Review of Retirement Income Policies (the Review).

Relation to Government Priorities

- 2 This paper relates to the Government's priority to improve the wellbeing of New Zealanders and their families.
- 3 The settings for retirement income policy contribute to wellbeing in Retirement. Whilst this paper does not recommend any policy changes, the Government will consider recommendations made in the Review in more detail over the coming months. Links between Government priorities and changes to retirement income policy settings will be considered and outlined in any subsequent Cabinet paper.

Executive Summary

- 4 In December 2019 the Commissioner delivered the 2019 Review of Retirement Income Policies. This is a three-yearly statutory review under the New Zealand Superannuation and Retirement Income Act 2001. There are no statutory obligations or prescribed timeframes for the Government to respond to the review. However, there is an expectation and precedent that the Government should respond.
- 5 The Review has a strong focus on wellbeing and emphasises the importance of reducing disparities experienced by vulnerable New Zealanders before they reach the age of 65. It contains 19 recommendations relating to New Zealand Superannuation, KiwiSaver, employment, housing, and coordination and monitoring of the retirement income policy system (full list of recommendations attached at Appendix 1).
- 6 The Ministry of Business, Innovation and Employment (MBIE), in consultation with relevant agencies, has prepared a letter of response to the Review (attached at Appendix 2). The letter provides a high-level response to the Review as a whole, but does not assess each recommendation individually, as has been done in previous years. This is due to the economic uncertainty created by COVID-19, which has made it difficult for agencies undertake robust analysis and draw conclusive views on all of the recommendations in the Review.

- 7 I am proposing that the Government continue working with the Commissioner in order to consider the recommendations in the Review that are not already being addressed as part of existing work programmes. This work would take place over the next 12 months.
- 8 This paper seeks Cabinet's approval to release the proposed response to the Commissioner.

Background

- 9 Under the New Zealand Superannuation and Retirement Income Act 2001, the Commissioner is required to review New Zealand's retirement income policies every three years and report to Government on the findings.
- 10 As well as meeting the statutory requirement, the Review fulfils the Commissioner's function of monitoring the effects of retirement income policies and developing methods to improve their effectiveness.
- 11 On 20 December 2019, the Commissioner delivered the Review. On 29 January 2020, the Review was tabled in the House and publicly released by the Commissioner.
- 12 The Review is based on terms of reference, and is informed by background papers, forums, research, and public submissions.
- 13 While the review is required to be reported to the Government, there are no statutory obligations (or timeframes) for the Government to respond to the Review. However, there is an expectation, and precedent, that the Government should respond.
- 14 When the Review was released in January I announced that the Government would provide a response by the middle of the year.

Summary of the Review

- 15 The Review has a strong focus on wellbeing and emphasises the importance of reducing disparities experienced by vulnerable New Zealanders before they reach the age of 65. It proposes that the Government should focus on improving pre-retirement policy settings to ensure that all New Zealanders have the best opportunity to prepare for retirement.
- 16 There are 19 recommendations made in the Review. The majority of these recommendations are summarised below. A full list of recommendations is attached at Appendix 1.
- 17 *NZ Super settings*: A headline recommendation that gained media attention was the affordability assessment of New Zealand Superannuation (NZ Super). The Commissioner assesses NZ Super as fiscally sustainable over the medium term and recommends retaining NZ Super on current settings due to risks around heightening equity issues in the coming decades. This recommendation was different to the 2013 and 2016 reviews. Those reviews found that NZ Super settings were unaffordable and recommended lifting the age of eligibility as a priority action.

- 18 *Housing*: the Commissioner recommends modelling the potential range of impacts of removing the owner-occupied requirement for first-home withdrawals from KiwiSaver.
- 19 *Employment*: the Commissioner recommends that a new 'Employment Connection' service be established, and that this could sit between the Ministry of Social Development (MSD) and MBIE.
- 20 *KiwiSaver settings*: the Commissioner recommends a number of measures to enhance and further support New Zealanders to save through KiwiSaver.
- 21 *Coordination and monitoring of retirement income policy and governance of the Commissioner*: the Commissioner recommends several measures to enable better coordination and monitoring across the retirement income policy system, and the Commissioner's role in this. These include:
- 21.1 a purpose statement for New Zealand's retirement income system is advanced by the Retirement Commissioner;
 - 21.2 governance for the Retirement Commissioner and their office should be provided by both MSD and MBIE;
 - 21.3 the regular review cycle should be amended to fall in the year after an election, rather than prior.

Impact of COVID-19 on the Government's Response

- 22 In February 2020 a cross-government group of officials was established to consider the Review and prepare a response to each of its recommendations. The group was on-track to advise the Government on a response by June; however, the onset of COVID-19 resulted in some disruption to the preparation of the response.
- 23 A key challenge is that the uncertain economic landscape has made it difficult for agencies to undertake robust analysis and draw conclusive views on all of the recommendations made in the Review. Agencies have also faced, and continue to face, capacity issues due to re-prioritisation of their work programmes and the need to focus on COVID-19 response work.
- 24 Given that the Review was delivered in December 2019, I propose that a response should be released in the current term. However, this response will be different due to the impact of COVID-19. Rather than responding to each recommendation, the response will signal an ongoing commitment to work collaboratively with the Retirement Commissioner. Whilst this would be a different approach to previous responses, which have assessed and responded directly to each recommendation within a single letter of response, I believe a meaningful response can still be made in this way. The Commissioner has signalled her support for this approach.
- 25 This approach will ensure that each recommendation can be given due consideration, and agencies have the ability to take the economic and social impact of COVID-19 into account when formulating their advice to Ministers

on the recommendations made in the Review. Further detail on this approach is provided below.

Proposed Response to the Review

- 26 I propose to release a letter of response to the Commissioner shortly after obtaining approval. The letter will acknowledge the work that has gone into the Review, and provide high-level commentary on it. It will also draw attention to work underway across government that aligns with the Review, and recommendations that have already been actioned by the Government. A copy of the proposed letter is attached at Appendix 2.
- 27 I also propose that the letter signals the Government's intention to continue working with the Commissioner to consider recommendations in the Review that are not already being addressed as part of existing work programmes.

Working in partnership with the Commissioner to consider the Review's recommendations

- 28 I expect that relevant agencies will engage directly with the Commissioner on individual recommendations relevant to their portfolio and that they will report directly back to their Ministers as this work progresses. I anticipate that this work would be undertaken over the next 12 months.
- 29 Given that the Review was released prior to the onset of COVID-19, it is important that the government continues to work with the Commissioner to ensure that recommendations are considered within the rapidly changing economic context. COVID-19 has had far-reaching consequences and many New Zealanders are currently facing hardship due to changes in personal finances. While there is a need to consider support measures to help people get back on track, it is also necessary to recognise the long-term importance of retirement savings to New Zealanders wellbeing.
- 30 Continued conversations with the Commissioner are important because retirement income policy, and financial capability policy more generally, crosses over into many other policy areas. The Commissioner herself intends to bring a more collaborative focus to retirement policy issues, and to the persistent, long-term challenges of building New Zealanders' financial capability.

Focus on retirement income policy issues for those more vulnerable to poor outcomes in retirement

- 31 As I noted above, the Review has a strong focus on supporting those who are at heightened risk of poor outcomes in retirement. The ongoing work on the Review's recommendations will need to specifically take into account vulnerabilities of Māori, Pacific people and women.
- 32 In particular, any policy consideration of retirement income for Māori should be framed by Te Tiriti o Waitangi.

Financial Implications

- 33 There are no fiscal implications arising from the proposed Government response.
- 34 If future decisions are made in relation to specific recommendations that have financial implications those will be raised through those decision-making processes.

Legislative Implications

- 35 There are no legislative implications arising from the proposed Government response.

Climate Implications of Policy Assessment

- 36 There are no climate implications arising from the proposed Government response.

Population Implications

- 37 There are no population implications arising from the proposed Government response.
- 38 The Review highlights that Māori, women and Pacific peoples are vulnerable to poor retirement outcomes. These implications will be considered as work progresses with the Commissioner to consider the recommendations in the Review

Human Rights

- 39 There are no human rights implications arising from the proposed Government response.

Consultation

- 40 The Treasury, Inland Revenue, Ministry of Social Development, Ministry for Housing and Urban Development, Office for Seniors, Ministry for Women, Ministry of Health, Ministry for Pacific Peoples, Te Puni Kōkiri and the Financial Markets Authority have been consulted on the recommendations and the proposed response to the Review. The Department of Prime Minister and Cabinet has been informed.

Communications

- 41 I intend to send a letter of response to the Commissioner directly.
- 42 I intend to proactively release the letter and release a statement once the Commissioner has received the letter. It is likely that the Commissioner will also publish the response.

Proactive Release

- 43 Consistent with the Government's proactive release policy, I intend to release this paper within 30 business days from the date that Cabinet considers this paper.

Recommendations

The Minister of Commerce and Consumer Affairs recommends that the Committee:

- 1 **note** that on 20 December 2019 the Retirement Commissioner delivered the 2019 Review of Retirement Income Policies;
- 2 **note** that on 29 January 2020 the Review was tabled in the House and publicly released;
- 3 **note** that there are no statutory obligations or prescribed timeframes for the Government to respond to the Review, however there is an expectation that the Government should respond;
- 4 **note** that COVID-19 has impacted on the preparation of a full response to each recommendation in the Review;
- 5 **agree** to release the proposed letter of response to the Retirement Commissioner;
- 6 **note** that the government will continue to work with the Retirement Commissioner to consider recommendations in the Review that are not already being addressed as part of existing work programmes;
- 7 **note** that government agencies will engage directly with the Retirement Commissioner on individual recommendations relevant to their portfolio and that they will report back to relevant portfolio Ministers as this work progresses.

Authorised for lodgement

Hon Kris Faafoi

Minister of Commerce and Consumer Affairs

Appendix 1: Recommendations in the Review

NZ Super Settings

1. That NZ Super should be retained on current settings.

Employment and housing

2. Establish a new government 'Employment Connection' service to sit between MSD and MBIE.
3. Model the potential range of impacts if the owner-occupied requirement for first home withdrawals was to be removed.

KiwiSaver: Supporting New Zealanders to save for retirement

4. Introduce a dynamic stepped employee contribution as default for new default members and as an option for current members.
5. Phase in employer contributions for members aged over 65 and consider the implications of doing so for those aged under 18.
6. Phase out inclusion of KiwiSaver in 'total remuneration packages' to separate employer incentives from agreed wages or salaries.
7. Transfer the management of hardship applications to a centralised hub to ensure consistency, improve fairness and trigger budgeting, counselling and other wrap-around assistance from relevant agencies.
8. Add a side account to the main KiwiSaver account for short-term emergencies. This will protect savers main savings while enabling access for short-term need.

KiwiSaver: Supporting New Zealanders who are not employees

9. Remove existing KiwiSaver government contribution and introduce a 'government match' of voluntary contributions at an increased amount to incentivise voluntary contributions by non-employees.
10. Auto-enrol beneficiaries in KiwiSaver through a 3% government contribution each week, on top of their current benefit.
11. Introduce care credits to reduce the risk of penalties for time out of employment due to caring responsibilities.

KiwiSaver fees and ethical investment

12. Exclude fixed fees from low-balance (under \$5000) KiwiSaver accounts. In effect, providers would cross-subsidise low-balance accounts with fees collected from other higher-balance ones.
13. Display fee projections on annual member statements as well as a comparison to the average for that fund type.

I N C O N F I D E N C E

14. Improve disclosure around share investing in KiwiSaver. This would involve mandate to improve disclosure on shares to further distinguish between emerging vs established markets as well as New Zealand versus Australian shares.
15. Make prescribed investor rates (PIR) tax refundable to accommodate people using incorrect tax rates.
16. Introduce taxpayer funding for Mindful Money to guarantee the charity continues to publish unbiased, responsible investment information.

Coordination and monitoring of retirement income policy and governance of the Retirement Commissioner

17. A purpose statement for New Zealand's retirement income system is advanced by the Retirement Commissioner.
18. Governance for the Retirement Commissioner and their office should be provided by both MSD and MBIE.
19. The regular review cycle should be amended to fall in the year after an election, rather than prior.



MP for Mana

Minister of Broadcasting, Communications
and Digital Media

Minister for Government Digital Services

Minister of Commerce and Consumer Affairs

Associate Minister of Housing (Public Housing)

Jane Wrightson

Retirement Commissioner

To protect the privacy of natural persons

Dear Ms Wrightson

Government response to the 2019 Review of Retirement Income Policies

Thank you for the 2019 Review of Retirement Income Policies (the Review). I acknowledge the extensive amount of work that has gone into the Review, and your commitment, as the incoming Retirement Commissioner, to taking this work forward.

This year the COVID-19 pandemic has had a significant impact on New Zealand's economy and on the financial situation of many New Zealanders. As we rebuild, there is an opportunity to think strategically about what we can do to improve financial capability outcomes, and to ensure that New Zealanders are well-prepared for retirement.

The Review provides a strong basis for the Government to reflect on New Zealand's retirement landscape and consider how policy settings can best support New Zealanders in the later stages of their lives. The Government has considered the Review, which has led to the response provided below.

Proposal to work in partnership with you to consider the Review's recommendations

The Government would like to work in partnership with you and the Commission for Financial Capability to consider the recommendations made in the Review that are not already being addressed under existing work programmes.

The uncertainty of the economic landscape has made it challenging for the Government to draw conclusive views on all of the recommendations made in the Review. Given the Review was released prior to the onset of COVID-19, it is important that further work is undertaken to ensure that its recommendations are considered within this evolving economic context. Working together in an on-going capacity will enable us to discuss and agree on actions to achieve our common aspirations and goals, and ensure that any changes to policy settings are considered in line with broader economic recovery efforts. I expect relevant agencies to engage with you directly on the individual recommendations over the coming months.

Considering the needs of New Zealanders at risk of poor outcomes in retirement

The Review's focus on wellbeing highlights the importance of ensuring that government policy settings are operating in a way that supports the accumulation of material wealth across a New Zealander's lifetime. As we work together it is important that we consider this, and look to address the specific needs of New Zealanders who are at heightened risk of poor outcomes in retirement.

The Government is acutely aware that Māori can face particular challenges preparing for retirement. On average, Māori earn less than non-Māori and are more likely to be living in areas of high deprivation and therefore in communities with less resources to meet the needs of their kaumātua. For Māori living in areas of high deprivation, a lack of economic activity and employment will make it harder to prepare for retirement. It is important that any policy consideration of retirement income for Māori is framed by Te Tiriti o Waitangi as the founding document of our country.

We must also consider the needs of other vulnerable groups. As highlighted in the Review, women face a complex combination of outcomes in retirement, due to longer life expectancy but lower savings and incomes, and are more likely to face disrupted employment due to caring responsibilities. Pacific New Zealanders also face specific vulnerabilities in retirement and across their lifespan, including poorer health outcomes and shorter lifespans. It is critical that we account for these factors in order to ensure fair and equitable retirement outcomes for all New Zealanders.

Coordination and monitoring across the retirement income system

The Review highlights a critical need for more deliberate monitoring and coordination across the whole retirement income system and recommends that you, as the Retirement Commissioner, should lead the development of a purpose statement for the retirement income system in consultation with government.

I am aware that you are already progressing this, and that work is underway to bring a more collaborative focus to retirement policy issues, and to the long-term challenges of building New Zealanders' financial capability. The Government is supportive of these efforts, and wishes to continue to collaborate with you on this, including on the work that you are doing to reinvigorate the National Strategy for Financial Capability. Building New Zealanders' financial capability is important to ensure they are able to manage financial challenges now, and over the long-term as they reach retirement.

Government work programmes that align with the Review

There are several work programmes underway across government that align with, or are considering, some of the recommendations made in the Review. Many of the recommendations will be considered in the context of existing work programmes.

Initiatives to support New Zealanders to accumulate retirement assets through housing

The Review highlights the importance of owning a freehold home for wellbeing in retirement. In order to allow more people to purchase housing as a retirement investment, it recommends modelling the potential range of impacts if the owner-occupied requirement for first-home withdrawals from KiwiSaver was to be withdrawn.

Responding to New Zealanders' housing needs is a priority for the Government. The Build Programme Reset is being set up to respond to housing needs and changes in the housing market, and the Government Policy Statement for Housing and Urban Development provides a cross-system statement setting out a Government vision for housing and urban development.

The Better Later Life – He Oranga Kaumātua 2019 to 2034 strategy looks at what needs to be done to make sure that New Zealand has the right policies in place for our ageing population. The strategy identifies five key areas for action, including 'Creating Diverse Housing Choices and Options' which seeks to ensure that New Zealanders can age in a place they call home, safely, and where possible, independently.

Initiatives to support New Zealanders to save for later life through paid employment and in KiwiSaver

The Review highlights the importance of paid employment to allow for the accumulation of adequate savings over the course of a person's pre-retirement life, and the significance of KiwiSaver in enabling New Zealanders' retirement saving and planning.

The Better Later Life – He Oranga Kaumātua 2019 to 2034 strategy identifies 'Achieving Financial Security and Economic Participation' as another key action area to ensure that all New Zealanders have sufficient income, assets and other support to enjoy an adequate standard of living as they age.

The KiwiSaver Default Provider Review has considered several aspects of KiwiSaver that have also been considered in the Review. This includes changes to fees for low balances and improving disclosure about responsible investment. The Government will continue to consider the Review's KiwiSaver recommendations in our ongoing work with you.

Interaction with reviews of the welfare system

Several of the Review's KiwiSaver recommendations consider the specific needs of low income and beneficiary New Zealanders, and those taking time out of employment due to caring responsibilities.

The Government is currently undertaking a programme of work to make significant improvements to New Zealand's welfare system. The Welfare Overhaul work programme includes a range of initiatives to achieve its vision of a welfare system that ensures people have an adequate income and standard of living, are treated with and can live in dignity, and are able to participate meaningfully in their communities. Over the next four to five years, this will include further work to reset the foundations of the welfare system; increase income support and address debt; strengthen and expand employment services; and improve support and services for disabled people, people with health conditions and disabilities, and their carers.

There is also work underway to improve the wellbeing of the one in ten New Zealanders who care for a loved one with a disability, health condition, illness or injury. The Mahi Aroha - Carers' Strategy Action Plan 2019-2023 is reviewing the policy settings for financial support for carers, and includes a specific action to consider a carers wellbeing payment.

Recommendations that have already been actioned by the Government

There are also two recommendations that have already been actioned by the Government.

The Review recommends establishing a new 'employment connection' service. This would focus on providing practical support and specific job and skill matching services for any New Zealander who needs support to connect to their next job. The Ministry of Social Development recently launched Keep New Zealand Working, an online recruitment tool that connects job seekers directly to the employer, making it quicker and easier for people to find work.

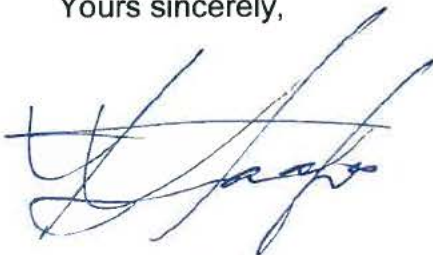
The Review recommends making prescribed investor rates tax refundable to accommodate people using incorrect tax rates. These changes have been made through a recent taxation Bill. The changes will take effect from the 2021 tax year such that any refunds or tax owing will be added to the individual's end of year tax position.

Concluding comments

The independent assessment of retirement income policies is a critical function of the Retirement Commissioner, and the Review provides the Government with helpful information to ensure that policy settings effectively support New Zealanders as they age.

Thank you again for the Review. The Government recognises the importance of retirement income policy and looks forward to working together towards the goal of helping New Zealanders prepare for retirement.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Kris Faafoi', with a stylized flourish at the end.

Hon Kris Faafoi
Minister of Commerce and Consumer Affairs