

Submission

By



To

Retirement Commission

On the

2010 Retirement Income Policy Review

30 April 2010

PO Box 1925
Wellington
Ph: 04 496 6555
Fax: 04 496 6550

**2010 RETIREMENT INCOME POLICY REVIEW
SUBMISSION BY BUSINESS NEW ZEALAND¹
30 April 2010**

1. INTRODUCTION

- 1.1 Business New Zealand welcomes the opportunity to comment on the 2010 Review of Retirement Income Policies being undertaken by the Retirement Commission (the Commission) that will be tabled with the Government. Ensuring that appropriate retirement incomes policies are in place is recognised almost universally as being one of the critical issues for New Zealand as the economy comes under increasing pressure from an ageing population.
- 1.2 The Commission has raised particular issues relating to retirement income policies for this review. Business New Zealand wishes to pick up on some of these, as well as other issues we believe need addressing by the Commission.

2. SUMMARY OF RECOMMENDATIONS

- 2.1 Business New Zealand **recommends** that:

- a) ***Any retirement income policy review takes into account general policy trends towards growth promoting policies undertaken by the Government (p.3);***
- b) ***The Retirement Commission investigate patterns/trends that have been evident in KiwiSaver since the global recession, so that they can better inform individuals of the choices they would be advised to make regarding KiwiSaver when future recessions occur (p.4);***
- c) ***The Retirement Commission continue to focus on issues relating to encouraging older workers to remain in the workforce before/beyond the official age of retirement. Also, any future policy development includes the consultation/assistance of business organisations. (p.6);***
- d) ***The Retirement Commission take an active role in ensuring personal online finance tools established by the major banks become a significant tools in helping to improve New Zealanders financial decisions, and in turn their provision for retirement income (p.7); and***
- e) ***The Retirement Commission investigate the possible use of the New Zealand Productivity Commission's resources in undertaking relevant pieces of research involving retirement income policy in New Zealand (p.8).***

¹ Background information on Business New Zealand is attached in the appendix.

3. 2007 REVIEW

- 3.1 Business New Zealand submitted on the 2007 retirement income policies review, and made the following recommendations at that time:
1. The Retirement Commission should note that Government policies in all areas should have an explicit growth promoting focus;
 2. The Retirement Commission should recommend to the Government how higher labour force participation rates for older New Zealanders should be encouraged;
 3. KiwiSaver remains a voluntary scheme;
 4. The Retirement Commission should recommend to the Government that tax incentives should not be viewed as a key way in which to increase retirement income. Rather, there should be an emphasis on lower personal and company tax rates;
 5. The Retirement Commission should be seen as a prime information outlet for the usefulness or otherwise of home equity products;
 6. The Retirement Commission continue to develop a 'whole of life' perspective to financial education and literacy; and
 7. The Retirement Commission should seek to increase the resources available to them, with a view to ensuring it is adequately resourced to carry out its important educative functions.
- 3.2 We view almost all of the issues we outlined in 2007 as being just as important today as they were three years ago, especially the major long term issues relating to growth and improving the ability to save for retirement via reduced personal taxes.
- 3.3 Regarding the other issues, home equity products have probably become less important at the current time, but will no doubt be a key option for older people in the future. We continue to expect the Government to provide the Retirement Commission with adequate resources to carry out important educative functions. In general, the majority of funding would come from general taxation. However, we understand some funding for the Retirement Commission also comes from specific sectors (like retirement villages where the Commission charges a fee for monitoring etc of the Retirement Villages Act 2003). In these cases, use of privately collected funding must have clear accountability and transparency as to how much is raised and how it is spent.
- 3.4 It goes without saying that since the 2007 review, the global recession has had a large effect on New Zealand, leading to business closures, higher unemployment and loss of savings via the collapse of finance companies. While one could argue that the overall damage to New Zealand has not been as severe as in other countries, our relative ability to absorb adverse shocks

is not as great as we struggle to retain our standing in terms of growth and per capita income with countries we typically compare ourselves with.

- 3.5 Simply put, New Zealand cannot afford to fall further behind in good or bad times, so we must have the right policies in place to ensure strong and sustained economic growth during the good times, as well as to minimise economic harm when recessions occur. Without a correct mix of policies, New Zealand will not be able to afford adequate retirement income (whether it be from the Government or the individual), notwithstanding other basic provisions such as adequate health care and education. Therefore, we must ensure that any review of retirement income policies is set within the context of wider policies that take a growth promoting focus.

Recommendation: Any retirement income policy review takes into account general policy trends towards growth promoting policies undertaken by the Government.

4. 2010 REVIEW

- 4.1 We note that as part of the terms of reference, the 2010 review is particularly interested in the following issues:

- The way that Government agencies work together and contribute to effective retirement income policy;
- The role of New Zealand's financial services sector in relation to retirement income provision; and
- The future wellbeing of New Zealanders in their retirement years, and what this may mean for their communities, and for local and central government.

- 4.2 Through consultation with our wide membership, Business New Zealand wishes to pick up on some issues we believe need to be examined/addressed by the either the Government or the Commission. Some of these go beyond the terms of reference but we believe are equally important for the long-term success of retirement income policies in New Zealand.

5. KIWISAVER AND THE GLOBAL CRISIS/RECESSION

- 5.1 In the terms of reference for the 2010 review, the third bullet point mentioned in 4.1 above includes '*how the global financial crisis may affect the adequacy of retirement income provision for individuals at various life stages*'. Business New Zealand believes that in addition to understanding individuals' financial decisions and provision for retirement income when incomes increase, it is equally important to gauge how they react in terms of spending choices when recessions create a greater squeeze on incomes due to redundancies or decreased hours worked.

- 5.2 One of the primary links between provision for retirement and stages of working life is KiwiSaver. While it is obvious that those who are made

redundant would automatically forgo the employee and employer contribution to their KiwiSaver account, loss of hours worked, a reduced salary or other similar employment/income changes in terms of an individual or family unit may also mean a change to an employee's contribution to their KiwiSaver account.

- 5.3 As an example, a family may initially have both the husband and wife working, with both contributing to KiwiSaver. However, one loses their job and struggles to obtain another because of the lack of job opportunities during the current (or any) recession. As a family, they may decide to minimise outgoings, and view KiwiSaver for the family member still working as one area where contributions could be stopped, typically via a contributions holiday. While some may re-join KiwiSaver once a new job is obtained, others may decide to hold off re-joining for longer, or simply due to apathy not re-join, even though they could now afford to.
- 5.4 Business New Zealand is concerned that the current recession (and future recessions) may cause individuals or family units to make financial choices – especially those relating to provision of retirement income – that are not in their best long-term financial interests. Given KiwiSaver has now been in existence for close to three years, Business New Zealand believes it would be useful for either the Retirement Commission or another Government Department to examine trends/patterns of KiwiSaver membership, looking particularly those who have opted for contributions holidays since the start of the recession and whether there appears to be reluctance to re-join once re-entering the workforce. In addition, other areas to observe trends would include KiwiSaver membership related to:
- Youth;
 - Family unit income;
 - Ethnicity; and
 - The baby boomer generation
- 5.5 Overall, gathering data which may outline trends could better inform the Government about probable reactions to KiwiSaver when New Zealand experiences another recession.

Recommendation: That the Retirement Commission investigate patterns/trends that have been evident in KiwiSaver since the global recession, so that the Retirement Commission can better inform individuals of the choices they would be advised to make regarding KiwiSaver when future recessions occur.

6. ENCOURAGING OLDER WORKERS TO STAY IN THE WORKFORCE

- 6.1 Productivity growth is a key priority for Business New Zealand. Given the extent of our declining labour force participation rate, a combination of labour market activities will be necessary to soften the anticipated drop in labour participation. Given the potential adverse impact of the drop in labour participation Business New Zealand considers that attention should be

- focused on approaches, programmes and initiatives successful used to encourage older workers to stay in the workforce.
- 6.2 In relation to the baby boomer generation reference mentioned in 5.4 above, it is important that employers have ways and means to encourage a large demographic of workers who will soon be entering retirement to continue working where their skills are in high demand or where there is simply a labour supply issue for particular regions/industries. Currently, many employers struggle in this regard.
- 6.3 Often, the retirement of a long-standing employee causes a business to lose not only someone with general experience, but also the connections and institutional knowledge of the business/industry. There are increasing numbers of workers you are now looking to work beyond the official retirement age of 65 by continuing to do exactly what they have always done. However, there are also those who may wish to adjust their working conditions as a way of staying in a job post the age of 65, such as working on a part-time basis, working from home or cutting down on certain responsibilities.
- 6.4 In addition, if older workers are unable to keep their current role because of the physical nature of the job or because their role has moved on, this does not mean they should automatically be pressed into retirement. In many instances their skills and experience could easily be adapted to suit other roles, either within the business they work or for another employer.
- 6.5 We note that there are various elements of Government currently conducting work in this area, including the work by the Office of Senior Citizens. Of the three main priority areas, it includes *'employment of mature works by encouraging flexible work options and opportunities for older workers to remain in work'*. Also, the Retirement Commission has previously provided financial support for joint research work by the New Zealand Institute of Management and the Institute of Policy Studies entitled *'Workforce Ageing – An Issue for Employers'* conducted in 2008. This was a significant piece of research that examined in great detail viewpoints from owners and senior management relating to older workers and dealing with those approaching retirement in their business.
- 6.6 In terms of conclusions in the NZIM/IPS report, page 45 of the report outlined a list of what successful businesses had done to respond positively to the challenges of workforce ageing. It then went on to state that *'the responsibility for fostering these responses lies mainly with the employers themselves although there is a role for business and professional organisations (including the HR profession) and government'*. Business New Zealand agrees. Exactly what employers can do (especially SMEs) in this regard can often be a struggle for them to know.
- 6.7 Therefore, given the research already undertaken, Business New Zealand believes this is an area which the Retirement Commission (and broader Government departments) could undertake further policy development on. As noted in the conclusion above, the input of private sector organisations such as Business New Zealand and regional associations would be crucial in

this regard. Initial work could involve looking at possible communications options to provide employers with an outline of what they could do or what they need to consider. Much of the work would probably involve simple guidelines presented in a clear manner. Overall, there is a good opportunity to provide useful material at relatively low cost to address an ever growing problem for New Zealand labour supply and growth in general.

Recommendation: That the Retirement Commission continue to focus on issues relating to encouraging older workers to remain in the workforce before/beyond the official age of retirement. Also, any future policy development includes the consultation/assistance of business organisations.

7. PERSONAL ONLINE FINANCE TOOLS

- 7.1 Business New Zealand has long advocated the use of online tools to enhance people's financial knowledge so that they can make informed choices about spending, saving and investing. We note the considerable work the Commission has put into making available various online calculators to assist people in this regard. There has also recently been a move by the major New Zealand banks to offer personal finance tools to their own customers, which help them track spending habits and forecast savings.
- 7.2 We note that currently Kiwibank, BNZ and ASB have recently introduced their own personal finance tools in the marketplace. Like the moneytracker tool on Sorted, Business New Zealand fully supports the establishment of these tools. If New Zealanders are to become more financially prepared for their retirement years, then such online tools that track ingoing and outgoings are an essential first step in getting people to have some form of control over their financial decisions.
- 7.3 Given the establishment of these new tools, we believe the Retirement Commission should take an active role in understanding the tools, and should facilitate a range of ongoing discussions with the banks on related issues.
- 7.4 First, Business New Zealand believes it would be worthwhile investigating the possibility of these tools having the capacity to open up their data so customers with accounts with different banks and with different credit cards could have all their information in one tool. We note that this is currently the case with online finance tracking tools such as those provided by Mint and Wesabe in the USA and Europe.
- 7.5 Next, with various products in the marketplace, obviously some will be more user friendly and better able to assist day-to-day finance decisions than others. We believe there could be a role here for the Commission to undertake an independent examination of these tools and/or assist where there may be gaps in terms of financial information provision.
- 7.6 The logical conclusion from 6.5 above, given almost all adults have a bank account, is that the Commission should review what it provides with its own

tools, and access how it promotes the bank finance tools. It may be the case that if all banks' online tools provide the necessary information and tracking for customers, some tools offered by the Commission will simply not be required as all the necessary data will already be imbedded in the banks' online tools. Therefore, there is every opportunity for the Commission to steer people toward using such tools as a first step to understanding their financial position, and how to reduce debt and build savings.

- 7.7 As with any information sharing tool, there will undoubtedly be issues relating to privacy that need to be investigated. Also, decisions relating to charging for these online services may invoke different responses with some banks charging for the facility, while others decide to provide the service free of charge. There is also the potential for enhanced services to be offered by banks, such as suggested options for repackaging of debt given the information supplied in the tools (albeit taking into account privacy issues mentioned above). We would expect the Commission to take an active role in looking at such issues.
- 7.8 Overall, we fully support initiatives for online finance tools that seamlessly integrate personal financial/income data with tracking calculators and trends. We believe the Commission can play an active role in ensuring these tools become the next logical step in helping to improve New Zealanders' financial decisions, and in turn provision for retirement income.

Recommendation: That the Retirement Commission take an active role in ensuring personal online finance tools established by the major banks become significant tools in helping to improve New Zealanders financial decisions, and in turn their provision for retirement income.

8. ESTABLISHMENT OF THE NEW ZEALAND PRODUCTIVITY COMMISSION AND MAJOR RETIREMENT INCOME POLICY REVIEW

- 8.1 Business New Zealand has welcomed the recent announcement by the Government of the upcoming establishment of an independent New Zealand Productivity Commission (NZPC). The NZPC will generally be modelled on the Australian equivalent, and will be carrying out research and giving advice to help the Government create policy that will assist the economy to grow. Currently the intent is for the NZPC hold two to three inquiries a year into areas the finance minister is concerned about.
- 8.2 Business New Zealand believes there is a strong opportunity here for the Retirement Commission to seek the future use of the NZPC's resources in terms of investigating critical issues relating to retirement income provision and the relevance of policy settings that impact on retirement income. While the Commission often has the capacity to undertake particular studies, the make-up and independent nature of the NZPC could present the Commission with an alternative opportunity to research issues critical to New Zealand's retirement income policies, including the future of the New Zealand superannuation fund and New Zealand superannuation in general, which are often issues with significant political baggage attached.

Recommendation: That the Retirement Commission investigate the possible use of the New Zealand Productivity Commission's resources in undertaking relevant pieces of research involving retirement income policy in New Zealand.

APPENDIX

9. About Business New Zealand

- 9.1 Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), its 51 member Major Companies Group comprising New Zealand's largest businesses, and its 76-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand is New Zealand's largest business advocacy body. Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.
- 9.2 In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.
- 9.3 Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.