

Coversheet: NZS Reform Package

Advising agencies	<i>Ministry of Social Development (MSD)</i>
Decision sought	<i>Cabinet agreement to a proposal to modernise and simplify the provision of retirement income in New Zealand.</i>
Proposing Minister	<i>Hon Carmel Sepuloni, Minister for Social Development</i>

Summary: Problem and Proposed Approach

Problem Definition

What problem or opportunity does this proposal seek to address? Why is Government intervention required?

There is an opportunity to modernise and simplify the provision of retirement income in New Zealand, particularly in the context of globalisation, s 9(2)(f)(iv) and significant demographic change. s 9(2)(f)(iv) the assessment of an individual's entitlement to New Zealand Superannuation (NZS) or Veteran's Pension (VP) would represent a step towards a more modern retirement income system.

Proposed Approach

How will Government intervention work to bring about the desired change? How is this the best option?

MSD has developed a package of proposals that are cost-effective, feasible and will modernise and simplify the NZS/VP policy settings. The core of this package consists of s 9(2)(f)(iv) a shift towards an assessment of entitlement based on the individual by closing the non-qualified partner provision to new applicants, and removing the direct deduction of government-administered overseas pensions received by a qualifying superannuitant's partner ('spousal deduction'). MSD is proposing to advance these changes in 2019, for implementation in 2020 and beyond.

Section B: Summary Impacts: Benefits and costs

Who are the main expected beneficiaries and what is the nature of the expected benefit?

Proposed changes to New Zealand's retirement income system are expected to benefit some people currently receiving NZS/VP and future cohorts of older people. The NZS reform package will also deliver savings to Government in 2020/2021 and out-years.

Monetised benefits

Overall, future savings will offset the initial costs involved in implementing the NZS reform package.

s 9(2)(f)(iv)

- [Redacted]
- [Redacted]

s 9(2)(f)(iv)

- Removing the non-qualified partner (NQP) provision is expected to deliver net savings of \$13.050m in 2020/21, rising to \$90.867m by 2023/24, and \$237.579m by 2030/31
- Removing spousal deduction is expected to have net cost of \$1.820m in 2020/21, rising to \$2.040m in 2023/24.

s 9(2)(f)(iv)

Non-monetised benefits

Together, removing spousal deduction and the NQP provision will significantly simplify the superannuation policy settings, and will move superannuation towards an assessment of entitlement based on the individual, potentially providing an opportunity to introduce auto-enrolment to NZS/VP (with an opt-out provision) of people turning 65 in the future. The package will also streamline the application process for NZS/VP applicants. For example, with the removal of spousal deduction, less information about a qualifying superannuitant's spouse/partner will need to be collected. Simplifying New Zealand retirement income policy will provide greater clarity and certainty for older people and those planning for their older years, s 9(2)(f)(iv).

Where do the costs fall?

Crown

Overall, future savings will significantly offset the initial costs involved in implementing the NZS reform package.

Implementing the package is expected to cost the Crown an additional \$1.927m in the 2019/20 fiscal year. This requires some new funding in the 2019 Budget. s 9(2)(f)

Other regulated parties

s 9(2)(f)(iv) affected groups of people:

- **s 9(2)(f)(iv)**
[REDACTED]
[REDACTED]
[REDACTED]
- When the new rules take effect, people who could be included in their qualifying partner's NZS/VP under existing rules will no longer have this option.

Affected people will have access to social security benefits (on the same basis as anyone else) subject to meeting the eligibility criteria – i.e. unemployment, incapacity for work or financial hardship (Emergency Benefit). The value of these benefits is less than the value of NZS/VP, meaning some people, if they cannot generate sufficient income through work, may experience reduced household income, and may also become reliant on supplementary assistance. However, people who are currently in receipt of NZS/VP as a NQP or otherwise will have their entitlements retained through grandparenting provisions.

What are the likely risks and unintended impacts, how significant are they and how will they be minimised or mitigated?

[illegible]

<p>s 9(2)(f)(iv)</p>	<p>[Redacted]</p>
<p>Removing the NQP provision</p> <p>Future cohorts of people who intended applying for NZS as a NQP may consider it unfair that this option is no longer available to them.</p> <p>Some cohorts of NQPs may qualify for another benefit in their own right (such as JobSeeker), the value of which would be less. This may be considered unfair and result in more people having to rely on supplementary assistance or continuing to work after their partner retires.</p>	<p>Existing NQP entitlements would be protected through grandparenting.</p> <p>The removal of the NQP provision will have a lead-in time of 18 months, to give people time to adjust to the change.</p> <p>In future, people who would otherwise have qualified for NZS/VP but are excluded due to the removal of the NQP provision will have access to social security benefits subject to meeting the eligibility criteria – i.e. unemployment, incapacity for work or financial hardship (Emergency Benefit). Supplementary assistance (such as Accommodation Supplement) will also be available to those who qualify.</p> <p>A communications strategy will be launched prior to implementation explaining the rationale behind the proposed change; that the NQP provision no longer reflects current trends in workforce participation.</p>

<p>Removing spousal deduction</p> <p>Some people may expect the direct deduction policy will also be removed.</p> <p>Some lifelong New Zealand couples may perceive the removal of spousal deduction to be inequitable as there will be couples with an overseas pension who could receive more combined state pension income.</p>	<p>A relatively low number of couples (373 couples) will be impacted by the removal of spousal deduction. A subset of this group currently receive less than lifelong New Zealand couples, and this disadvantage will be addressed.</p> <p>A communications strategy will be launched prior to implementation explaining the rationale behind the combined removal of the NQP provision and spousal deduction.</p> <p>Note that the direct deduction policy maintains equity between people who have spent time overseas and have an overseas government pension and life-long New Zealanders. Alternatives to the deduction (eg moving to a proportional payment system based on residence in New Zealand between the ages of 20 and 65) would be complex and costly, could create hardship for some, and represent a fundamental change to the nature of superannuation.</p>
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Identify any significant incompatibility with the Government's 'Expectations for the design of regulatory systems'.

There is no significant incompatibility with the Government's 'Expectations for the design of regulatory systems'.

Section C: Evidence certainty and quality assurance

Agency rating of evidence certainty?

MSD is confident in the evidence base informing the proposed changes. MSD has a comprehensive understanding of New Zealand's retirement income system and established policy options are informed by recent public and stakeholder consultation, multiple government agencies and independent experts on retirement income.

To be completed by quality assurers:

Quality Assurance Reviewing Agency:

Ministry of Social Development

Quality Assurance Assessment:

I have reviewed the Regulatory Impact Analysis and consider it meets the quality assurance criteria.

Reviewer Comments and Recommendations:

Feedback provided on previous versions is reflected in the final version.

Impact Statement: NZS Reform Package

Section 1: General information

Purpose
MSD is responsible for the analysis and advice set out in this regulatory impact assessment, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing final decisions to be taken by Cabinet on proposals to modernise and simplify the provision of retirement income in New Zealand.

Key Limitations or Constraints on Analysis

Key limitations on the analysis relate to the scope of the Superannuation Reform Work Programme (the Work Programme), criteria used to assess options, consultation and testing of the preferred options.

The Superannuation Reform Work Programme

The Work Programme was agreed by Cabinet Social Wellbeing Committee on 28 March 2018 [SWC-18-MIN-0024 refers] and was grouped into six work streams/topics for consideration as follows:

In scope	
1)	s 9(2)(f)(iv)
2)	<i>provision for including a non-qualified spouse or partner in a qualifying superannuitant's NZS/VP</i>
3)	<i>treatment of overseas government-administered pensions - considering changes to the direct deduction policy and alternative approaches</i>
4)	<i>supplementary assistance for superannuitants - considering developing a single income-tested supplementary assistance programme as an add-on to NZS to replace the existing range of supplementary assistance programmes that superannuitants can access</i>
5)	<i>unit of entitlement and rate structure - considering the benefits and issues associated with moving NZS/VP toward an assessment of entitlement based on the individual</i>
6)	<p><i>policy and technical changes including:</i></p> <ul style="list-style-type: none"> whether the legislation should specify that the wage floor for the annual adjustment of rates of NZS/VP is 66 percent of the average wage (rather than the 65 percent that is currently specified in legislation) in line with current policy expanding the definition of 'living alone', which allows a single person to qualify for the living alone rate of NZS/VP, to include a single person living independently in a self-contained mobile home located somewhere other than a caravan park removing the duplicate Special Disability Allowance provision from the superannuation legislation (currently provided under both the Social Security Act 2018 (SSA) and the New Zealand Superannuation and Retirement Income Act 2001 (NZSRIA) which creates confusion as to which provision should be used) clarification of the circumstances that allow New Zealanders working abroad to count that period of absence towards the residence requirement for NZS/VP clarification of the mechanism for determining the appropriate amount of tax deductions on NZS/VP

- appropriate rate of benefit for a non-qualified spouse or partner of a NZS recipient who has entered residential care
- legislative change to enable future enhancements to the SuperGold Card – which would support future improvements to the functionality of the card and incorporate advances in technology
- other minor technical amendments to legislation to align legislation and policy intent.

As agreed by the Cabinet Social Wellbeing Committee on 28 March 2018 [SWC-18-MIN-0024 refers] some issues were considered not in scope of the Work Programme:

Out of scope

- The age of eligibility for NZS/VP – the Government is committed to maintaining the age of eligibility for NZS/VP at 65 years.
- The indexation mechanism for NZS/VP – the Government is committed to maintaining the current indexation method. Annual adjustments are currently based on price inflation with the married couple rate of NZS/VP required to be between 66 percent and 72.5 percent of the average wage.
- Means-testing the core rate(s) of NZS/VP – it is considered that means-testing would be undesirable. It would be costly and complex to administer and could act as a disincentive to save or to work beyond pension age at a time when the economic contribution of older people is growing in importance. A means-test is also likely to create uncertainty for older people and encourage avoidance, therefore potentially limiting the fiscal savings.
- International Social Security Agreements – these protect the social security rights of people who migrate in and out of New Zealand. Social security agreements are increasingly important in the context of globalisation and international labour mobility. Social security agreements also signal in foreign policy terms that New Zealand and the partner country have a strong bilateral relationship.
- The New Zealand Superannuation Fund – the Government has recently resumed contributions to the Fund and made a commitment to on-going contributions.

MSD has determined that work stream 4 'supplementary assistance for superannuitants' overlaps with the Welfare Expert Advisory Group's (WEAG) overhaul of the welfare system. An assessment of the supplementary assistance provisions will be covered by WEAG. This work stream has therefore not been advanced.

Exemptions

The Treasury Regulatory Quality Team has determined that work stream six (minor policy and technical changes) is exempt from the Regulatory Impact Analysis requirements on the basis that the proposed changes will have no or minor impacts on businesses, individuals or not-for-profits.

Assessment criteria

NZS is by far the largest 'redistributive' public policy programme, transferring more resources than all main social security benefits put together. In the absence of a single

authoritative statement on the purpose or objectives of NZS, MSD has developed a framework used to shape New Zealand's retirement income policy settings. The framework sets out the desirable qualities or ideal objectives of public policy in respect of NZS, to guide policy design and assessment.

Expected outcomes

Fairness

NZS complies with human rights principles, is fair both to those who receive it and those who pay for it, now and through time, and reflects a fair distribution of fiscal costs and risks within and across generations. There can of course be different views about what is fair in any particular circumstance, and views about what is fair can change over time. Nevertheless our society's desire to be fair has been the central guiding principle since the public pension was first developed.

NZS policy also gives assurance to younger New Zealanders, who bear most of the fiscal cost, that they will be fairly protected against hardship in their retirement.

Income adequacy/social wellbeing

People cannot reasonably be expected to work all their lives. NZS, supported where necessary by other social policies, adequately protects the wellbeing of superannuitants against hardship caused by insufficient financial resources, making retirement a feasible option for most. Income adequacy extends beyond merely preventing hardship; adequate income supports superannuitants' ability to participate in the community, the economy and society, contributing to a sense of reciprocity and to social cohesion.

Sustainability

NZS is fiscally and economically sustainable. NZS does the least possible harm to incentives to work, save and invest, as these activities are the basis of New Zealanders' future material wellbeing.

NZS also continues to enjoy sufficient ongoing public support to be politically sustainable, though not necessarily in its exact present form. The corollary of sustainability is that everyone can continue to have confidence in the protection that NZS provides now and will provide in the future.

Simplicity

NZS is as simple as possible to understand, administer, and comply with.

Policy stability

NZS policy is stable. Policy stability does not mean immutability, but does mean that the burden of proof rests with the case for change. The more fundamental the change being proposed, the stronger the case for change must be.

Generally, people in retirement cannot easily adjust their circumstances. In practice, policy stability means that policy is not changed suddenly or arbitrarily, but is changed:

- only by due process
- only after due consideration
- only for good reasons
- only in accordance with those reasons, and
- only after due notice, so as to allow those who will be affected to adapt to the

<p>effects of the change.</p> <p>In relation to NZS, policy stability applies both to the policy objectives themselves and to the actual core policy settings.</p> <p>s 9(2)(f)(iv)</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>
<p>Cost/benefits</p> <p>Any changes to the NZS policy settings must take into account the (relative) monetary and non-monetary costs and benefits-not just for government, but for current superannuitants and future cohorts of older people.</p>
<p>Operational implications</p> <p>It is important to consider the operational impacts of any proposed change to the NZS policy settings. For example, what it will take to implement the change, including feasibility, cost and timeframes.</p>
<p>Legal and regulatory impact</p> <p>Any changes to the NZS policy settings must consider the impacts for legislation and regulations as well as any human rights implications.</p>
<p>Risks</p> <p>Any potential risks should be identified and mitigated where possible.</p>
<p>These criteria, while complementing and contributing to one another, are also in a state of tension with one another. Having more of one usually means having less of the others. Trade-offs among them are sometimes necessary, raising the question of their relative importance.</p> <p>Ideal NZS policy has two aims:</p> <ul style="list-style-type: none"> • it aims to achieve the fair distribution of wellbeing across the members of the community and through time • and it also aims to maintain a socially acceptable overall level of wellbeing of New Zealanders, both those who are older and those who are yet to become older, and their community. <p>These point to fairness as the central ideal policy objective for NZS, and therefore as a “meta-criterion” to use when considering trade-offs among the various policy objectives.</p> <p>Consultation & Testing</p> <p>The Minister for Social Development decided that public consultation would occur through the select committee process. The policy options have been informed by the results of recent public and stakeholder consultation in related work programmes. Sections 2.4 and 2.5 further explain recent consultation that has informed the proposed policy options noted by Cabinet Business Committee on 8 October 2018 [CBC-18-MIN-0092 refers].</p>

Responsible Manager (signature and date):

Justine Cornwall, General Manager

Seniors & International Policy

Ministry of Social Development

Date:

Section 2: Problem definition and objectives**2.1 What is the context within which action is proposed?*****Ageing population***

Population ageing is driving major demographic, economic and social change across New Zealand. The 65 plus age group is growing rapidly with a larger proportion of people living past the age of 80.² By 2038, the number of people aged 65 and over is projected to grow from around 750,000 (15.3 percent of the population) today to around 1,300,000 (22.6 percent of the population).³ This increase will have a corresponding impact on the real fiscal cost of NZS/VP if existing policy settings continue unchanged.

Forecast expenditure

NZS is one of the largest single components of government expenditure. Expenditure will increase in line with the ageing population and indexation, reaching a forecast \$15.7 billion by 2019/2020 and \$43.7 billion by 2037/38.⁴ However, expenditure on public pensions in New Zealand is below the average for OECD countries and expected to remain so. As a percentage of GDP, public pension expenditure (before tax) in New Zealand is currently around 4.5 percent and expected to increase to 7.2 percent of GDP by 2050.⁵

More people working beyond the age of 65

There is an expectation that most people can and should work until the age of eligibility for NZS and VP, and this expectation has been an increasing focus of New Zealand's social security system.

It is becoming increasingly common in New Zealand for people to continue in paid work beyond the present NZS entitlement age (65) and that trend is projected to continue:

In 1991	In 2006	In 2018	In 2026 (projected)
6%	12%	24.5%	25.2%

Labour force participation is now higher than ever amongst both women and seniors. New Zealand's labour force participation rate for people aged 65 or over is amongst the highest in the OECD. The current NZS policy settings support this – that is, NZS is paid without a

² Stats NZ, Infoshare: Estimated Resident Population by Age and Sex (1991+) (Annual-Jun)

³ Stats NZ(2016), *National Population Projections: 2016(base)–2068* (median projections)

⁴ Long-term Fiscal Model. Treasury. November 2016.

⁵ The OECD average is currently around 8.9 percent of GDP and projected to increase to 9.5 per cent of GDP by 2050.

means-test and without regard to current or previous labour force status so there is no financial disincentive to save/invest or work.

As New Zealand's workforce ages, older workers will play an increasing role in responding to skill and labour shortages and contributing to raising productivity and future economic growth. While many people choose to work beyond pension age, some may continue working out of necessity. Others have no choice and cannot work into their older years, such as those with a long-term health condition or a disability, or those who no longer have the physical ability to continue in their field of work. s 9(2)(f)(iv)

Increasing participation in paid work is also driving an increase in income inequality for people aged 65 or over.

The numbers at a glance

- There are 766,500 people receiving NZS. Around 95 percent of the population aged 65 plus receive NZS/VP or another main social security benefit. It is projected that by 2038 the population aged 65 plus will number 1.3 million.
- s 9(2)(f)(iv)
- There were 60,000 applications for NZS over the past 12 months.
- Around 90,000 people are subject to direct deduction of an overseas government-administered pension. The total annual value of direct deductions is approximately \$400 million per year. These numbers are increasing as it is becoming more common for people to spend their working life in two or more countries.
- Around 13,000 NQPs are included in their partner's NZS. Around 60 percent of these are aged 60 to 64 years. Five hundred are aged less than 50 years. Around 1,000 are aged 65 or over (ie they don't meet the residence criteria).

The proposed package within this wider context

As New Zealand's population ages and life expectancy increases, more people are receiving NZS/VP for a longer period of time. This raises questions around the sustainability of New Zealand's retirement income system.

The current policy settings for NZS reflect, for the most part, the August 1993 Accord on Retirement Income Policies. It is opportune to identify those features of NZS that can be adapted to ensure a modern and simple retirement income system.

2.2 What regulatory system, or systems, are already in place?

The regulatory system for NZS and VP

The core eligibility settings for NZS are set out in the New Zealand Superannuation and Retirement Income Act 2001 (the NZSRIA). Both NZS and VP are administered as benefits under the Social Security Act 2018.

NZS is paid to any New Zealand citizen or resident:

- who is aged 65 and over, and
- who at the time he or she applies is ordinarily resident in New Zealand, and
- who has been resident and present in New Zealand for 10 years after the age of 20 and also for five years after the age of 50 (there are certain circumstances under which residence overseas may count towards these requirements).

VP is the equivalent to NZS for veterans with qualifying operational service and for their spouses or partners. Qualification for VP is dependent on meeting the age and residence criteria in the NZSRIA, and the requirements of the Veterans' Support Act 2014. The core VP policy settings match those of NZS, but there are some additional benefits associated with it, such as a lump sum payment on the death of a VP recipient. The Minister for Veterans has recently tasked the Veterans' Advisory Board with considering who is a veteran and how we should recognise them.

NZS and VP have three main rates, which are not income-tested. These are for:

- a married/partnered person
- a single person sharing accommodation
- a single person living alone (the living alone rate / LAR).

A partnered person who qualifies for NZS or VP has the option of including their partner who does not meet the age and/or residence criteria (a non-qualifying partner or NQP) in their rate. In this case, the couple receive a maximum rate that is a little less than the rate they would get if both qualified. This 'NQP couple' rate is subject to an income test on the couple's combined income.

NZS and VP rates are adjusted for inflation each year, and must also maintain a relationship with the net average wage. Annual adjustments are currently based on price inflation with the married couple rate of NZS/VP required to be between 66 percent and 72.5 percent of the average wage.

Under section 189 of the Social Security Act 2018, any overseas benefit or pension administered by or on behalf of a government ('overseas pension') that a person receives is deducted from their New Zealand benefit or pension (usually NZS or VP). The 'direct deduction' policy, as this is known, affects around 90,000 NZS and VP recipients, who have around \$400 million deducted from their NZS or VP each year.

The direct deduction policy means that people with both an overseas pension and a New Zealand benefit or pension do not receive a combined amount of government-provided retirement income that is more than the amount received by someone who lived in New Zealand throughout their life. Essentially, a person's overseas pension amount is topped up with NZS/VP payments so that they receive the equivalent of the full rate of NZS/VP. Private pensions and savings plans like KiwiSaver are not included. Nor are pensions resulting from mandatory contributions into a private scheme.

In some cases someone's overseas pension exceeds their entitlement to a NZ benefit or

pension (and any supplementary assistance they receive). In these cases they receive no New Zealand benefit or pension. If they have a partner, any excess amount of overseas pension that exceeds their entitlement to a New Zealand benefit or pension, is deducted from their partner's New Zealand benefit or pension. This is known as 'spousal deduction'.

Roles of government agencies

The Ministry of Social Development, through Work and Income, administers and provides information on NZS and VP. Work and Income's role includes providing information about NZS/VP eligibility, entitlement criteria and how to apply, as well as processing applications and reviewing and paying benefits.

Other interested agencies

Other key agencies with an interest in changes to New Zealand's retirement income scheme include:

Government agencies

Treasury, Inland Revenue, Veterans' Affairs New Zealand, Ministry of Business, Innovation and Employment, Ministry of Housing and Urban Development, Ministry of Foreign Affairs and Trade, Ministry of Justice, Ministry of Health, Department of Internal Affairs, Te Puni Kōkiri, Ministry for Pacific Peoples, and Ministry for Women.

Crown entities

The Commission for Financial Capability and the Retirement Commissioner.

Non-government organisations

Grey Power New Zealand, Age Concern, Retirement Villages Association, and the New Zealand Aged Care Association.

Related working groups

The Welfare Expert Advisory Group, the Tax Working Group, and the Retirement Commissioner's three yearly review of retirement income policies.

2.3 What is the policy problem or opportunity?

As outlined in section 2.1 above, significant economic and social change in New Zealand over the last 25 years means that it is now timely to consider changes that will modernise and simplify the NZS/VP settings. The identified opportunities for change are detailed below. As stated in section 1, the work stream titled 'supplementary assistance for superannuitants' has not been advanced and the work stream titled 'minor policy and technical changes' is exempt from the Regulatory Impact Analysis.

s 9(2)(f)(iv)

[REDACTED]

s 9(2)(f)(iv)

Non-Qualified Partner provisions

Around 13,000 people who do not qualify for NZS or VP in their own right, are currently included as a NQP. A NQP is a partner who does not qualify for NZS because they are under the present qualifying age of 65, or are 65 or over and do not meet the residence criteria. The NQP must be a New Zealand citizen or permanent resident, or an Australian citizen or permanent resident. They must normally live in New Zealand and intend to stay here.

In 1938 when the NQP provisions were introduced⁷, single earner families predominated, and women's labour force participation rates were much lower. The principal breadwinner's retirement could reasonably be seen as a marker of the *couple's* retirement – society did not generally expect women to work up until the qualifying age for the retirement pension. Labour force participation is now higher than ever amongst both women and seniors. There is an expectation that most people can and should work until the age of eligibility for NZS and VP (and beyond), and this expectation has been an increasing focus of New Zealand's social security system.

Current NQP provisions are income-tested, meaning that NQPs represent a low income group. However, NQPs are advantaged in a number of ways over other people who do not qualify for NZS or VP on the basis of their partner's age. Generally, if someone does not qualify for NZS or VP, they will need to rely on their own capacity to provide for themselves, potentially in combination with an income-tested social security benefit. The maximum NQP rate is substantially more generous than maximum benefit rates (and the gap continues to increase because benefit rates are not wage-indexed). Additionally, there are no work (or social) obligations for NQPs, regardless of their capacity to work. NQPs are also automatically granted a SuperGold Card giving them access to a range of subsidised services such as free off-peak public transport. It can also be argued that the NQP provision

s 9(2)(f)(iv)

⁷ With the introduction of National Superannuation in 1977, the NQP provisions were retained.

may run counter to incentives to save for retirement and to work after age 65.

In the third quarter of 2018 the Commission for Financial Capability (CFFC) survey included a question about the NQP provision. The results showed no clear preference, with 37.9 percent of respondents supporting keeping the NQP provision, and 40.8 percent not supporting retaining the NQP provision.

Treatment of overseas government-administered benefits and pensions

The Direct Deduction Policy

Section 189 of the SSA (the direct deduction policy) requires the deduction of the amount of an overseas government administered pension received by an individual from that individual's NZS/VP entitlement⁸. The purpose of section 189 is to ensure that people who have access to an overseas government-administered pension (OSP) and a New Zealand benefit or pension are not financially advantaged over life-long New Zealanders who are only eligible for a New Zealand benefit or pension. This policy produces a fair outcome for all New Zealanders (as people moving to New Zealand would not have contributed to New Zealand for their entire working life as life-long New Zealander's have).

In the third quarter of 2018 the CFFC included questions **s 9(2)(f)(iv)**. The results were:

- 63.2 percent of respondents believe that a person who receives a pension from an overseas government should not be entitled to receive the full rate of NZS,
- 19.9 percent think that a person who is receiving a pension from an overseas government should be able to receive the full rate of NZS.

Spousal deduction

In the case of couples, under section 189 the amount of any overseas pension that is in excess of one partner's NZS/VP entitlement must be deducted from the other partner's entitlement (the spousal deduction). The spousal deduction policy generally ensures that couples who have a combination of an overseas pension and NZS or VP receive the same amount of government-administered pension as lifelong New Zealand couples. However, that comes at the expense of reducing the entitlements of New Zealanders who may never have lived or worked overseas. In some cases couples can be worse off than a lifelong New Zealand couple – where both are aged over 65 and only one partner qualifies for NZS or VP, and the other partner qualifies only for an overseas pension, the couple will effectively only receive the greater of the overseas pension, or the rate of NZS or VP for a married/partnered person.

Spousal deduction is one of the more controversial aspects of the direct deduction policy because it is perceived by a number of people to be inequitable although the overall number affected is only a small part (373 couples) of the wider group of people receiving OSPs (around 90,000 people). A small number of people affected by the spousal deduction have lodged appeals with the Social Security Appeal Authority (SSAA) and made complaints to the Human Rights Commission. MSD receives regular correspondence from those affected by the direct deduction policy and, in particular, spousal deduction so is fully aware of the concerns raised.

Pension payments derived from voluntary contributions to overseas government pension

⁸ Section 189 of the SSA 2018 was previously part of section 70 of the SSA 1964.

schemes should be excluded from direct deduction

Some countries allow people to make extra payments, known as voluntary contributions, to mandatory government-administered overseas pension schemes. Legislation requires the entire overseas pension amount to be deducted, rather than only the portion that is based on mandatory contributions (under the social security agreement with the Netherlands Netherlands pensions based on voluntary contributions are exempted).

Where people choose to contribute voluntarily to a private overseas pension scheme, rather than a government-administered scheme, the overseas pension amount based on those voluntary contributions is not deducted. There is an opportunity to ensure all voluntary contributions are treated consistently, regardless of whether they were paid into a government-administered pension scheme or a private pension scheme.

Unit of Entitlement and Rate Structure

This issue overlaps with NQP and spousal deduction. 'Unit of entitlement' or 'unit of assessment' refers to the individual or group of individuals that is taken into account when assessing entitlement to NZS/VP. It sets out whose circumstances are taken into account when considering whether an individual or group is entitled to NZS/VP, and the extent to which they are entitled.

2.4 Are there any constraints on the scope for decision making?**Out of scope**

As agreed by Cabinet Social Wellbeing Committee on 28 March 2018 [SWC-18-MIN-0024 refers] some issues are considered outside the scope of the Work Programme. These are noted above in Section 1.

Connections to existing work

There are linkages between the Work Programme and other current work across government. These are explained in more detail in section 2.5. Key linkages include:

- the Welfare Expert Advisory Group (Minister for Social Development)
- the review of the New Zealand Positive Ageing Strategy (Minister for Seniors)
- the Tax Working Group (Minister of Finance, Minister of Revenue)
- review of the operation of the Veterans' Support Act 2014, and advice prepared by the Veterans' Advisory Board (Minister for Veterans)
- the development of the 2019-2020 Statement on the Long-term Fiscal Position (Treasury)
- the Retirement Commissioner's 2019 Review of Retirement Income Policies (Minister of Commerce and Consumer Affairs)
- the development of a new Disability Action Plan (Minister for Disability Issues).

2.5 What do stakeholders think?

Departmental consultation

The main form of stakeholder consultation that has taken place is between MSD and the Superannuation Reform Inter-agency Working Group (the Group) comprising members from agencies across government who have an interest in New Zealand's retirement income, and who are generally supportive of the proposed NZS reform package. The Group ensures that relevant key agencies are involved, information is shared, and ideas for the development of advice and options for the reform of superannuation are shared, discussed, and agreed upon. Agencies include:

- Ministry of Social Development
- Treasury
- Inland Revenue
- Veterans' Affairs New Zealand
- Ministry of Business, Innovation and Employment
- Ministry of Foreign Affairs and Trade
- Ministry of Justice
- Ministry of Health
- Department of Internal Affairs
- Te Puni Kōkiri
- Ministry for Pacific Peoples
- Ministry for Women

Retirement Commissioner

The Retirement Commissioner provided the following comment in regards to the proposed NZS reform package:

These proposed changes address some long standing areas of inequity within the current system and are a step towards ensuring the future strength and sustainability of NZ Super.

Cross-party consultation

Proposed changes to New Zealand's retirement income scheme require amendments to primary legislation including the New Zealand Superannuation and Retirement Income Act (NZSRIA) 2001, the Veterans' Support Act (VSA) 2014, and the Social Security Act (SSA) 2018. This requires the changes to be given effect in a Bill for inclusion in the 2019 Legislation Programme.

Section 73 of the NZSRIA requires the Minister of Finance (on introducing a Government Bill proposing an amendment to the NZSRIA to the House of Representatives) to bring to the attention of the House the consultation process followed in the formulation of the amendment. This statement must include (without limitation) whether the parties in agreement with part 1 of the NZSRIA have been consulted,⁹ and the results of this consultation.

MSD is proposing that the Minister of Finance write to the leaders of these parties seeking their support for the proposed amendments during the development of legislation.

Public consultation

No specific public announcement or consultation has been undertaken about the Work Programme. However any select committee process would enable input on the proposals.

⁹ The New Zealand Labour Party, the Green Party and the New Zealand National Party.

Recent public & stakeholder consultation on retirement income

A number of surveys and recent public and stakeholder consultation on retirement income have informed the NZS reform package.

In the third quarter of 2018 the CFFC expanded its questions about NZS to inform the Work Programme. Respondents were asked about s 9(2)(f)(iv) the treatment of government-administered overseas pensions, non-qualified partners, and the purpose of NZS. Initial key findings include:

- s 9(2)(f)(iv)
- 37.9 percent of respondents support keeping the NQP provision, while 40.8 percent do not support retaining the NQP provision;
- 63.2 percent of respondents believe that a person who receives a pension from an overseas government should not be entitled to receive the full rate of NZS, while 19.9 percent think a person who is receiving a pension from an overseas government should be able to receive the full rate of NZS; and
- 44.3 percent of respondents consider that the main purpose of NZS should be to prevent or alleviate poverty among older people and 40.9 percent consider the main purpose of NZS is to recognise a person's contribution to New Zealand.

The Office for Seniors and MSD recently conducted public consultation to inform the development of a new strategy for New Zealand's ageing population, led by the Minister for Seniors. MSD noted submissions and feedback from consultation workshops and surveys about the Work Programme. A high proportion of the submissions covered the topic of NZS. Some submitters thought people over 65 should get their full entitlement to NZS regardless of whether they or their partner receive an overseas pension.

MSD also considered other recent public input into superannuation, for example submissions to the CFFC 2016 review of retirement income policies, and general correspondence about superannuation policy.

MSD also engaged with a small number of external experts on retirement income to provide input around the developed options for change.

In March 2018, the Welfare Expert Advisory Group (WEAG) was established to provide independent advice to Ministers as part of an overhaul of New Zealand's welfare system. The WEAG undertook consultation with the public and key stakeholder groups, through community forums around New Zealand and online surveys. Once available, MSD will consider the results.

During the Tax Working Group's public consultation in 2018 6,700 submissions were received on the future of tax in New Zealand. MSD considered the Working Group's interim report, which identified options to encourage savings amongst low and middle income workers.

Section 3: Options identification

3.1 What options are available to address the problem?

A range of options were proposed to modernise and simplify NZS/VP so that an adequate, basic income (together with other supports where necessary) will continue to be provided to older people in New Zealand.

The NZS reform package contains two core changes:

1) s 9(2)(f)(iv)

[Redacted]

2) *Assessment of entitlement based on the individual*

- closing the NQP provision to reflect that the original rationale (the predominance of single-earner families and low rates of female labour force participation) no longer reflects current trends in workforce participation; and
- removing the direct deduction from a person's superannuation of an overseas government pension received by their partner or spouse (spousal deduction).

For these changes, the options identified are:

1) s 9(2)(f)(iv)

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

s 9(2)(f)(iv)

2) *Assessment of entitlement based on the individual*

A shift toward a more individual approach to NZS and VP is proposed by closing the non-qualified partner provisions and removing spousal deduction.

Entitlement to NZS/VP is affected in a number of ways if someone has a partner. Someone's entitlement may be influenced by the particular person with whom they have a relationship – through the NQP provision, or the application of spousal deduction to qualifying superannuitants. Most prominently, relationship status affects what rate someone gets.¹²

It is not proposed to adopt an approach that is purely about individuals by removing the link between relationship status and rates of NZS and VP. That link remains necessary (in a non income-tested system) to provide an adequate income to single superannuitants. This means that rates of NZS/VP will still be based on living situations to reflect people's living costs and needs. Rather, we propose to remove the ways in which *the characteristics* of a partner can influence entitlement.

Non-Qualified Partner provisions

It is proposed to close the NQP provisions for new applicants, providing a period for people to adjust their plans. Existing NQPs will be able to be included in their partner's rate of NZS or VP until they qualify for NZS or VP in their own right, or no longer have a qualifying partner.

MSD identified two implementation options:

¹²Superannuitants may receive a married/partnered person rate, a single living alone rate, or a single sharing rate.

- **Option A:** No new applications for NQPs from 1 July 2020, with full grandparenting of existing NQPs until they either qualify for NZS or their circumstances change
- **Option B:** No no new applications for NQPs from 1 July 2025, with full grandparenting of existing NQPs until they either qualify for NZS or their circumstances change.

Under both implementation options, the same range of options will be available to people who would otherwise have become an NQP that is available to anyone else who does not qualify for NZS or VP. These include the expectation to work (if they or their partner are able to find suitable employment) and access to the benefit system if needed.

Depending on their circumstances, someone who would otherwise have become an NQP may be eligible to receive Jobseeker Support or a Supported Living Payment. They will receive less from these benefits than they would have if they could be included as an NQP. People who do not qualify for NZS or VP but who care for their partner (who qualifies) will not be able to receive a Supported Living Payment as a carer, as this is not available to people who care for their partner, and this may be seen as unfair. People will be able to receive an Emergency Benefit (EB) if they are in hardship and do not qualify for Jobseeker Support or Supported Living Payment.

Closing the NQP provision to new applicants will achieve a modest improvement to the sustainability of NZS and VP without disrupting the core purpose of the scheme. It is expected that 1,300 fewer people will be included as NQPs in 2020/21 (460 of whom are assumed to be on a main benefit instead), rising to 16,100 by 2030/31 (with 5,600 assumed to be on a main benefit instead).

Under option A, net savings of \$13.050m are expected in 2020/21, rising to \$90.867m in 2023/24, and \$237.579m in 2030/31.

Under option B, net savings of \$18m are expected in 2025/26 rising to \$189.6m in 2030/31.

s 9(2)(f)(iv)

Treatment of overseas government-administered benefits and pensions

The policy intent of the package is to simplify and modernise NZS/VP settings. Removing spousal deduction is a shift toward an assessment of entitlement based on the individual. This shift will mean the overseas pension of someone's partner will no longer affect their entitlement to NZS or VP. NZS/VP rates will still be based on living situations to reflect people's living costs and needs.

MSD proposes two changes:

- **Proposal 1:** Removal of spousal deduction, in conjunction with the removal of the NQP provision
- **Proposal 2:** Removal of the requirement to deduct the portion of an overseas pension made up of voluntary contributions.

Proposal 1: *It is proposed to remove spousal deduction for qualifying superannuitants*

It is proposed to remove spousal deduction for superannuitants by amending the SSA so that a standard rate of NZS or VP paid to a qualifying partnered person is not reduced based on the overseas pension received by their partner. This indicates a shift toward an assessment of entitlement based on the individual. It will also simplify the NZS/VP application process. The proposed change seeks to achieve equity between people who have spent time overseas and have an overseas government pension, and life-long New Zealanders).

At present there are around 373 couples who will benefit from this change.

Spousal deduction will continue to apply across a couple for payments that are assessed on a couple basis:

- the grandparented NQP rate of NZS and VP.
- main benefits under the SSA.
- supplementary assistance.

The spousal deduction policy ensures that couples who have a combination of an overseas pension and NZS or VP receive the same amount of government-administered pension as lifelong New Zealand couples (see column A in Table 1). However, that comes at the expense of reducing the entitlements of New Zealanders who may never have lived overseas.

In some cases couples can be worse off than a lifelong NZ couple. This occurs where both partners are over 65 but only one partner qualifies for NZS or VP, and the overseas pension amount of the other partner is deducted in full from the qualifying partner's NZS. In these instances, the couple receives less than the amount of NZS that other couples receive - (see column B in Table 1). Currently there are fewer than 30 couples with that situation **s 9(2)**

(f)(iv)

Table 1 – comparison of couples affected by spousal deduction with a lifelong NZ couple

	Both partners qualify for NZS, one has large overseas pension		One partner qualifies for NZS, other only has overseas pension		Both partners qualify for NZS, no overseas pension	
	Partner 1	Partner 2	Partner 1	Partner 2	Partner 1	Partner 2
NZS entitlement (gross per week)	\$350.76	\$350.76	\$0.00	\$350.76	\$350.76	\$350.76
Overseas pension	\$380.00	\$0.00	\$380.00	\$0.00	\$0.00	\$0.00
Deduction	- \$350.76	- \$29.24 (excess)	\$0.00	- \$350.76 (excess)	\$0.00	\$0.00
Final NZS entitlement	\$0.00	\$321.52	\$0.00	\$0.00	\$350.76	\$350.76
Total income from pensions	\$701.52		\$380.00		\$701.52	

(couple)			
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While the effect of the spousal deduction may be equitable, it feels unfair to many people who are affected by it or are aware of it. The Retirement Commissioner described it as a “recognised inequity” in her 2016 Review of Retirement Income Policies. It seems unfair to reduce the NZS or VP entitlement of someone with a strong connection to New Zealand on the basis that their *partner* has earned a pension through their connection to another country.

Partnered superannuitants whose overseas pension amounts do not exceed their NZS entitlement might consider the removal of spousal deduction inequitable as they will have their full amount of overseas pension deducted and therefore would receive less income from government-administered pensions than those currently affected by spousal deduction. However, one of the main policy shifts is towards an assessment of entitlement based on the individual, so by acting to close off the NQP provision at the same time, this change is consistent with a more individualised approach.

Table 2 – effect of removing spousal deduction

	Both partners qualify for NZS, one has large overseas pension		One partner qualifies for NZS, other only has overseas pension		Both partners qualify for NZS, no overseas pension	
	Partner 1	Partner 2	Partner 1	Partner 2	Partner 1	Partner 2
NZS entitlement (gross per week)	\$350.76	\$350.76	\$0.00	\$350.76	\$350.76	\$350.76
Overseas pension	\$380.00	\$0.00	\$380.00	\$0.00	\$0.00	\$0.00
Deduction – individual only	- \$350.76	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Final NZS entitlement	\$0.00	\$350.76	\$0.00	\$350.76	\$350.76	\$350.76
Total income from pensions (couple)	\$730.76		\$730.76		\$701.52	

No longer applying the spousal deduction is expected to have a net cost of \$1.820m in 2020/21, rising to \$2.040m in 2023/24. The costs and number of people affected can be influenced by trends in migration and relationship formation, overseas governments’ pension policies, and variations in exchange rates.

The removal of the spousal deduction has been costed on the assumption that it takes effect from 1 July 2020. It could happen earlier in 2020, subject to the enactment of the legislation. That would mean that funding for the change would need to be available earlier.

Proposal 2: *Removal of the requirement to deduct the portion of an overseas pension made up of voluntary contributions.*

Some countries allow people to make extra payments, known as voluntary contributions, to their mandatory government-administered overseas pension schemes. Based on the current wording of section 189 of the SSA, the entire overseas pension amount should be deducted, rather than only the portion that is based on mandatory contributions (there is an exception under our social security agreement with the Netherlands which exempts from deduction any Netherlands pensions based on voluntary contributions).

Where people choose to contribute voluntarily to a private overseas pension scheme, rather than a government-administered scheme, the overseas pension amount based on those voluntary contributions is not deducted. The treatment of voluntary contributions is inconsistent because voluntary contributions made to government-administered overseas pension schemes are deductible under the direct deduction policy and those made to private pension schemes are not.

As a result of this inconsistency, MSD currently defers the deduction of the portion of a government-administered overseas pension that is based on voluntary contributions. Beyond the exempt Netherlands pensions, there are currently 89 people whose voluntary overseas pension component is known and who have this portion of their pension deferred from direct deduction, with a current annual value of \$0.602m.

MSD recommends formalising this policy by amending the SSA so that the portion of a government-administered overseas pension that is based on voluntary contributions is not deducted. This will ensure voluntary overseas pensions are treated equally under the law, and provide greater clarity for the public about what kinds of pensions are deducted.

As the change provides legislative support for current practice, no fiscal impact is expected. However, greater awareness that payments resulting from voluntary contributions to overseas pensions are not deductible could lead to an increase in people seeking such exclusions. It is anticipated this can be managed within current baselines.

It is not proposed to remove the direct deduction more generally. At present, direct deduction affects around 90,000 people. The value of the deducted overseas pensions is around \$400 million per annum. MSD considered options for replacing the direct deduction in the course of the Work Programme, including with a proportional rate of payment, and has concluded that they would either increase NZS and VP costs considerably, or would compromise the ability of NZS and VP to provide an adequate income.

Unit of Entitlement and Rate Structure

The unit of entitlement and rate structure of NZS/VP was considered. Removing the NQP provision and spousal deduction will simplify superannuation policy settings, and will move superannuation towards an assessment of entitlement that is based on the individual. It was decided that any further change to the unit of entitlement would represent a fundamental shift in retirement income that could create significant hardship for some, which is not warranted at this time.

3.2 What criteria, in addition to monetary costs and benefits, have been used to assess the likely impacts of the options under consideration?

As stated in Section 1, in the absence of a single authoritative statement on the purpose or objectives of NZS, MSD developed a framework to shape policy options. The framework sets out the desirable qualities or ideal objectives of public policy in respect of NZS, to guide policy design and assessment.

3.3 What other options have been ruled out of scope, or not considered, and why?

The following options were considered, but ruled out at this stage.

s 9(2)(f)(iv)

s 9(2)(f)(iv)

Treatment of overseas government-administered benefits and pensions

NZS becomes a pro-rata entitlement for all superannuitants

This option would retain the universal nature of NZS, but change the residence requirements for all superannuitants, regardless of whether they receive an overseas pension or not. NZS entitlement would be based on a 'pro rata' payment depending on the number of years a person lived in New Zealand between the ages of 20 and 65. To obtain full NZS a person would need to be resident in New Zealand for 45 full years between the ages of 20 and 65.

This option was dismissed because it would financially disadvantage those New Zealanders who lived for a period overseas but who either do not have an overseas pension (or had an insufficient amount) to supplement a reduced pro rata payment of NZS. This includes New Zealanders who had an 'overseas experience' earlier in their lives, but never worked in any country for long enough to become eligible for a pension. Refugees settling in New Zealand, with very little or no assets (and no other option of where to live) may also be placed in financial hardship with a pro-rata pension system. This option would significantly increase financial hardship among older people with more people becoming reliant on supplementary assistance.

This option would be complex to administer and would make it significantly more difficult for individuals to apply for NZS/VP (as they would be required to prove their residence over their whole working lives).

Dual system of either pro rata payment or direct deduction for overseas pensioners only

Under the pro rata part of the dual system overseas pensioners would receive 1/45th of NZS for each year of residence in New Zealand between the ages of 20 and 65. Any overseas pension would not affect the amount of NZS. Alternatively the overseas pensioner could choose to continue in the direct deduction system. We estimate that around 20 percent of overseas pensioners would benefit from a pro rata rate of NZS rather than a direct deduction rate.

This option was dismissed as it would be expensive (MSD estimates that it would cost in the

region of \$80 to \$100 million a year), complex to administer, and would increase compliance for individuals. The direct deduction policy would not be removed, so most of the difficulties around policy and administration would remain for people who choose the direct deduction option. Operating this option would be administratively complex where superannuitants elect one option and then wish to move to the other option because their overseas pension circumstances change.

Direct deduction-free zone

Under this option the direct deduction policy would be maintained, but with a degree of moderation. A free zone would be set so a percentage of overseas pensions would not be deducted. The free zone could be set at any level.

This option was dismissed as it does not provide a solution to the policy issues or to administrative issues associated with direct deduction. It is also unlikely to meet the needs of overseas pensioners who believe that they should receive their full NZS entitlement because they have met the residence criteria for NZS.

This option would also be complex to administer and would make it more difficult for individuals to apply for NZS/VP.

Complete removal of the direct deduction policy

The complete removal of the direct deduction policy would remove the perceived difficulties associated with the direct deduction policy, both in terms of administration of the policy and for affected clients. However, removal of the policy would increase expenditure on NZS and other New Zealand benefits by around \$400 million a year.

This option was not considered further as removing the policy would undermine the principle that overseas pensioners and lifelong New Zealanders should receive the same level of government-administered pension, regardless of which country's Government pays that pension. Removal of the policy may create divisiveness between lifelong New Zealanders and people who have entitlement to government-administered overseas pensions as the overseas pensioner group would have access to two government-administered pensions and would therefore be financially advantaged.

Unit of Entitlement and Rate Structure

MSD considered whether NZS/VP could be delivered as a 'pure' individual entitlement, with every qualifying person receiving the same rate. The rate of NZS/VP could either be based on living arrangements alone (such as a sharing rate and a living alone rate), or relationship status (such as a partnered rate and a single rate). However, this would represent a fundamental shift in retirement income creating significant hardship for some, or if this was avoided, would be too expensive to be sustainable.

Change to the rate structure of NZS/VP would represent a significant shift in retirement income. Change to the rate structure could result in improved income adequacy for some, but with significant cost implications. Further consideration of wider effects would be required.

Section 4: Impact Analysis

Marginal impact: How does each of the options identified at section 3.1 compare with the counterfactual, under each of the criteria set out in section 3.2?

Key:

- ++** much better than doing nothing/the status quo
- +** better than doing nothing/the status quo
- 0** about the same as doing nothing/the status quo
- worse than doing nothing/the status quo
- much worse than doing nothing/the status quo

s 9(2)(f)(iv)

Non-qualified spouses and partners

	No action	Option 1: no new applications for NQPs from 1 July 2020	Option 2: no new applications for from 1 July 2025
Fairness	0	<p>+</p> <p>May seem unfair to those who were planning to elect the NQP provision for their partner in the next few years as some will still receive the NQP provision due to the grandparenting arrangement.</p> <p>Over time, the number of people receiving the NQP provision, and the perceived unfairness, will decrease. The advantages that NQPs experience (as outlined in Section 2.3) will be removed as will the notion of a (typically female) dependent spouse.</p> <p>Some especially young NQPs could have their NQP entitlements protected through grandparenting provisions for a long time. This may be considered unfair.</p>	<p>+</p> <p>May seem unfair to those who were planning to elect the NQP provision for their partner in the next few years as some will still receive the NQP provision due to the grandparenting arrangement. A 5-year lead-in from implementation allows time for people to adapt their plans.</p> <p>Over time, the number of people receiving the NQP provision, and the perceived unfairness, will decrease. The advantages that NQPs experience (as outlined in Section 2.3) will be removed.</p> <p>Some especially young NQPs could have their NQP entitlements protected through grandparenting provisions for a long time. This may be considered unfair.</p>
Income adequacy/social wellbeing	0	<p>-</p> <p>Those who were planning to elect the NQP provision for their partner in the next few years and had factored this into theirs and their partner's savings may not receive the retirement income they had planned. The partner will still be eligible for other benefits, though these will be paid at a lower rate than the NQP provision.</p> <p>The income will remain adequate for those who are grandparented.</p>	<p>0</p> <p>There is time for couples to adapt their plans to factor in the change to the NQP provision. The partner will still be eligible for other benefits, though these will be paid at a lower than the NQP provision.</p> <p>The income will remain adequate for those who are grandparented.</p>
Sustainability	0	<p>++</p> <p>Will encourage workforce participation for many of</p>	<p>+</p> <p>Will encourage workforce participation after the five-year</p>

	No action	Option 1: no new applications for NQPs from 1 July 2020	Option 2: no new applications for from 1 July 2025
		those who were planning to become NQPs.	lead-in time.
Simplicity	0	<p>+</p> <p>Will eventually be simpler than the status quo, as the provision will be completely removed. However, until the last person to be grandparented ceases to be eligible for the NQP provision, there will be some complexity owing to the two different streams running alongside each other.</p>	<p>+</p> <p>Will eventually be simpler than the status quo, as the provision will be completely removed. However, until the last person to be grandparented ceases to be eligible for the NQP provision, there will be some complexity owing to the two different streams running alongside each other.</p>
International mobility	0	<p>0</p> <p>Unlikely to have any effect on international mobility.</p>	<p>-</p> <p>Could have a small effect on international mobility - a few more people may return to New Zealand prior to the change being enacted in order to qualify for NQP.</p>
Costs/benefits	0	<p>++</p> <p>Savings rise from \$13m in 20/21 to \$134m in 25/26.</p>	<p>++</p> <p>Fewer savings initially than with an earlier implementation. Savings rise from \$18m in 25/26 to \$189.6m in 30/31.</p>
Operational implications	0	<p>+</p> <p>After time, the policy will be easier for MSD to administer.</p>	<p>+</p> <p>After time, the policy will be easier for MSD to administer.</p>
Policy Stability	0	<p>0</p> <p>Is in proportion to the case for change</p>	<p>0</p> <p>Is in proportion to the case for change</p>
Legal and regulatory impact	0	<p>-</p> <p>This option requires a change in legislation, however, the degree of change required is considered to be relatively straightforward and is consistent with the overall reform package.</p>	<p>-</p> <p>This option requires a change in legislation, however, the degree of change required is considered to be relatively straightforward and is consistent with the overall reform package.</p>

	No action	Option 1: no new applications for NQPs from 1 July 2020	Option 2: no new applications for from 1 July 2025
Risks	0	<p>-</p> <p>Those who were factoring electing their partner as an NQP into their retirement planning in the next few years may receive a smaller income than anticipated (if their partner is not in paid employment once the superannuitant turns 65).</p> <p>However, the partner will still be eligible for other benefits, although these will be lower than the NQP provision which will affect household incomes.</p> <p>This option could prove to be an incentive for some qualifying superannuitants' partners to stop working in order to qualify for NQP payments and subsequently have their entitlements protected through the grandparenting provisions.</p>	<p>-</p> <p>Those who were factoring electing their partner as an NQP into their retirement planning in the next few years may receive a smaller income than anticipated (if their partner is not in paid employment once the superannuitant turns 65), but would have five years to amend their plans.</p> <p>This option could prove to be an incentive for some qualifying superannuitants' partners to stop working in order to qualify for NQP payments and subsequently have their entitlements protected through the grandparenting provisions.</p>
Overall assessment	0	<p>++</p> <p>The 18-month lead-in time is sufficient to ensure a smooth transition period and adequate notice for those that will no longer qualify.</p> <p>No drop in income for those who will be grandparented.</p> <p>Those that no longer qualify for NQP due to the change, will still be able to receive adequate benefits.</p> <p>Likely to encourage more people into the workforce.</p>	<p>+</p> <p>The five-plus years lead-in time is sufficient to ensure a smooth transition period and adequate notice for those that will no longer qualify.</p> <p>No drop in income for those who will be grandparented.</p> <p>Those that no longer qualify for NQP due to the change, will still be able to receive adequate benefits.</p> <p>Likely to encourage more people into the workforce, but not for at least five years.</p>

Removal of spousal deduction of overseas government-administered pensions

	No action	Impact of: removal of spousal deduction where both partners are over age 65 but only one partner qualifies for NZS	Impact of: removal of spousal deduction where both partners qualify for NZS
Fairness	0	+ Would address the inequity where a couple receives less than the couple rate of NZS.	- Would mean that couples with an excess amount of OSP get more pension income than other NZS couples.
Income adequacy/social wellbeing	0	+ Would mean that the couple receives the equivalent of the couple rate of NZS	+ Would mean that the couple receives more than the equivalent couple rate of NZS
Sustainability	0	+ Affects fewer than 30 couples and very small cost	+ Affects 373 couples and only minor cost
Simplicity	0	0 Does little to reduce the complexity of the overall direct deduction policy	0 Does little to reduce the complexity of the overall direct deduction policy
International mobility	0	0 May have a small effect on international mobility	0 May have a small effect on international mobility
Costs/benefits	0	- Costs of \$0.202 in 2019/2020 rising to \$0.265 in 2023/2024	- Costs of \$1.820 in 2019/2020 rising to \$2.040 in 2023/2024
Operational implications	0	+ The number of people affected is small and the impact of any one-off exercise to reassess the entitlement of affected couples would be minimal. Spousal deduction is not automated so this option reduces the number of monthly manual transactions	+ Spousal deduction is not automated so this option reduces the number of monthly manual transactions
Policy stability	0	0 Is in proportion to the case for change	0 Is in proportion to the case for change
Legal and regulatory impact	0	- Will require a change to legislation. It may be difficult to amend legislation so that its effect is limited to this small group	- Will require a change to legislation. It may be difficult to amend legislation so that its effect is limited to this relatively small group

Risks	0	- Could lead to pressure to apply policy to others affected by spousal deduction	- Could lead to pressure to make further concessions to the direct deduction policy
Overall assessment	0	<p>Only a small number of people are affected by this aspect of spousal deduction so the impact is negligible. The change would be well received by those affected but removing it may lead to increasing pressure to change the spousal deduction policy as a whole and also to make changes to the overall direct deduction policy.</p> <p>People may be more willing to disclose their relationship status with MSD in the knowledge that the overseas pension of a person's partner will no longer have a significant effect on their individual entitlement.</p>	<p>Only a small number of couples (373) are affected by spousal deduction so there would only be a small cost and administrative impact. The change would be well received by those affected by spousal deduction but removing it may also lead to increasing pressure to change other aspects of the overall direct deduction policy.</p> <p>People may be more willing to disclose their relationship status with MSD in the knowledge that the overseas pension of a person's partner will no longer have a significant effect on their individual entitlement.</p>

Part 2. Pension payments derived from voluntary contributions to overseas government pension schemes should be excluded from direct deduction

	No action	Confirm in legislation that overseas pensions derived from voluntary contributions are not deducted	
Fairness	0	+	Ensures that components derived from voluntary contributions are treated in the same way, regardless of whether they are made to a state-administered overseas pension scheme or to an overseas private pension scheme
Income adequacy/social wellbeing	0	+	People who have made voluntary provision for retirement, in addition to mandatory contributions to overseas state-administered schemes, are not financially penalised by those voluntary contributions
Sustainability	0	+	Affects fewer than 90 people and very small cost
Simplicity	0	+	May provide greater clarity for the public about what kinds of pension are deducted
International mobility	0	0	May have a small effect on international mobility
Costs/benefits	0	0	

		Currently, amounts based on voluntary contributions are deferred from deduction, but annual savings of around \$0.602m would be achieved if voluntary components were deducted
Operational implications	0	0 The change reflects current practice so the administrative impacts are negligible
Policy stability	0	0 Is in proportion to the case for change
Legal and regulatory impact	0	0 Will require a change to legislation
Risks	0	- May lead to pressure to change other aspects of the direct deduction policy
Overall assessment	0	+ Only a small number of people are affected by this aspect at a small cost so the impact is negligible.

Section 5: Conclusions

5.1 What option, or combination of options, is likely best to address the problem, meet the policy objectives and deliver the highest net benefits?

The NZS reform package contains two core changes that are cost-effective, feasible and will modernise and simplify the NZS/VP policy settings:

1) **s 9(2)(f)(iv)**

■ [REDACTED]

2) *Assessment of entitlement based on the individual*

- closing the NQP provision to reflect that the original rationale (the predominance of single-earner families and low rates of female labour force participation) no longer reflects current trends in workforce participation; and
- removing the direct deduction from a person's superannuation of an overseas government pension received by their partner or spouse (spousal deduction).

1) **s 9(2)(f)(iv)**

■ [REDACTED]

■ [REDACTED]

■ [REDACTED]

■ [REDACTED]

■ [REDACTED]

■ [REDACTED]

■ [REDACTED]

■ [REDACTED]

s 9(2)(f)(iv)

2) Assessment of entitlement based on the individual

This part of the NZS reform package represents a shift toward a more individual approach to NZS and VP by closing the non-qualified partner provisions and removing spousal deduction.

Non-Qualified Partner provisions

Option A, detailed in Section 3.1 is the preferred implementation option. It is therefore proposed to close the NQP provision to new applicants from 1 July 2020, providing a period for people to adjust their plans. Existing NQPs will be able to be included in their partner's rate of NZS or VP until they qualify for NZS or VP in their own right, or their circumstances change.

s 9(2)(f)(iv)

Treatment of overseas government-administered benefits and pensions

Proposals 1 and 2, detailed in Section 3.1 are supported as they align with the policy intent of the package which is to simplify and modernise the NZS/VP settings.

It is proposed to remove spousal deduction for superannuitants by amending the SSA so that a standard rate of NZS or VP paid to a qualifying partnered person is not reduced based on the overseas pension received by their partner.

It is also proposed to remove the requirement to deduct the portion of an overseas pension made up of voluntary contributions. Formalising this policy by amending the SSA will ensure voluntary overseas pensions are treated equally under the law, and provide greater clarity for the public about what kinds of pensions are deducted.

5.2 Summary table of costs and benefits of the preferred approach

Affected parties (identify)	Comment: nature of cost or benefit (eg ongoing, one-off), evidence and assumption (eg compliance rates), risks	Impact \$m present value, for monetised impacts; high, medium or low for non-monetised impacts	Evidence certainty (High, medium or low)
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Additional costs of proposed approach, compared to taking no action

Total Monetised Cost to the Crown	There will be some costs to the Crown 2019/2020 (from removing spousal deduction, implementation and IT costs) and savings in 2020/2021 and out-years (from s 9(2)(f)(iv) removing the NQP provision).	Implementing the package proposed in Section 5.1 is expected to cost the Crown an additional \$1.927m in the 2019/20 fiscal year. This requires some new funding in the 2019 Budget. s 9(2)(f)(iv)	High
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Expected benefits of proposed approach, compared to taking no action

Total Monetised Benefit to the Crown	The package will deliver savings in 2020/2021 and out-years (from s 9(2)(f)(iv) removing the NQP provision).	The proposed changes in this package will make a contribution to the future sustainability of NZS and VP. s 9(2)(f)(iv)	High
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		s 9(2)(f)(iv)	
Non-monetised benefits	<p>NZS is easier to understand, and apply for</p> <p>s 9(2)(f)(iv)</p> <p>NZS moves towards an assessment of entitlement based on the individual</p> <p>NZS rules are modernised so they are relevant in today's society</p> <p>Older people feel strong, safe, and independent</p> <p>NZS maintains overall level of well-being of New Zealanders, both those who are older and those who are yet to become older, and their community</p> <p>Increased work incentives for younger partners</p> <p>Policy practice and legislation is more aligned</p>	<p>High</p> <p>High</p> <p>High</p> <p>High</p> <p>Medium</p> <p>Medium</p> <p>High</p> <p>High</p>	High

5.3 What other impacts is this approach likely to have?

Gender implications

Overall, the package will provide a more modern and, to a certain extent, a more sustainable model of NZS and VP. That is significant for the financial wellbeing of all current and future

superannuitants, but is particularly important to women. This is because women's longer life expectancy means they are likely to be reliant on NZS or VP for longer than men, and because the cumulative impact of wage inequality and time spent out of the workforce caring for children mean that women typically have less savings than men when they retire. Women who are single for much or all of their life may experience that impact most strongly.

However, the individual components of the package may have some gender implications:

- **s 9(2)(f)(iv)**
[Redacted]
[Redacted]
[Redacted]
[Redacted]
- Women are much more likely to be a non-qualifying partner than men (as women are typically younger than their male partner) – though correspondingly they are much less likely to have a non-qualifying partner included in their benefit. Changing the NQP provisions can be seen as reducing the government support provided to the couple as a whole rather than necessarily to the (usually female) NQP. However, less money will go directly to women, which may disadvantage them if their partner does not share their income. In some cases women who do not have the opportunity to be included as an NQP may be advantaged in the long-term, if they are able to find suitable employment that both benefits them while they are working and supports them to grow their savings (eg through KiwiSaver while earning).

Disability Perspective

The overall impact of the package on disabled people can be seen as similar to its impact on women. People who are disabled during 'working life' are likely to be more reliant on NZS or VP after age 65 than other people, so a well-managed model of NZS and VP can be particularly important to them. People who become disabled later in life may have significant personal savings – but will also have more difficulty working to supplement their NZS or VP.

The closure of the NQP provisions to new applicants may affect disabled people in two ways. Disabled people who are unable to work, or unable to work full time, due to a disability will no longer be able to be included in their partner's NZS or VP. While they may be eligible for Supported Living Payment or Job Seeker on the basis of their disability, this will provide less income than inclusion as an NQP. Disabled seniors who rely on a younger partner (or a partner who does not meet the residence requirements) for care will no longer have the option of including that partner in their NZS or VP, so will have a reduction in income.

5.4 Is the preferred option compatible with the Government's 'Expectations for the design of regulatory systems'?

Officials have not identified any incompatibility with the Government's 'Expectations for the design of regulatory systems'.

Section 6: Implementation and operation

6.1 How will the new arrangements work in practice?

Legislative vehicle

The new arrangements will be given effect through a bill. A bill is required because the policy to be amended is in primary legislation (the New Zealand Superannuation and Retirement Income Act 2001, the Social Security Act 2018, and the Veterans' Support Act 2014).

Subject to a successful budget bid and legislative priorities, the new arrangements are proposed to come into effect from 1 July 2020. This will allow people sufficient time to adjust to the changes and consider their choices.

Once implemented, MSD will be responsible for ongoing operation and enforcement of the new arrangements.

Implementation risks are minimal. The changes will use existing administrative structures and will not require any new service design.

Communications

A communications strategy would be developed to ensure the changes are communicated to the public in advance of implementation.

The public will have an opportunity to provide submissions on the new arrangements through the select committee process.

Transitional Arrangements

As outlined above, transitional provisions will protect people's existing entitlements—specifically, **s 9(2)(f)(iv)** and removal of the NQP provision.

Once the package is implemented, people who in the future do not qualify for superannuation and are facing hardship will have access to assistance via the social security system (a main benefit or an Emergency Benefit).

6.2 What are the implementation risks?

As stated above, implementation risks are minimal. The changes will use existing administrative structures and will not require any new service design.

Risk	Mitigations
There is the potential for public confusion around the new arrangements.	A communications strategy will be prepared. This may involve making changes to government agency websites informing the public of the changes, including people migrating in and out of NZ.
The public may be concerned about losing their entitlements.	<p>A communications strategy will be prepared.</p> <p>Transitional provisions will protect existing recipients.</p> <p>People who don't qualify for NZS may be eligible for a social security benefit.</p>

There is potential for a delay in the legislative changes which would consequently delay any system changes, and implementation dates.	MSD will closely monitor the legislative programme.
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Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

Some of the new arrangements are proposed to come into effect on 1 July 2020, with others being implemented at a later date. Once implemented, MSD will be responsible for ongoing operation and enforcement of the new arrangements. Initially, the impacts of the proposal will be monitored through existing administrative datasets and reporting. There are existing datasets for NZS and VP. Implementation risks are minimal as outlined in Section 6.2. The changes will use existing administrative structures and will not require any new service design.

- MSD's annual 'Household Incomes Report' will continue to monitor the material wellbeing and incomes of New Zealand's older people.
- Existing datasets will show the number of people who no longer qualify for NQP payments and may have to rely on another benefit.
- s 9(2)(f)(iv)

7.2 When and how will the new arrangements be reviewed?

The new arrangements will be reviewed as part of normal practice and in conjunction with regular monitoring processes such as the Retirement Commissioner's three-yearly review of retirement income policies.