



25 JUL 2018



Dear 

On 28 June 2018 you emailed the Ministry requesting, under the Official Information Act 1982, the following information:

- *Any advice that has been given or collated for the Minister of Social Development specifically relating to section 70 of the Social Security Act 1964.*

As you are aware, section 70 of the Social Security Act (section 70) requires that individuals in receipt of a benefit or pension, such as New Zealand Superannuation, who are also entitled to an equivalent payment from overseas, must have the value of that payment deducted from their New Zealand entitlement.

Although you have not specified a time period in your request, I have taken it to be relating to Ministers in the current government. As you will likely be aware, they have directed the Ministry to provide advice on a range of issues regarding New Zealand Superannuation, including section 70 and the direct deduction policy.

Four documents have been identified in scope of this request. These documents follow requests for information regarding section 70 and the direct deduction policy required by it from the Minister for Social Development and the Minister for Seniors.

Please find attached the following three documents:

- REP/17/11/1050 – '*Section 70 of the Social Security Act 1964 (the direct deduction policy)*', dated 6 November 2017
- REP/17/11/1110 – '*Further information on section 70 of the Social Security Act 1964 (the direct deduction policy)*', dated 10 November 2017
- REP/17/11/1182 – '*Information on state-administered old age pension systems in selected OECD countries*', dated 24 November 2018.

A fourth document, including its title, is withheld in full under section 9(2)(f)(iv) of the Official Information Act as it is under active consideration, as is some information from the report REP/17/11/1050 – '*Section 70 of the Social Security Act 1964 (the direct deduction policy)*'. The release of this information is likely to prejudice the ability of government to consider advice and the wider public interest of effective government would not be served.

The names of some individuals have been withheld under section 9(2)(a) of the Official Information Act in order to protect the privacy of natural persons. The need to protect the privacy of these individuals outweighs any public interest in this information.

The principles and purposes of the Official Information Act 1982 under which you made your request are:

- to create greater openness and transparency about the plans, work and activities of the Government,
- to increase the ability of the public to participate in the making and administration of our laws and policies and
- to lead to greater accountability in the conduct of public affairs.

This Ministry fully supports those principles and purposes. The Ministry therefore intends to make the information contained in this letter and any attached documents available to the wider public shortly. The Ministry will do this by publishing this letter and attachments on the Ministry of Social Development's website. Your personal details will be deleted and the Ministry will not publish any information that would identify you as the person who requested the information.

If you wish to discuss this response with us, please feel free to contact [OIA\\_Requests@msd.govt.nz](mailto:OIA_Requests@msd.govt.nz).

If you are not satisfied with this response regarding advice prepared on the subject of section 70 of the Social Security Act, you have the right to seek an investigation and review by the Ombudsman. Information about how to make a complaint is available at [www.ombudsman.parliament.nz](http://www.ombudsman.parliament.nz) or 0800 802 602.

Yours sincerely



Justine Cornwall

**General Manager, Seniors and International Policy**



# Report

**Date:** 6 November 2017

**Security Level:** IN CONFIDENCE

**To:** Hon Carmel Sepuloni, Minister for Social Development  
Hon Tracey Martin, Minister for Seniors

## Section 70 of the Social Security Act 1964 (the direct deduction policy)


### Purpose of the report

- 1 The Minister for Seniors recently received correspondence about removing the direct deduction policy. This report responds to the request of the Minister for Seniors for a briefing on the direct deduction policy and the potential impacts of amending or removing the policy.

### Recommended actions

It is recommended that you:

- 1 **Note** the contents of this report
- 2 **Note** that the Minister for Social Development has overall policy and legislative responsibility for the direct deduction policy
- 3 **Note** that we suggest a holding response is prepared to respond to correspondence on the direct deduction policy until you have had the opportunity to meet with officials to discuss the content of this report.

  
Alex McKenzie  
Acting General Manager  
Seniors and International  
Ministry of Social Development

06/11/2017

Date

  
Hon Carmel Sepuloni  
Minister for Social Development

08/11/2017

Date

Hon Tracey Martin  
Minister for Seniors

Date

## Background

- 2 Under the direct deduction policy, state-administered overseas pensions (overseas pensions) are deducted from New Zealand Superannuation (NZS) and other New Zealand social security benefits on a dollar-for-dollar basis.<sup>1</sup> This provision was first implemented in 1939.
- 3 Under the policy, an overseas pension is deductible if it:
  - forms part of a programme providing benefits, pensions or periodic allowances for any of the contingencies for which New Zealand benefits, pensions or periodic allowances are provided (eg for the contingencies of old age, disability, death of a spouse); and
  - is administered by or on behalf of the overseas government paying the pension.
- 4 Private pensions and savings plans that are similar to Kiwisaver are not covered by the policy.

## The policy provides an equitable level of state pension

- 5 The aim of the policy is to ensure that all qualifying New Zealand residents receive an equitable level of state pension, whether the amount of that pension is fully funded by New Zealand, partially funded by New Zealand and another country, or fully funded by another country. "Equitable" here means having due regard for the interests of both New Zealanders who have lived most or all of their life in New Zealand and overseas pensioners who have lived in New Zealand for a shorter period and who may have lived overseas for a substantial proportion of their life.
- 6 The policy means that New Zealanders who have lived in New Zealand all their lives are not financially disadvantaged compared with others who have worked overseas, or immigrants to New Zealand, who have entitlement to overseas pensions.
- 7 In the case of couples, the amount of any overseas pension that is in excess of one partner's NZS entitlement is deducted from the other partner's entitlement (the spousal deduction). If only one person in the couple receives a New Zealand entitlement, any overseas pension that the other person receives is deducted from the New Zealand entitlement received by the first person.
- 8 Both first-tier pensions (ie basic universal flat-rate state pensions), and second-tier pensions (ie contributory earnings-related state pensions) that are paid into New Zealand by or on behalf of other governments, are taken into account. Pensions that are mandated by a government but are nevertheless private in nature, eg pensions

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<sup>1</sup> There are two payment methods for overseas pensions paid into New Zealand – the Direct Payment Method and the Special Banking Option:

- Under the Direct Payment Method, a person has their overseas pension paid directly into their own bank account. The amount of their New Zealand entitlement is reduced by the amount of the overseas pension. However, together the two pensions add up to an amount that is similar to the full rate of the New Zealand entitlement.
- Under the Special Banking Option, a person can choose to have their overseas pension paid into a special bank account that only MSD and the bank can access. In return, the person receives the full amount of New Zealand entitlement. The Special Banking Option is only available to those who receive overseas pensions from the UK, Australia, Ireland, the Netherlands, or Jersey and Guernsey.



paid from the Chilean scheme in which workers make compulsory contributions into private accounts, are not covered by the policy.

### **NZS is different from pensions in other Western countries**

- 9 NZS, with its simple residency rules, no means-testing and flat rate entitlement, is easy to understand, efficient to administer and, combined with the high rates of mortgage-free home ownership for older people in New Zealand, ensures there is a low level of material hardship amongst older people. Nevertheless, NZS is different from the pension systems operating in most other Western countries.
- 10 In most other Western countries, a person's pension entitlement is based on social security contributions made by that person and, in most instances, also by their employer, over their working life. The full payment of NZS after 10 years residence makes it difficult to interface NZS with other countries' pension systems. In other countries a person would generally receive a proportional pension based on the number of years they have worked in that country. A person who has worked in a number of countries would have a number of proportional pensions, which add up to the equivalent of one full pension. For example, a person who worked in Canada for half their working life, and the United States for the other half of their working life, would receive approximately 50 percent of their pension from each country, which adds up to one full pension.
- 11 By contrast, a person who worked in New Zealand for half their working life may be eligible for the full New Zealand payment, and if they worked in Canada for the remainder of their working life they would be entitled to 50 percent of the Canadian pension. This adds up to more than one pension. New Zealand addresses this issue by having the direct deduction policy.
- 12 The Australian system bears some similarities to the New Zealand system and therefore there are some similarities in the way overseas pensions are treated. For example, if a person migrates to Australia from Canada on retirement, that person would be covered by the social security agreement between Australia and Canada, which would mean that he would immediately be entitled to an Australian Age Pension. Australia would directly deduct the amount of that person's Canadian pension, until such time as he or she qualifies for Age Pension in his own right (currently after 10 years residence in Australia). Once the person qualifies for Age Pension in his or her own right, the Canadian pension will no longer be directly deducted, but will be taken into account for the income and asset test that applies to the Australian Age Pension.

### **New Zealand has a "one pension" principle**

- 13 The direct deduction policy is underpinned by the "one pension principle", which means that a person should not be able to receive two forms of state financial assistance for the same or similar circumstances. For example, a disabled person over the age of 65 cannot receive both Supported Living Payment and NZS, despite the fact that he or she may meet the qualifying criteria for both benefits. This same principle extends to the treatment of overseas state pensions.

- 14 In 1972, the Royal Commission of Inquiry into Social Security<sup>2</sup> noted that:

*The New Zealand social security legislation has always aimed to prevent anybody receiving more than one benefit for the same set of circumstances. This policy has applied to people living in New Zealand who receive pensions from some overseas source.*

*... In our opinion it is reasonable, in general, that people living in New Zealand receiving overseas pensions from obligatory national pension schemes should not be placed in a more advantageous position than New Zealand social security beneficiaries (including superannuitants). We therefore see no reason to depart from the present broad concepts that nobody should receive more than one benefit for the same set of circumstances, and that overseas pensions or benefits which are deemed to be analogous to New Zealand social security benefits should be deducted from any New Zealand benefit entitlement.*

- 15 Other countries also have an equivalent to the one pension principle. For example, under the terms of the Social Security Agreement between New Zealand and Australia, the rate of combined NZS and Australian Age Pension that New Zealanders in Australia receive is "capped" at the rate that lifelong Australian residents receive. The Netherlands Government reduces the amount of Netherlands Old Age Pension where the combined amount of this pension and NZS exceeds the maximum rate paid to lifelong residents of the Netherlands.
- 16 When a person migrates to New Zealand, or returns home after a period overseas, they may bring with them a pension entitlement from another country. In some instances, the overseas pension amount can be quite substantial, especially where a person migrates or returns to New Zealand later in life. If a person were to receive their overseas pension entitlement as well as the full rate of NZS, they would be financially advantaged compared to people who have lived in New Zealand all their lives.

### **There is a common misconception that overseas pensions are private savings**

- 17 The overseas pensions that are deducted under section 70 are paid out from state-administered or public pension schemes. Participation in these schemes is normally compulsory for all employees. Public pension schemes are established under a country's national legislation, are often financed on a pay-as-you-go basis (where current contributions pay for current benefits and pensions) and are administered by or on behalf of the Government of the country paying the pension. True private savings or pensions schemes are not administered by Governments but by private providers such as financial institutions, banks, employers or groups of employers.
- 18 Some overseas pensioners believe that the amount paid into the overseas pension scheme is the amount that is returned to them as a state retirement pension. However, this is not generally correct. Many overseas schemes also finance invalidity and/or survivor benefits. In some schemes, there may be also an element of taxpayer funding where the amount of contributions collected is insufficient to cover the cost of the pensions required to be paid out. Taxpayer funding may take on a more significant role in the future as a number of overseas state pension systems are underfunded. Taking into account that most pension schemes finance a number of

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<sup>2</sup> *Social Security in New Zealand*, Report of the Royal Commission of Inquiry, March 1972.

different types of benefits, the amount of overseas retirement pension a person receives cannot directly relate back to the amount of contributions that person has made over their working life.

- 19 Some people consider that contributory pensions should be treated differently from taxpayer-funded pensions like NZS because the contributions are deducted from a person's own earnings. However, personal income tax is deducted from a person's own earnings and many superannuitants consider that, by paying New Zealand tax throughout their working life, they have effectively contributed towards their NZS entitlement. In reality, given that most public pension schemes are funded on a pay-as-you-go basis, there is generally no individual account for the current worker to access in the future when that person retires.
- 20 For example, National Insurance contributions (NICs) paid into the UK scheme are not considered to be private savings. Lord Hoffman in an appeal to the United Kingdom House of Lords (*R (Carson and Reynolds) v. Secretary of State for Work and Pensions* [2005]) stated: *It is, I suppose, the words 'insurance' and 'contributions' which suggest an analogy with a private pension scheme. But, from the point of view of the citizens who contribute, National Insurance contributions are little different from general taxation which disappears into the communal pot of the consolidated fund. The difference is only a matter of public accounting.*

### **The direct deduction policy reduces expenditure on NZS**

- 21 There are approximately 90,000 New Zealanders who have their NZS or other benefit reduced because they receive an overseas pension. The annual amount of the deductions is approximately \$355 million. Deduction amounts are likely to increase in subsequent years, driven by increasing numbers of pensions being paid to New Zealand residents by Australia and the United Kingdom.

### **Is there a viable alternative to direct deduction?**

- 22 NZS is uncomplicated and relatively low-cost compared with the pension expenditure, as a percentage of Gross Domestic Product (GDP), of other Organisation for Economic Co-operation and Development (OECD) countries. However, the simplicity of NZS, in particular having a short period of residence and presence requirement and an 'all or nothing' entitlement, makes the interface with foreign pension systems problematic. Over the years consideration has been given to alternatives to the direct deduction. As yet no option has been identified that would satisfactorily replace the policy.
- 23 The answer for some people is moving to a proportional system of entitlement. Under this system full NZS entitlement would only be accrued after 45 years residence in New Zealand. When taken at face value this type of system seems to be a logical solution that would provide an equitable outcome for New Zealand taxpayers and recipients of foreign pensions. Closer analysis reveals some significant issues:
  - Superannuitants' incomes would be impacted. In 2012, the Ministry advised the Social Services Committee that we estimate that up to 90 percent of superannuitants who have overseas pensions could be disadvantaged by a proportional system. People who have spent time overseas between the ages of 20 and 65 and who have no overseas pension, or only a small overseas pension that does not sufficiently cover their years outside New Zealand, would have a reduction in overall pension income.

- There would be a particular problem for migrants from the United Kingdom as the United Kingdom does not index link (increase by inflation) pensions it pays into New Zealand. Consequently United Kingdom pensioners would have a gradually diminishing combined United Kingdom and New Zealand pension income as inflation gradually reduced their real United Kingdom pension amount.
  - People would need to be provided with an adequate lead-in period in which they could adjust to a proportional payment of NZS.
  - There could be significant client compliance and service delivery implications. A proportional model may require the Ministry to verify all NZS applicants' actual residence in New Zealand. This would be resource intensive and would place an additional compliance burden on NZS applicants. There would be significant IT costs to set up a new system which calculates varying NZS rates based on length of residence in New Zealand.
  - Superannuitants with insufficient income from NZS would need to apply for supplementary assistance – this would create significant additional interaction with Work and Income for these people. There are no supplementary payments currently available which could top-up superannuitants' incomes to address hardship on an on-going basis. Therefore we would need to consider whether the current Temporary Additional Support (TAS) provisions would be suitable for this purpose or whether new provisions would need to be developed.
- 24 Around 2,000 people with overseas pensions receive New Zealand working age benefits (i.e. benefits other than NZS). Consideration would need to be given to how overseas pensions would be treated for this group.

### **There would be some advantages to repealing direct deduction...**

- 25 A divisive policy would be removed. The direct deduction policy can be contentious for some recipients of overseas pensions and for the overseas governments that pay the pensions. For some overseas pensioners, whether migrants or returning expatriates, it comes as a surprise that they will not receive a full NZS entitlement on top of their overseas state pension. Some other governments consider that New Zealand is using their pensions simply to reduce its own pension liabilities.
- 26 Spousal deduction is an extension of the direct deduction policy and ensures that couples with overseas pensions are not financially advantaged over couples who are life-long New Zealand residents. Spousal deduction occurs where the excess amount of overseas pension of one partner is deducted from the other partner.
- 27 The direct deduction can also be difficult to administer. Everyone who applies for NZS is required to state whether they have resided overseas and therefore, could be eligible for an overseas pension. The Ministry is required to assist people who may be eligible for an overseas pension, to test their eligibility. Currently, the Ministry assists around 10,000 people a year to test their eligibility. In most instances the Ministry has to follow up with applicants numerous times to get the process completed.

### **...however NZS would become less fair**

- 28 The direct deduction policy carries the fairness and simplicity principles of NZS through to treatment of overseas pensions. People who have lived and worked overseas, both returning New Zealanders and migrants to New Zealand, will not have contributed to this country to the same extent as life-long New Zealand residents.



The direct deduction policy ensures that all superannuitants receive an amount of state pension that is at least equivalent to the full rate of NZS.

- 29 Removing section 70 would continue to ensure that everyone receives an amount of state pension that is at least equivalent to NZS, but some people with overseas state pensions would be able to receive significantly more combined state pension amounts than other New Zealanders.

For example:

- A single person living alone receives an Australian Age Pension based on 20 years residence in Australia of AU \$794.80 (NZ \$850.75 per fortnight). If they also got paid NZS they'd receive another \$780.40 net per fortnight for a total payment of \$1,571.15. A life-long New Zealander would only get \$780.40 per fortnight.
- A married couple who emigrated to New Zealand from the Netherlands get a combined Dutch state pension of €292.48 per fortnight (NZ \$470.33 per fortnight). If they also got paid the married couple rate of NZS they'd get another \$1,200.60 per fortnight for a total payment of \$1,670.93. A lifelong New Zealand couple would only get \$1,200.60 per fortnight.

- 30 The residence period to qualify for NZS is currently 10 years. If the residence period was increased this would moderate some of the lack of fairness created by removing the direct deduction policy because people with foreign pensions would need to wait longer to qualify for full NZS. Nevertheless it would still be possible for some people who have lived and worked in countries with relatively generous pension systems to be significantly better off than other NZS recipients.
- 31 Removal of the direct deduction policy may also create divisiveness between lifelong New Zealanders and people who have entitlement to overseas pensions as the overseas pensioner group would have access to two state pensions and would be financially advantaged compared with lifelong New Zealanders.

s 9(2)(f)(iv) - Under active consideration

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### **Social security agreements do not affect direct deductions**

- 37 Social Security Agreements (SSAs) are bilateral treaties that close gaps in social security coverage for people who migrate between countries. They do this by overcoming barriers to benefit entitlements in domestic legislation, such as requirements for citizenship, minimum contributions, past residence, and current country of residence.

- 38 Current policy is that the social security agreements (SSAs) do not affect the direct deduction of pensions and benefits paid by SSA partner countries. However, a SSA could override the direct deduction legislation.
- 39 A number of countries have pressured New Zealand to rescind the direct deduction for their pensions. We recommend declining any proposals to compromise the direct deduction from SSA partners or potential SSA partners because this would:
- provide many pensioners covered by the SSA with an unfair financial advantage by enabling them to receive a combined New Zealand and foreign pension amount higher than the rate of NZS everyone else receives
  - set a precedent so that other countries with which we have SSAs would be likely to seek concessions to the direct deduction policy
  - create additional fiscal costs for New Zealand (over \$300 million of direct deductions are from SSA countries).

File ref: A10060227

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Responsible manager: s 9(2)(a) - Privacy of natural persons Policy Manager, Seniors and International



# Report

**Date:** 10 November 2017

**Security Level:** IN CONFIDENCE

**To:** Hon Carmel Sepuloni, Minister for Social Development

## Further information on section 70 of the Social Security Act 1964 (the direct deduction policy)

### Purpose of the report

- 1 This report responds to the request of the Minister for Seniors for further information on the direct deduction policy and also information on the residence requirements for New Zealand Superannuation.

### Recommended actions

It is recommended that you:

- 1 **Note** the contents of this report
- 2 **Agree** to discuss with officials your key messages on the direct deduction policy

☒ Agree / ☐ Disagree

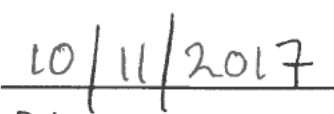
- 3 **Agree** that officials provide you with an overview of the state pension schemes of the countries from which the majority of deductible overseas pensions originate by 17 November 2017

☒ Agree / ☐ Disagree

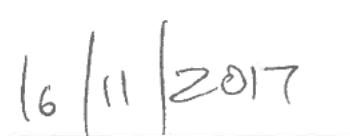
- 4 **Agree** to forward a copy of this report to the Minister for Seniors.

☒ Agree / ☐ Disagree

  
Alex McKenzie  
General Manager  
Seniors and International

  
10/11/2017  
Date

  
Hon Carmel Sepuloni  
Minister for Social Development

  
16/11/2017  
Date

## Background

- 2 In response to the report of 6 November 2017 to you and the Minister for Seniors on the direct deduction policy [REP/17/11/1050 refers], the Minister for Seniors has asked for information on why lifelong New Zealanders would be financially disadvantaged if overseas state-administered pensions (overseas pensions) were not deducted and also whether there has been any change to the residence requirements for New Zealand Superannuation (NZS).

### **Direct deduction ensures that all superannuitants receive an equitable amount of state pension**

- 3 The following example shows that lifelong New Zealanders would be financially disadvantaged, compared with people receiving overseas pensions, if overseas pension amounts were not deducted from New Zealand benefits or pensions.
- 4 Mr A migrated to New Zealand from the United Kingdom when he was 40. He worked in the United Kingdom (UK) for 20 years before migrating to New Zealand and, while working there, was required by law to make contributions to the United Kingdom National Insurance Fund (NIF).
- 5 The NIF is used by the UK Government to fund UK benefits and pensions in the same way that New Zealand Government uses general tax revenue to finance New Zealand benefits and pensions. The NIF finances not only the UK State Pension but also other UK contributory benefits. A portion of the income from the NIF also goes to the UK National Health Service.
- 6 Mr A then worked in New Zealand for 25 years before becoming entitled to NZS. He also receives a partial<sup>1</sup> United Kingdom State Pension of £53.82 (before tax is deducted) per week (or \$102.60 converted to New Zealand dollars using the exchange rate applicable on 8 November 2017).
- 7 The gross (before-tax is deducted) amount of NZS for a single person who is living alone is \$450.10 per week. This rate is current as at 1 April 2017.

### **Applying the deduction means that people with overseas pensions receive a combined amount that is equivalent to the amount of NZS received by other superannuitants**

- 8 The gross amount of UK State pension is deducted from the gross amount of NZS on a dollar-for-dollar basis as shown below:

Gross NZS (before deduction of UK pension)	Gross UK Pension converted to NZ dollars	Gross NZS (after deduction of UK pension)	Total combined NZS and UK Pension amount
\$450.10	\$102.60	\$347.50	\$450.10

- 9 The combined gross amount of Mr A's UK pension and gross amount of NZS (after deduction of the UK pension) adds up to \$450.10 which is equal to the gross amount of NZS that single, living alone, superannuitants without an overseas pension receive.

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<sup>1</sup> Mr A's partial payment is equivalent to 20/35ths of the maximum rate of UK pension. If Mr A had worked in the UK for 35 years before migrating to New Zealand at age 55, he would have been eligible for the full rate of UK State Pension. Without the direct deduction policy, he would also be eligible the full rate of NZS after only ten years residence in New Zealand i.e. he would receive two full pensions.



**...but, if the deduction was not applied, people with overseas pensions would receive more than lifelong New Zealanders**

- 10 Using Mr A again as an example, if his UK State Pension was not deducted, he would receive \$552.70 a week as shown below:

Gross NZS (before deduction of UK pension)	Gross UK Pension converted to NZ dollars	Total combined NZS and UK Pension amount
\$450.10	\$102.60	\$552.70

- 11 Mr A would receive \$102.60 a week more in state-administered pensions than the amount received by a single, living alone, New Zealander who has lived their whole life in New Zealand. This means that lifelong New Zealanders would be financially disadvantaged when compared to people with overseas pensions.
- 12 The direct deduction policy ensures that all qualifying New Zealand residents receive an equitable level of state pension, whether the amount of that pension is fully funded by New Zealand, partially funded by New Zealand and another country, or fully funded by another country.

**The residence requirement for NZS has not changed**

- 13 There has been no change to the residence requirement for NZS since 1990. The residence requirement is currently 10 years residence from the age of 20, five years of which must be after the age of 50. There was an announcement by the previous New Zealand Government in March 2017 that they intended to increase the residence requirement for NZS from 10 years to 20 years, while retaining the requirement for 5 years residence over the age of 50, but this legislative change has not been made.

**Key messages to respond to ministerial correspondence on the direct deduction policy**

- 14 There have been a number of complaints about the policy in the past and we expect that correspondence with Ministers on this subject will continue.
- 15 Past key messages on the direct deduction policy have been:

- Section 70 of the Social Security Act 1964 requires that the amount of an overseas pension must be deducted from a New Zealand benefit or pension where that overseas pension:
  - forms part of a programme of benefits or pensions paid for any of the circumstances for which New Zealand benefits or pensions are paid, and
  - is administered by or on behalf of the overseas government of the country from which the overseas pension originates
- Private pensions and savings plans that are similar to Kiwisaver are not covered by the policy
- The direct deduction policy has been part of New Zealand law since 1939
- When a person migrates to New Zealand, or returns home after a period overseas, they may bring with them a pension entitlement from another country. In some instances, the overseas pension amount can be quite substantial, especially where a person migrates or returns to New Zealand later in life. If a person were to receive their overseas pension as well as the full rate of NZS, they would receive a combined state-administered pension amount that is more than the amount received by lifelong New Zealanders
- The aim of the policy is to ensure that all qualifying New Zealand residents receive an equitable level of state pension, whether the amount of that pension is fully funded by New Zealand, partially funded by New Zealand and another country, or fully funded by another country.

- 16 We would like to discuss with you your key messages on the direct deduction policy.

### **Information on Netherlands Pension Scheme**

- 17 You have asked for information on the Netherlands Pension scheme and whether it is similar to Kiwisaver. This information is provided in Appendix 1.

### **Information on other countries pension schemes**

- 18 The overseas pensions that are deducted under section 70 are paid out from state-administered or public pension schemes. Private pensions and savings plans that are similar to Kiwisaver are not covered by the policy.
- 19 If you would like further information, we can provide you with an overview of the state pension schemes of the countries from which the majority of deductible overseas pensions originate, by 17 November 2017.

File ref: A10070964

Author: s 9(2)(a) , Senior Policy Analyst, Seniors and International

Responsible manager: s 9(2)(a) - Policy Manager, Seniors and International  
Privacy of natural persons

## **Appendix 1: Information on the Netherlands State Pension Scheme**

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1. The pension system in the Netherlands consists of:
  - basic state old-age pension scheme known as AOW (first pillar);
  - supplementary pension schemes by virtue of the employer (second pillar);
  - private savings for retirement (third pillar).

### **The first pillar of the Netherlands pension scheme meets the criteria for deductibility under section 70 of the Social Security Act 1964**

2. The Netherlands basic state old-age pension meets the **two** criteria set out in section 70 of the Social Security Act 1964 (s70). This pension forms part of the Netherlands social security scheme which pays Netherlands benefits and pensions for the same type of circumstances for which New Zealand benefits and pensions would be paid. The scheme is also administered by the Social Insurance Bank on behalf of the Netherlands Government.

### **The second and third pillars are administered by private providers and pensions from these schemes are not deductible**

3. Pensions from the second and third pillars are not deductible. These pension schemes only meet one of the criteria set out in s70 because they are administered either by employers or private institutions such as banks or insurance companies and not by or on behalf of the Netherlands Government.

### **Entitlement to pensions under the first pillar is accrued by either contributions or residence in the Netherlands**

4. The New Zealand pension system is not entirely different from that of the Netherlands. The AOW is paid not only to those who have contributed to it but also to people who have not contributed but have gained entitlement through their residence in the Netherlands. Entitlement to an AOW pension is accumulated at a rate of 2% for each year of Netherlands residence or contributions between the ages of 15 and 65. A person does not accrue any AOW pension rights during a period that person has lived outside the Netherlands unless they have paid voluntary contributions in respect of that absence.
5. Where a person works in the Netherlands, their employer deducts the appropriate amount of income tax from their salary and forwards this money to the Netherlands tax authority. Part of this tax is paid directly into the AOW fund. No individual record is kept of a person's AOW contributions because this amount is not set aside for the individual person. The Netherlands system is pay-as you-go where the current contributions collected in one year are used to pay the pensions of current AOW pensioners in that year. If the income in the AOW fund is not enough to cover AOW pension spending, the shortfall is made up by the Netherlands government from general tax revenue.

### **The Netherlands first pillar scheme is not comparable to Kiwisaver**

6. The Netherlands scheme is not similar to Kiwisaver. Kiwisaver is not a benefit or pension scheme that is administered by or on behalf of a government as required of overseas pensions to qualify for deduction under section 70. Kiwisaver is a voluntary, private savings scheme where individuals may choose to opt out or suspend contributions at any time. Employers may be required to contribute to Kiwisaver depending on the member's situation but minors and adults who are not in paid employment can also contribute. Investment companies, banks and other private providers administer the individual's Kiwisaver contributions. Unlike state-administered contributory pension schemes, the individual who puts their money into Kiwisaver assumes the risk of their personal investment. Individuals choose where they will place their funds and the viability of Kiwisaver schemes are not guaranteed by the New Zealand Government.



# Report

**Date:** 24 November 2017

**Security Level:** IN CONFIDENCE

**To:** Hon Carmel Sepuloni, Minister for Social Development

## Information on state-administered old age pension systems in selected OECD countries

### Purpose of the report

- 1 This report provides you with information on state-administered old age pension systems in selected OECD countries. It responds to your agreement to the recommendation in the 10 November 2017 [REP/17/11/1110] (considered in conjunction with a report on 6 November 2017 [REP/17/11/1050]) that officials provide you with an overview of the state pension schemes of the countries from which the majority of deductible overseas pensions originate.
- 2 This information is provided in the attached table (see Appendix).

### Recommended actions

It is recommended that you:

- 1 **Note** that you are meeting with officials on 4 December 2017 to discuss the direct deduction policy (Section 70 of the Social Security Act 1964).

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General Manager  
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22/11/2017

Date

Hon Carmel Sepuloni  
Minister for Social Development

4/12/17

Date

## Overseas pension systems

- 3 The majority of the selected countries' pension systems operate under a 'three-pillar' system. However, not all of these pensions meet the criteria for direct deduction (eg pensions from pillars that aren't state administered). The attached Appendix provides information only on overseas pensions that are subject to the direct deduction policy, with the majority of these being the 'first pillar' of the country's scheme.
- 4 It should be noted, however, that the other pillars are important to the overall effectiveness of a pension system. In general, a three-pillar system comprises three separate pensions with different functions:
  - 4.1 A state-administered pension
  - 4.2 A company based pension with employee/employer contributions
  - 4.3 Individual contributions to retirement income.
- 5 The first pillar serves as a means for avoiding old-age poverty, the second pillar focuses on an adequate pension in terms of the replacement rate, while the third pillar is meant to provide an opportunity for individuals to save towards increasing their retirement income.

File ref: A10102822

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**APPENDIX: STATE-ADMINISTERED OLD AGE PENSION SYSTEMS IN SELECTED<sup>1</sup> OECD COUNTRIES (DEDUCTIBLE UNDER SECTION 70 OF THE SOCIAL SECURITY ACT 1964)**

Country	Name of pension/s	Qualifying conditions	Benefit calculation	Income/asset tested	Type of system	Government funding?	Additional information
Australia	Australian Age Pension	Aged 65 and six months (gradually rising to 67 by 1 July 2023) with at least 10 years' residence in Australia from the age of 20	Maximum rate payable after 10 years' Australian residence	Income and asset tested	Taxpayer funded with pensions paid out on a pay-as-you-go (PAYG) <sup>2</sup> basis	Fully funded by government	Income over A\$168 a week (for a single person) or \$300 (for a couple) reduces the pension rate by 50c per dollar
Canada	Old Age Security (OAS)	Aged 65 with at least 10 years' residence in Canada since age 18, increased to 20 years if living overseas	Each additional year of Canadian residence above the minimum 10 (or 20) year residence criteria increases the rate of payment by 1/40 <sup>th</sup> of the maximum rate. 40 years' residence in Canada is required for the maximum entitlement, both if in Canada or overseas. People can defer applying for their OAS pension for up to 5 years and receive an additional 0.6 percent pension increase for each month of deferral	Income tested	Taxpayer funded  PAYG	Fully funded by government	People residing in Canada who have limited income apart from their OAS pension may also be eligible for a Guaranteed Income Supplement payable under the OAS scheme
	Canada Pension Plan (CPP)	Aged 65 with at least one valid CPP contribution	Depends on how many years of contributions and the amount of contributions paid from age of 18 to 65. Low or zero earnings months or periods raising children may be "dropped" from the CPP calculation to increase the rate of CPP. People can apply for CPP between the ages of 60 and 65 and receive a reduced CPP rate or defer applying until up to the age of 70 to receive a higher rate	No income or asset test	Compulsory contributions with equal contributions from employee and employer. Largely PAYG but any funds not needed to pay current age pension, disability and survivor benefits are invested by the CPP Investment Board (CCPIB), which is a Crown corporation. The CCPIB is accountable to the Federal and Provincial Finance Ministers who have overall responsibility for the CPP scheme	No government funding	CPP contributions also fund disability, survivor and children's benefits
Denmark	Standard Retirement Pension	Aged 65 (gradually rising to 67 from 2024 to 2027) with a minimum of 3 years' residence in Denmark from ages 15 to 65 (10 years' residence for non-citizens)	Each additional year of Danish residence above the minimum residence period increases the rate of payment by 1/40 of the maximum rate. Maximum payment payable after 40 years' residence in Denmark	Income tested	Taxpayer funded  PAYG	Fully funded by government	The scheme also provides supplementary pensions for those with minimal income other than their state pension
	Labour Market Supplementary Pension (ATP)	Aged 65 (gradually rising to 67 from 2024 to 2027)	The full ATP amount requires a full and continuous contribution record from 1964 (when the ATP scheme started) or from age 16 if contributions began later than 1964	No income or asset test	Compulsory contributions for people who work more than 9 hours per week. Maximum contribution amount is around 1% of the earnings of an average full-time employee. Contributions are invested and used to fund future retirement benefits	No government funding	The ATP scheme also funds pensions for survivors
Germany	German Retirement Pension	Aged 65 and 7 months (gradually rising to age 67 by 2029) with at least five years contributions	The minimum pension is payable after 5 years, the maximum pension requires 35 years of contributions. Pension amounts are increased by each	Income tested	Compulsory contributions from employee and employer  PAYG	Partial funding by government For example, the first three years after a child's birth are credited as compulsory periods of insurance. For	Certain periods where contributions are not made (for example, education and child rearing) can be used to increase pension amounts

<sup>1</sup> The selected OECD countries are the countries that have the most significant migrant populations for New Zealand.

<sup>2</sup> Pay-as-you-go-schemes (PAYG) are schemes under which today's contributors or taxpayers fund the pensions of today's pensioners. This means that there is no specific contribution account set aside for current contributors to access when they become retirees in the future.

Country	Name of pension/s	Qualifying conditions	Benefit calculation	Income/asset tested	Type of system	Government funding?	Additional information
			of the months for which contributions have been made and/or by the months where a person was raising a child under three years of age			these periods, the insurance contributions are made by the German government.	
Ireland	State Pension (Contributory)	Aged 66 (gradually rising to 67 by 2021 and 68 by 2028) with a minimum of 10 years' contributions	Pension amounts increased by each of the additional years where 48 contributions per year over the minimum ten year period have been made. Maximum pension payable where an average of 48 contributions a year (out of a possible 52) have been made during the person's working life from 1979 to their 66 <sup>th</sup> year	No income or asset test	Compulsory contributions from employee and employer  PAYG	Government funding of any deficit	Contributions also fund Jobseeker's, Invalid's, Illness, Maternity and Carer's Benefit
Netherlands	Old Age Pension	Aged 66 (gradually rising to 67 by 2021 and, from 2022, the age will be linked to life expectancy) with a least 1 year of Netherlands' residence or contributions	The minimum payment rate is 1/50 <sup>th</sup> of the maximum payment rate. Each additional year of residence or contributions in the Netherlands between the ages of 15 and 65 increases the rate by 1/50. The maximum payment rate is based on 50 years' residence or contributions in the Netherlands	No income or asset test	Hybrid residence/contribution scheme  PAYG	Subsidised by government if contributions do not cover full cost of pensions to be paid out in each year. The level of subsidy depends on shortfall in pension costs.	A person who has never paid contributions in the Netherlands may receive a full pension if they have lived in the Netherlands for 50 years
Switzerland	Swiss Old Age and Survivors Insurance (OASI) pension	Age 65 (men) or age 64 (women) with at least 1 year of contributions from age of 17 (if employed) or 20 (if not employed)	A maximum rate may be payable after 43 years of contributions (for women) and 44 years (for men). The maximum payment rate is reduced by around 2.3 percent for each year contributions were not paid	No income or asset test	Compulsory contributions by employee and employer  PAYG	The Swiss Government also contributes 19.55 % of pension outgoings obtained through Swiss taxes	Contributions also pay for Disability and Survivor benefits
United Kingdom	State Pension	Age 65 for men and age 64 and six months for women (the age for women is gradually rising to age 65 by 2018). Ages for both men and women will rise gradually from 65 to 67 by 2028. A minimum of 10 years of contributions to the United Kingdom (UK) National Insurance Fund is required for the minimum pension entitlement	The minimum payment amount is 10/35 of the maximum rate of UK State Pension. This minimum rate is increased by 1/35 <sup>th</sup> for each year of contributions, with the maximum rate payable after 35 years	No income or asset test	Compulsory contributions by employee and employer  PAYG	The National Insurance contributions also fund other UK benefits including contributions-based jobseeker's allowance, employment and support allowance, and bereavement benefits. A portion goes to the UK National Health Service. The UK Government subsidises the fund where it does not cover the full pension outlay by Treasury grant of up to 17.5% per year	Significant changes were made to the UK State Pension scheme in April 2016. The UK State Pension and State Second Pension were merged into one State Pension and the number of qualifying years required for the minimum and maximum pension entitlement was increased from 1 year to 10 years (minimum) and 30 years to 35 years (maximum)
United States	Social Security Retirement Pension	Age 66 for people born between 1943 and 1954 (for people born after 1955, the entitlement age is rising gradually until reaching 67 in 2027) with at least 10 years of coverage	The pension is based on the average of the 35 highest years of earnings indexed for past wage inflation	No income or asset test	Compulsory social security taxes paid by employee and employer  PAYG	No government funding	The social security taxes also pay for disability benefits. The redistributive nature of the US social security system mean that higher-income earners pay substantially larger amounts of social security taxes than the amount they receive in retirement benefits.