



20 March 2026

Tēnā koe

Official Information Act request

Thank you for your email of 6 January 2026, requesting the policy or document setting 1 July 2012 as the critical date for Chinese pension deductibility.

I have considered your request under the Official Information Act 1982 (the Act). Please find my decision on your request set out below.

Please find attached the two documents that address your request:

- Appendix 1 Memo to Chief Executive, Ministry of Social Development, *Direct deduction and China's pension system*, 6 September 2022.
- Appendix 2 Report to Hon Carmel Sepuloni, Minister for Social Development and Employment, *Direct deduction and China's pension system*, 22 September 2022.

Please note that some information is also withheld under section 6(a) of the Act, as the making available of that information would be likely to prejudice the security of the international relations of the Government of New Zealand.

As context, I advise that any payment that meets the criteria of an 'overseas pension' under section 187 of the Social Security Act 2018 (the Act) must reduce the rate of payment of a New Zealand benefit. In practice, this means that for every one dollar a person receives from an overseas pension that meets section 187 of the Act, their New Zealand payment is reduced by one dollar. This process is known as "direct deduction." The direct deduction policy has been part of New Zealand law since 1938.

Section 187 of the Act states that a payment that meets the following criteria is considered an overseas pension:

- forms part of an overseas programme that provides pensions, benefits, and periodical allowances for any of the circumstances for which New Zealand benefits and pensions would be paid (including old age, invalidity, death of a spouse); and
- is administered by or on behalf of the Government of the country from which the pension, benefit or periodical allowance originates; and

- excludes an overseas pension or any part of it that has been gained from voluntary contributions made by the person.

In 2022, the Ministry made a thorough assessment of the Chinese pension system drawing primarily on information from the Organisation for Economic Cooperation and Development (OECD) and the International Social Security Association (ISSA). Our conclusion from that assessment was that 1997 was when China started to have a pension that meets the criteria of 'overseas pension' outlined in sections 187 – 191 of the Act. The Ministry has monitored this development, with an assessment being made that only the Urban Employees' Pension meets the required criteria for the direct deduction policy. This pension has been subject to the direct deduction policy from 1 July 2022.

Only main New Zealand benefits granted after 1 July 2022 would be subject to direct deduction, as this is the earliest date from which individuals would simultaneously be:

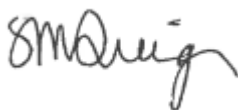
- eligible for payments under the Chinese Urban Employees' Pension, which started in 1997 and has a 15-year minimum contribution period for entitlement; and
- could be entitled to New Zealand Superannuation, which at the time of decision required 10 years residence in New Zealand.

I will be publishing this decision letter, with your personal details deleted, on the Ministry's website in due course.

If you wish to discuss this response with us, please feel free to contact OIA_Requests@msd.govt.nz.

If you are not satisfied with my decision on your request, 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 or 0800 802 602.

Ngā mihi nui

pp. 

Anna Graham
General Manager
Ministerial and Executive Services



Report

Date: 22 September 2022

Security Level: IN CONFIDENCE

To: Hon Carmel Sepuloni, Minister for Social Development and Employment

Direct deduction and China's pension system

Purpose of the report

- 1 This report updates you on China's pension system and action we are taking under section 187 of the Social Security Act 2018 (the Act) to direct deduct China's Urban Employees' Pensions from New Zealand entitlements.

Recommended actions

It is recommended that you:

- 1 **note** that 'overseas pensions' (as defined in section 187 of the Social Security Act 2018) paid to superannuitants must be direct deducted from any New Zealand benefit
- 2 **note** that from 1 July 2022, Chinese Urban Employees' Pensions granted after 1 July 2012 have been subject to direct deduction
- 3 **note** that 1 July 2022 was the earliest possible date for direct deductions to begin based on our assessment of when the Chinese pension system commenced and when a person can qualify for NZS
- 4 **note** we are unable to estimate how many people are affected by this, as most will not yet be clients of MSD

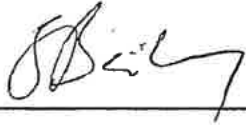
5 s6(a)

6 s6(a)

- 7 **agree** to forward a copy of this report to the Minister of Foreign Affairs

agree/disagree

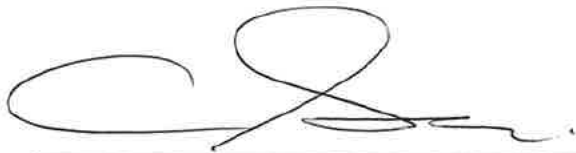
- 8 **note** that we will liaise with your Office and provide you with further supporting information as required.



Steven Bailey
Acting Policy Manager
Seniors and International Policy

22/9/22

Date



Hon Carmel Sepuloni
Minister for Social Development and
Employment

28/9/22

Date

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

The direct deduction policy reduces overseas pensioners' New Zealand entitlements

- 1 For every one dollar a person is entitled to receive or receives from an "overseas pension"¹ defined in sections 187 – 191 of the Act their New Zealand superannuation (NZS) or other benefit payment is reduced by one dollar. This process is known as direct deduction. Further information on the direct deduction policy and which overseas payments this policy applies to is included in Appendix A.

The Chinese community is significant

- 2 The Chinese community is one of New Zealand's largest migrant communities, numbering 247,000 people at the 2018 Census. Approximately 36,500 Chinese born people receive New Zealand Superannuation.

China is developing its pension system

- 3 Up until the mid 1990s, China had a pay-as-you-go pension system which was administered by state-owned enterprises.
- 4 China has since developed a more regulated approach, adopting a three pillar pension system (Appendix B). We understand that at this stage the pension system has limited coverage.

MSD paused the deduction of Chinese pensions in 2002

- 5 Overseas pensions paid by state-owned enterprises are not deductible. Consequently, in 2002 we suspended direct deductions of Chinese pensions until we could undertake a thorough investigation of China's pension system. As a result of that investigation, we concluded that no Chinese pensions would be deductible until 1 July 2022.
- 6 We recently consulted international experts to confirm our earlier understanding and analysis of China's pensions system. The Organisation for Economic Co-operation and Development (OECD) confirmed that the description in Appendix B met the OECD's understanding of China's pension system.

¹ "Overseas pension" in this context includes certain pensions, benefits, or periodical allowances.

7 We have assessed these pensions in relation to s187 of the Act, outlined in Table 1:

Table 1: Assessment of China’s pension system

	First tier basic old-age insurance system		Second-tier supplementary old-age insurance system		Third tier
Programme	Urban Employees’ Pension	Basic Old-age insurance Programme for Urban and Rural Residents	Enterprise Annuity	Occupational Annuity	Individual Tax-deferred Commercial Pension Insurance Programme
Assessment of overseas pension status under s.187	Overseas pension: is a mandatory pension administered by the Chinese government	Not an overseas pension: it arises from voluntary contributions	Not an overseas pension: is not administered by the Chinese Government and arises from voluntary contributions	Not an overseas pension: is not administered by the Chinese Government and arises from voluntary contributions	Not an overseas pension: is a private pension and arises from voluntary contributions

8 This assessment indicates that only the Chinese Urban Employees’ Pension should be treated as an “overseas pension” under s187 of the Act.

- 9 Only NZS payments granted after 1 July 2022 would be subject to direct deduction, as this is the earliest date from which individuals would simultaneously be:
- Eligible for payments under the Chinese Urban Employees’ Pension, which started in 1997 and has a 15 year minimum contribution period for entitlement; and
 - Could be entitled to New Zealand Superannuation, which currently requires 10 years residence in New Zealand.

10 We do not yet know the number of individuals impacted by this, as many will not yet be clients of MSD. However, this will not affect superannuitants who were receiving NZS prior to 1 July 2022.

We anticipate this may generate some interest

11 s6(a)

12

13

14 s6(a)

15 We have prepared key messages to respond should queries be received.

Consultation

16 We have consulted with the Department of Prime Minister and Cabinet, and the Ministry of Foreign Affairs and Trade.

Next Steps

17 We will keep your Office, the Ministry of Foreign Affairs (MFAT) and the Department of the Prime Minister and Cabinet informed of any developments.

18 We will liaise with your Office and provide you with further supporting information as required.

Author: (Sophie Murphy, Policy Analyst, International Policy)

Responsible manager: (Lynne Cousins, Policy Manager, International Policy)

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

Appendix A

The direct deduction policy and overseas pensions

- 1 For every one dollar a person is entitled to receive or receives from an "overseas pension" defined in sections 187 – 191 of the Act, their New Zealand payment is reduced by one dollar. This process is known as direct deduction.
- 2 An "overseas pension" in this context is not limited to pension payments. In the context of sections 187 – 191 of the Act, an overseas pension means a pension, benefit or periodical allowance that:
 - forms part of an overseas programme that provides pensions, benefits and periodical allowances for any of the circumstances for which New Zealand benefits and pensions would be paid (including old age, invalidity, death of a spouse); and
 - is administered by or on behalf of the Government of the country from which the pension, benefit or periodical allowance originates; and
 - excludes an overseas pension or any part of it that has been gained from voluntary contributions made by the person.
- 3 MSD must deduct any overseas pensions that are deductible under section 189(1) of the Act.

The purpose of the direct deduction policy

- 4 The principle behind the direct deduction policy is that all qualifying New Zealand residents should receive an equitable level of social security coverage.
- 5 "Equitable" here means having due regard for the interests of both pensioners and taxpayers. This ensures that people who have resided overseas, and may have entitlement to overseas state pensions, are not advantaged over New Zealanders who have resided in New Zealand throughout their working lives.
- 6 People who have resided overseas are able to receive the full rate of a New Zealand benefit or pension even if they have not resided in New Zealand all their lives. New Zealand residents receive an amount equivalent to the amount of NZS. This may come from NZS, the overseas pension or a combination of NZS and the overseas pension.
- 7 The direct deduction policy is also 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 veteran over the age of 65 cannot get both a Veteran's Pension and NZS, despite the fact that they may meet the qualifying criteria for both. This same principle extends to the treatment of overseas state pensions.
- 8 The policy also enables the New Zealand Government to share the cost of benefits and pensions with other countries.

Appendix B

China's pension system

- 19 The first pillar is a basic pension scheme, which is administered by the Chinese government. The scheme covers people in urban areas and involves a combination of a social pool and individual accounts. The social pool provides a basic pension of 20% of the average wage for all retirees. At present about 142 million people from all urban areas contribute to the scheme.
- 20 The second pillar comprises occupational pension schemes which employers offer on top of the pension contributions they make on behalf of their employees to the pillar one scheme. Pillar two schemes are not currently compulsory, but the Chinese Government does encourage enterprises to offer such schemes. Pillar two schemes are not administered by the Chinese Government.
- 21 Pillar three is individual savings. The Chinese Government gives incentives for individual savings through preferential taxation policies (usually by exempting tax from interest earned in retirement saving accounts). Pillar three is not administered by the Chinese Government.
- 22 There is also a special pension for workers in rural areas which gives only a very basic form of protection. The system covers approximately 82 million rural people, and pension payments are currently made to 0.5 million people.

Assessment of China's pension system

- 23 The International Social Security Association (ISSA) published a table describing China's pension system in the International Social Security Review Volume 74, Number 1 (early 2021), "*China's development of a multi-tier pension system*".
- 24 The Organisation for Economic Co-operation and Development (OECD) confirmed that the description in Table 1 met the OECD's understanding of China's pension system.

Table one: China's pension system

Features	First tier basic old-age insurance system		Second-tier supplementary old-age insurance system		Third tier
Programme	Urban Employees' Pension	Basic Old-age insurance Programme for Urban and Rural Residents	Enterprise Annuity	Occupational Annuity	Individual Tax-deferred Commercial Pension Insurance Programme
Mandatory/ Voluntary	Mandatory	Voluntary	Voluntary	Voluntary	Voluntary
Participants	Enterprise employees, govt and public institution workers	Rural residents and 16+ urban unemployed	Enterprise employees	Govt and other public institution workers	Employed and self employed in piloted areas
Contribution	16% of wage contributed by employers (to social account), 8% by employees (to individual account)	No fixed amount of contribution – govt matches contributions	Employers and employees max 8% each, total cannot be more than 12%	Employers 8% and employees 4%	Individual contribution, govt tax reduction
Financing	Social account is PAYG, individual account is NDC ²	Defined contribution	Defined contribution	Defined contribution	Defined contribution
Eligibility	15 years of contributions and reached "retirement age" (age 60 for men, 55 for female managers, 50 for other women)	15 years of contributions reached "retirement age" (age 60)	Reached 'retirement age', lose ability to work or migrate overseas		Retirement age or disability or major illness
When programme started	1997	2011	2004	2015	2010

² Notional defined contribution

RELEASED UNDER THE
OFFICIAL INFORMATION ACT



Memo

To: Debbie Power, Chief Executive Ministry of Social Development

From: Lynne Cousins, Manager, International Policy

Date: 6 September 2022

Security level: IN CONFIDENCE

This memo may contain legal advice and may be legally privileged. It should not be disclosed on an information request, without further legal advice.

Direct deduction and China's pension system

Action: For Information

Purpose of the memo

- 1 This memo updates you on China's pension system and action we are taking under section 187 of the Social Security Act 2018 (the Act) to direct deduct Chinese pensions from New Zealand entitlements.

The direct deduction policy reduces overseas pensioners' New Zealand entitlements

- 1 For every one dollar a person is entitled to receive or receives from an "overseas pension"¹ defined in sections 187 – 191 of the Act their New Zealand superannuation (NZS) or other benefit payment is reduced by one dollar. This process is known as direct deduction. Further information on the direct deduction policy and which overseas payments this policy applies to is included in Appendix A.

There are a significant number of Chinese superannuitants

- 2 The Chinese community is one of New Zealand's largest migrant communities, numbering 247,000 people at the 2018 Census. Approximately 36,500 Chinese born people receive New Zealand Superannuation.

¹ "Overseas pension" in this context includes certain pensions, benefits, or periodical allowances.

MSD paused the deduction of Chinese pensions in 2002

- 3 Up until the mid 1990s, China had a pay-as-you-go pension system which was administered by state-owned enterprises. Overseas pensions paid by state-owned enterprises are not deductible.
- 4 Consequently, in 2002 we suspended direct deductions of Chinese pensions until we could undertake a thorough investigation of China's pension system. China has since worked on developing a more regulated approach, adopting a three pillar pension system (Appendix Two). We understand that at this stage the pension system has limited coverage.
- 5 As a result of this investigation we concluded that no Chinese pensions would be deductible until 1 July 2022.
- 6 We have recently consulted with international experts to confirm our earlier understanding and analysis of China's pensions system. The Organisation for Economic Co-operation and Development (OECD) confirmed that the description in Appendix A met the OECD's understanding of China's pension system.
- 7 We have assessed these pensions in relation to s187 of the Act, outlined in Table 1:

Table 1: Assessment of China's pension system

	First tier basic old-age insurance system		Second-tier supplementary old-age insurance system		Third tier
Programme	Urban Employees' Pension	Basic Old-age insurance Programme for Urban and Rural Residents	Enterprise Annuity	Occupational Annuity	Individual Tax-deferred Commercial Pension Insurance Programme
Assessment of overseas pension status under s.187	Overseas pension: is a mandatory pension administered by the Chinese government	Not an overseas pension: it arises from voluntary contributions	Not an overseas pension: is not administered by the Chinese Government and arises from voluntary contributions	Not an overseas pension: is not administered by the Chinese Government and arises from voluntary contributions	Not an overseas pension: is a private pension and arises from voluntary contributions

What this means from a client perspective

- 8 This assessment indicates that only the Urban Employees' Pension (UEP) should be treated as an "overseas pension" under s187 of the Act.

- 9 Only NZS payments granted after 1 July 2022 would be subject to direct deduction, as this is the earliest date from which individuals would simultaneously be:
- Eligible for payments under the UEP, which started in 1997 and has a 15 year minimum contribution period for entitlement; and
 - Could be entitled to New Zealand Superannuation, which currently requires 10 years residence in New Zealand.
- 10 This will not affect superannuitants who were receiving NZS prior to 1 July 2022. We do not yet know the number of individuals impacted by this, as they will be identified as they apply for NZS.

The operational requirements are largely in place

- 11 The deduction of the UEP from New Zealand Superannuation is consistent with MSD's treatment of all other overseas pensions received by Work and Income clients. When the Ministry is advised that a client is receiving an overseas pension, it is assessed against the criteria laid out in section 187 to determine if it is deductible from New Zealand entitlement.
- 12 We will update the information available to Case Managers, as up until 1 July 2022 UEP would have been assessed as income. This information will go live on Map and Intheloop, to ensure Case Managers are aware of these changes and know to forward such cases to International Services.

Consultation

- 13 We have consulted with the Ministry of Foreign Affairs and Trade and the Department of Prime Minister and Cabinet.

Next Steps

- 14 The International policy team will inform Minister Sepuloni of this update.
- 15 We will keep the Ministry of Foreign Affairs (MFAT) and the Department of the Prime Minister and Cabinet informed of any further developments.
- 16 We will liaise with your office and provide you with further supporting information as required.

Appendix A

The direct deduction policy and overseas pensions

- 1 For every one dollar a person is entitled to receive or receives from an “overseas pension” defined in sections 187 – 191 of the Act, their New Zealand payment is reduced by one dollar. This process is known as direct deduction.
- 2 An “overseas pension” in this context is not limited to pension payments. In the context of sections 187 – 191 of the Act, an overseas pension means a pension, benefit or periodical allowance that:
 - forms part of an overseas programme that provides pensions, benefits and periodical allowances for any of the circumstances for which New Zealand benefits and pensions would be paid (including old age, invalidity, death of a spouse); and
 - is administered by or on behalf of the Government of the country from which the pension, benefit or periodical allowance originates; and
 - excludes an overseas pension or any part of it that has been gained from voluntary contributions made by the person.
- 3 MSD must deduct any overseas pensions that are deductible under section 189(1) of the Act.

The purpose of the direct deduction policy

- 4 The principle behind the direct deduction policy is that all qualifying New Zealand residents should receive an equitable level of social security coverage.
- 5 “Equitable” here means having due regard for the interests of both pensioners and taxpayers. This ensures that people who have resided overseas, and may have entitlement to overseas state pensions, are not advantaged over New Zealanders who have resided in New Zealand throughout their working lives.
- 6 People who have resided overseas are able to receive the full rate of a New Zealand benefit or pension even if they have not resided in New Zealand all their lives. New Zealand residents receive an amount equivalent to the amount of NZS. This may come from NZS, the overseas pension or a combination of NZS and the overseas pension.
- 7 The direct deduction policy is also 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 veteran over the age of 65 cannot get both a Veteran's Pension and NZS, despite the fact that they may meet the qualifying criteria for both. This same principle extends to the treatment of overseas state pensions.
- 8 The policy also enables the New Zealand Government to share the cost of benefits and pensions with other countries.

China's pension system

- 17 The first pillar is a basic pension scheme, which is administered by the Chinese government. The scheme covers people in urban areas and involves a combination of a social pool and individual accounts. The social pool provides a basic pension of

20% of the average wage for all retirees. At present about 142 million people from all urban areas contribute to the scheme.

- 18 The second pillar comprises occupational pension schemes which employers offer on top of the pension contributions they make on behalf of their employees to the pillar one scheme. Pillar two schemes are not currently compulsory, but the Chinese Government does encourage enterprises to offer such schemes. Pillar two schemes are not administered by the Chinese Government.
- 19 Pillar three is individual savings. The Chinese Government gives incentives for individual savings through preferential taxation policies (usually by exempting tax from interest earned in retirement saving accounts). Pillar three is not administered by the Chinese Government.
- 20 There is also a special pension for workers in rural areas which gives only a very basic form of protection. The system covers approximately 82 million rural people, and pension payments are currently made to 0.5 million people.

Assessment of China's pension system

- 21 The International Social Security Association (ISSA) published a table describing China's pension system in the International Social Security Review Volume 74, Number 1 (early 2021), "*China's development of a multi-tier pension system*".
- 22 The Organisation for Economic Co-operation and Development (OECD) confirmed that the description in Table 1 met the OECD's understanding of China's pension system.

Table one: China's pension system

Features	First tier basic old-age insurance system		Second-tier supplementary old-age insurance system		Third tier
	Urban Employees' Pension	Basic Old-age insurance Programme for Urban and Rural Residents	Enterprise Annuity	Occupational Annuity	
Programme	Urban Employees' Pension	Basic Old-age insurance Programme for Urban and Rural Residents	Enterprise Annuity	Occupational Annuity	Individual Tax-deferred Commercial Pension Insurance Programme
Mandatory/ Voluntary	Mandatory	Voluntary	Voluntary	Voluntary	Voluntary
Participants	Enterprise employees, govt and public institution workers	Rural residents and 16+ urban unemployed	Enterprise employees	Govt and other public institution workers	Employed and self employed in piloted areas
Contribution	16% of wage contributed by employers (to social account), 8% by	No fixed amount of contribution –	Employers and employees max 8% each, total	Employers 8% and employees 4%	Individual contribution, govt tax reduction

Features	First tier basic old-age insurance system		Second-tier supplementary old-age insurance system		Third tier
		employees (to individual account)	govt matches contributions	cannot be more than 12%	
Financing	Social account is PAYG, individual account is NDC ²	Defined contribution	Defined contribution	Defined contribution	Defined contribution
Eligibility	15 years of contributions and reached "retirement age" (age 60 for men, 55 for female managers, 50 for other women)	15 years of contributions reached "retirement age" (age 60)	Reached 'retirement age', lose ability to work or migrate overseas		Retirement age or disability or major illness
When programme started	1997	2011	2004	2015	2010

² Notional defined contribution