New Zealand

New Zealand: Pension system in 2016

The public pension is a set of flat rates based on a residency test. Coverage of occupational pension plans continues to diminish. Coverage of the KiwiSaver voluntary workplace savings scheme continues to grow.

Key indicators: New Zealand

		New Zealand	OECD
Average worker earnings (AW)	NZD	57 649	52 897
	USD	39 912	36 622
Public pension spending	% of GDP	5.1	8.2
Life expectancy	at birth	82.1	80.9
	at age 65	20.6	19.7
Population over age 65	% of working- age population	25.1	27.9

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Qualifying conditions

Ten years' residency since the age of 20 (including five years after age 50) entitles people to the public pension from 65 years of age.

Benefit calculation

Basic

The pension for a single person living alone was NZD 443.43 gross per week from 1 April 2016. For 2015/16, the rate was NZD 431.10. The increase is due in part to the normal annual adjustment process, outlined below and in part to a government commitment, also outlined below. This gives a total pension of NZD 23 058**,** equivalent to around 40 percent of gross average earnings.

State pension entitlements from other countries are taken into account in calculating the total public pension that is payable.

The rate of public pension is adjusted annually by the movement in the Consumer Price Index, but it must also maintain a relationship with the average net-of-tax weekly wage. For a couple who both qualify, the governing legislation requires that the net-of-tax rate at each 1 April must not be less than 65 percent and not more than 72.5 percent of a net-of-tax surveyed weekly earnings measure (for the preceding December quarter). The net-of-tax rates for single people are set at 65 percent (living alone) and 60 percent (sharing accommodation) of the net-of-tax couple rate. If movements in prices remain consistently below movements in the net-of-tax surveyed weekly earnings, effectively the latter becomes the index.

The current government has made a commitment that the net-of-tax couple rate at each 1 April is to be a minimum of 66 percent rather than 65 percent of the net-of-tax earnings measure. This also affects the floor on the single living alone and single sharing rates.

Older people with limited assets and income may also access the Accommodation Supplement. The Accommodation Supplement subsidises 70 percent of housing expenses over a certain threshold (this threshold was NZD 96 per week at 1 April 2016 for a single pensioner living alone and renting), up to a limit that varies by region and household composition.

Voluntary private pensions

Coverage of occupational pension plans has been falling for some time. The ratio of those in total employer sponsored schemes as a percentage of the employed workforce fell from 13.89% in 2003 to 9.98% in 2012. These plans are not government-subsidised through the tax system or otherwise.

KiwiSaver is a government-subsidised voluntary direct contribution retirement saving scheme introduced on 1 July 2007. At 31 March 2016, approximately 75% of New Zealanders aged 18-64 were KiwiSaver members. The default minimum contribution rate for this scheme increased on 1 April 2013 from 4% to 6% of earnings, divided equally between employees and employers. Employees are able to select a higher personal contribution rate of 4% or 8%.

Government subsidies are available to eligible savers to a maximum of NZD 521 per year. Prior to May 2015, members also received a NZD 1 000 contribution when they joined. KiwiSaver entitles members to a lump sum, not a pension, on withdrawal at age 65 or over. While funds are generally ‘locked-in’ until age 65, there are provisions to withdraw some funds earlier to assist with the purchase of a first home, or in cases of financial hardship, death, serious illness or permanent emigration.

As the scheme is currently still relatively new, withdrawal balances are small – the 20 300 people who ‘aged out’ of KiwiSaver in the year to 31 March 2016 withdrew an average of NZD 25 300.

Variant careers

Early retirement

There is no compulsory retirement age. However, it is not possible for persons to claim the pension in their own right before the normal eligibility age of 65. People aged 65 years and over can include a non-qualifying partner in their pension, subject to income-testing against the couple’s total income.

Late retirement

Receipt of the public pension is not dependent on retirement. It is therefore possible to combine pension and employment. At June 2016, 23.2 percent of people aged 65 or over were in paid work.

While people are not obliged to claim the public pension on reaching the qualifying age, there is no advantage in deferring a claim and retrospective claims are not allowed.

Childcare

Eventual public pension entitlement is not affected by periods out of paid work for caring purposes.

Unemployment

Eventual public pension entitlement is not affected by periods of unemployment.

Personal income tax and social security contributions

Taxation of pensioners

New Zealand does not provide any tax concessions specifically for older people. The SuperGold Card programme for those aged 65 years and over entitles cardholders to concessions from central and local government agencies such as free off-peak travel on public transport, as well as discounts at more than 13 000 business outlets.

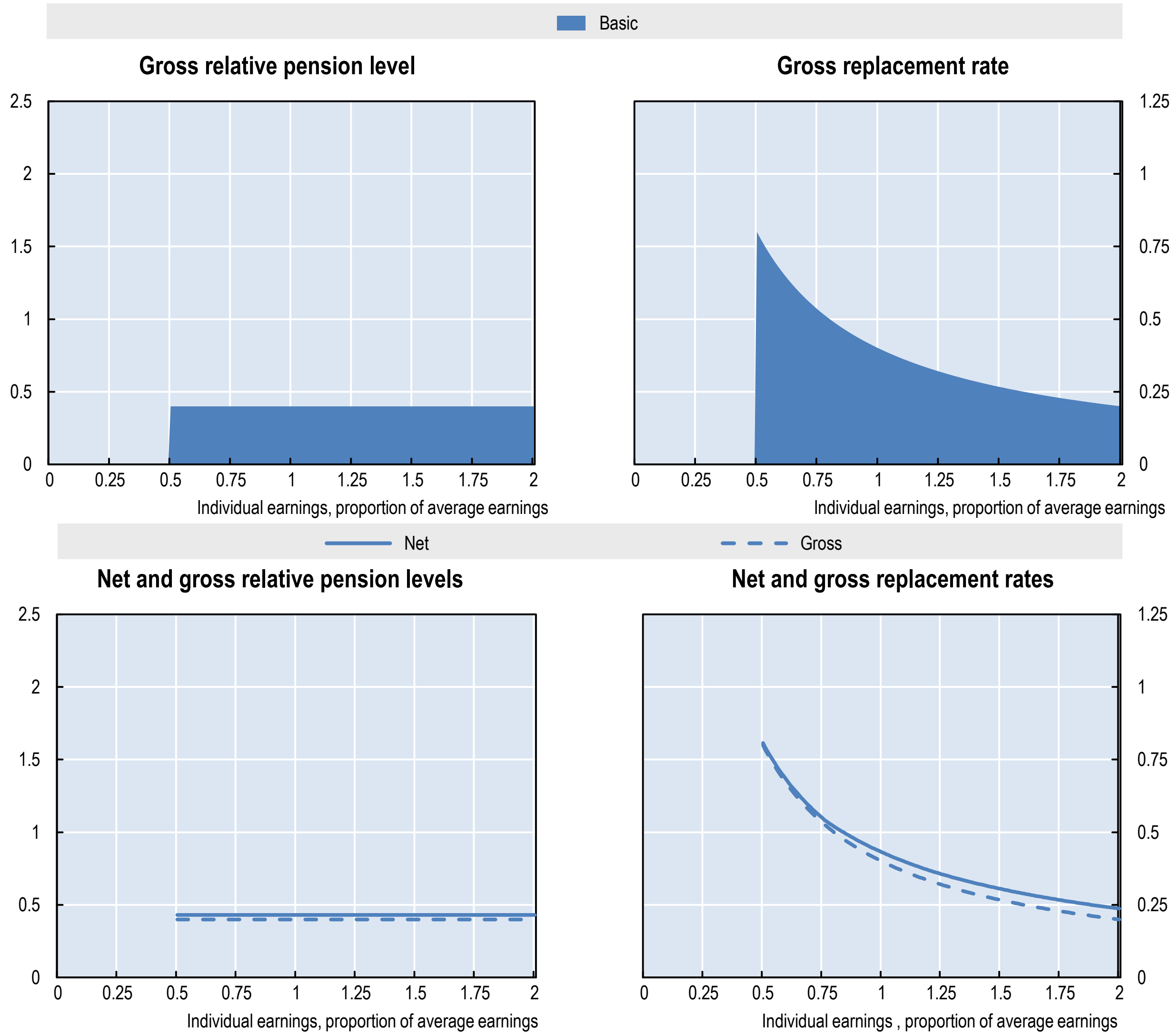
Taxation of pension income

The public pension is subject to personal income tax (in the same manner as any other personal income). Note that the calculations for the worker tax differ slightly from those reported in the OECD’s *Taxing Wages*. For workers, these include the Accident Compensation Corporation levy, set at 1.39 percent from 1 April 2016, which is not paid on pension income, although pensioners remain covered by the scheme. As a result, people below pension age pay a slightly higher average effective tax rate than pensioners do.

Social security contributions paid by pensioners

The New Zealand public pension system is funded from general taxation and there are no specific social security contributions.

Pension modelling results: New Zealand in 2061 retirement at age 65



Men *Women (where different)*	Individual earnings, multiple of average 0.5	0.75	1	1.5	2	3
Gross relative pension level	40.0	40.0	40.0	40.0	40.0	40.0
(% average gross earnings)						
Net relative pension level	43.2	43.2	43.2	43.2	43.2	43.2
(% net average earnings)						
Gross replacement rate	80.0	53.3	40.0	26.7	20.0	13.3
(% individual gross earnings)						
Net replacement rate	80.7	54.9	43.2	30.5	23.7	16.4
(% individual net earnings)						
Gross pension wealth	17.8	11.9	8.9	5.9	4.4	3.0
(multiple of individual gross earnings)	*19.0*	*12.6*	*9.5*	*6.3*	*4.7*	*3.2*
Net pension wealth	17.9	12.2	9.6	6.8	5.3	3.6
(multiple of individual net earnings)	*19.1*	*13.0*	*10.2*	*7.2*	*5.6*	*3.9*

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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