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Retirement Income in New Zealand:
the historical context

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The early 1990s – further cutbacks and higher pension age

In 1990 and 1991 the new National Government introduced three main sets of measures to further trim the cost of the pension:

1. Pension adjustments for 1991 and 1992 were cancelled, and from 1993 onwards rates were to be adjusted by prices alone. By this period wages were rising faster than prices, so the measure implied a downward trend in the pension-wage ratio.
2. P. The age of entitlement was lifted from 60 to 61 effective from 1992, with a further phase up to 65 programmed for the period 1993 to 2001.
3. The taxation surcharge rate was increased from 20 to 25 per cent and the income exemption lowered so that more superannuitants were affected by the surcharge. The tighter surcharge replaced an initial proposal for an income test on superannuation.

As a result of the changes affecting public pensions under their several successive names, the share of public pensions in GDP reduced from nearly 8 per cent in the early 1980s to just over 5 per cent by the late 1990s, with major savings achieved. However, the speed and nature of the changes also produced considerable public concern over pension issues, a period of intense review of policy alternatives, and a search for political consensus on a more stable longer-term pension policy. These are described in a subsequent section.

The 1993 Accord

In 1993 an Accord was signed between the then major parliamentary parties which accepted the main elements of the superannuation changes, but also introduced a Transitional Retirement Benefit for the age cohort most affected by the increased age of entitlement for New Zealand Superannuation. This transitional benefit was to phase out by 2003-04.

The Accord also provided for the establishment of the Retirement Commission, and for the provision of Periodic Reports on Retirement Income trends and policy. These are commented on in a subsequent section.

The 1996 Coalition Agreement and the superannuation referendum

The Accord provided several years of stability in retirement income policy. However, by 1996 differences emerged among the political parties about the best direction of longer-term policy, including the future of the surcharge.

The 1996 General Election resulted in a coalition between the National and New Zealand First parties. New Zealand First was not a party to the Accord, was committed to abolishing the surcharge, and favoured a compulsory superannuation savings scheme of a social insurance type.

The Coalition Agreement provided for a referendum on the superannuation savings scheme in 1997. A Compulsory Retirement Savings Scheme (CRSS) was designed and put to the voters, involving contribution rates rising from 3 to 8 per cent of income between 1997-98 and 2002-03, matched by an "equitable programme of tax cuts". It provided for retirement annuities to be paid at age 65, which were to be purchased from individual contribution accounts with the Government providing capital "top ups" for those who had been unable to reach the required CRSS savings target. Over time the buildup of CRSS annuities was to be matched with a phase down in New Zealand Superannuation.

The CRSS was rejected in the referendum by 91.8 per cent of voters.

The Late 1990s – Universal Pension at lower rates

The 1996 budget had announced changes in surcharge policy effective from 1 April 1997, which reduced the impact of the surcharge and cut the numbers of superannuitants affected by it. From 1 April 1998 the surcharge was abolished entirely as part of the Coalition Agreement of the National-New Zealand First Government.

For the second time in its history New Zealand had a universal pension with no form of targeting. However, compared with its predecessor in 1977-1985 the pension was set at a lower level in relation to wages, and with a rising age of entitlement.

Income tax reductions in the late 1990s meant that tax-paid New Zealand Superannuation was projected to fall below 65 per cent of the net ordinary time wage; thus triggering the "wage floor" provisions of the superannuation legislation. In addition, domestic and external economic developments in 1998, including the "Asian Crisis"produced a weaker fiscal position. The Coalition Government between National and New Zealand First dissolved, and in 1998 the National Minority Government introduced and passed legislation that:

- removed the 65 per cent "floor" on the pension wage ratio
- specified that New Zealand Superannuation was to be adjusted on the basis of prices subject to a new 60 per cent pension-wage ratio floor.

However, subsequent political developments meant that the new policy lasted only one year.

Policies of the new Labour-Alliance Coalition government

The Labour-Alliance coalition which took office after the 1999 election reversed the pension-wage ratio decision of the previous government. It announced:

- The restoration of a 65 per cent floor for the ratio of the Married Couple rate of New Zealand Superannuation to average net ordinary time wages, with counterpart increases in the minimum ratios for other superannuation rates.
- P. The entitlement age to go up to 65 years by April 2001 as previously agreed in the Accord.
- The setting up of a Superannuation Investment Fund to provide for part of the future cost of New Zealand Superannuation.