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NZ faces a retirement time bomb

Waikato Times, Hamilton Waikato



# NZ faces a retirement time bomb

**OPINION**

**Ainslie van Onselen**

Every election is a choice about the future. This year, New Zealanders face an important question – do we start addressing the long-term pressures on our economy today, or leave them for our children and grandchildren to solve?

Few challenges illustrate that choice more clearly than retirement incomes.

The numbers are stark. New Zealand currently spends around $26 billion a year on NZ Super, equal to around 5% of GDP, and almost one-fifth of all tax collected. Within two decades, that cost is projected to almost triple to $73b a year, consuming 8% of GDP and around 30% of tax revenue.

At the same time, the number of people funding NZ Super is shrinking relative to the number receiving it.

In the 1960s, there were seven working-age New Zealanders for every person receiving a pension. Today there are four. By 2065, there will be only two.

New Zealand currently has more than 900,000 people receiving NZ Super. Within a decade, that figure is expected to exceed 1.3 million.

None of this should come as a surprise. Treasury, economists and retirement experts have been warning about these demographic trends for years.

The question is no longer whether we face a challenge. It is whether we are prepared to address it.

At Chartered Accountants Australia and New Zealand (CAANZ), nearly all members surveyed expressed concern about New Zealand's ability to sustainably fund NZ Super over the long term. That is why we are calling for a serious national conversation about retirement settings.

Importantly, this is not an argument for abandoning universal superannuation. Nor is it about forcing people to work longer.

Instead, we believe New Zealand should explore a more flexible approach, which looks beyond simply raising the age of eligibility for everyone.

One option is flexible NZ Super.

Under modelling commissioned by CAANZ from the New Zealand Institute of Economic Research, people could still choose to receive NZ Super at 65. However, those who chose to defer receiving it until a later age would receive a higher annual payment in return.

In the preferred modelling scenario, 60% of eligible retirees would take NZ Super at 65, with the remaining 40% of retirees deferring until between 66 and 70.

The modelling suggests that this could reduce government expenditure on superannuation by approximately $98b over 20 years, including annual savings of $7.8b by 2048. Even with a smaller uptake, the savings would still be considerable.

Importantly, the proposal preserves the principle of universality while giving New Zealanders more choice about how they structure their retirement.

No single reform will solve the challenge on its own. Encouraging greater private retirement saving also needs to be part of the discussion.

Measures such as salary sacrifice arrangements for KiwiSaver contributions, or targeted tax incentives to encourage additional retirement savings, deserve serious consideration.

The more New Zealanders can build private savings throughout their working lives, the more resilient our retirement system will be.

Retirement settings cannot be considered in isolation from the broader question of how we fund essential public services.

New Zealand relies heavily on personal income tax, one of the highest levels of reliance in the OECD. Yet the proportion of working-age taxpayers supporting an ageing population is steadily declining.

That reality reinforces the need for an open and evidence-based discussion about the long-term sustainability of our tax base, and how we ensure that future generations are not left carrying an increasing burden.

These are not challenges for some distant future government. They are challenges for today's leaders.

The longer New Zealand waits to act, the fewer options will remain, and the greater the adjustment required.

This election presents an opportunity to move beyond acknowledging the problem, and to start debating solutions. Future generations deserve nothing less.

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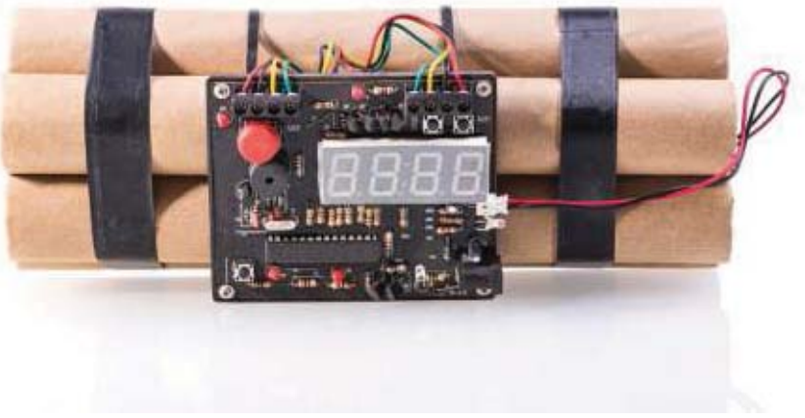
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*Ainslie van Onselen is chief executive of Chartered Accountants Australia and New Zealand.*



**The issue of superannuation and how to fund it is not a challenge for some distant future government. It is a challenge for today's leaders, writes Ainslie van Onselen.**

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