

**SPEECH TO WOMEN IN SUPER
AUCKLAND COMMITTEE
BREAKFAST FUNCTION**

HON DR MICHAEL CULLEN, MINISTER OF FINANCE

EMBARGOED TO

8.00am, 18 June 2002

The Northern Club, 19 Princes Street, Auckland.

I would like to thank you for the invitation to address today's function.

The set of issues around superannuation has been a recurring theme throughout my career as a Minister of the Crown. It was one of the major issues during my tenure as Minister of Social Welfare in the late 1980s, both in the debates around the form and financing of the state pension and also the changes to the taxation of private superannuation schemes.

And it continued through the 1990s to be the subject of multi-party accords, most of which broke down into multi-party discord whenever an election came around.

There are obvious political reasons for its prominence. As Sir Robert Muldoon noticed in 1975, superannuation affects two large voting blocks: those already retired and also those in their 40s and 50s (and, we hope, their 30s) who are planning for their retirement. This provides immense scope for the making of promises whose financial burden will be visited upon generations of taxpayers who are still in short pants.

But beyond the political attraction, there are some very real and very difficult issues of public policy for which answers must be found. How do we deal with demographic changes such as the baby boom generation, who not only outnumbered their parents but also their children? How do we respond to the changing expectations surrounding the portion of one's life spent in retirement? And how do we do all this within the context of greatly increased female participation in the labour market, a much more varied and flexible pattern for working lives, and a globalised economy?

This makes superannuation policy into one of the most difficult challenges of state-craft. I must say that it is heartening to find that the superannuation industry has become increasingly feminised since the 1980s. At that time, the industry was irredeemably male. Its suits were irredeemably grey, and its shoes irredeemably brown. Susan St John and Angela Foulkes were more or less the only women who were active in the debate.

The feminisation that has occurred was important, because the aspects of superannuation policy that were of particular interest to women – such as vesting and portability, and structures that could accommodate a non-linear career pattern – now apply increasingly to men. Schemes that reward full-time employees for their long service are anachronisms, because that paradigm is no longer the bedrock of employers' human resource strategies, just as it is not the preferred pattern for most employees.

Looking ahead, there are two major challenges for superannuation policy. We are on track to meet one of them – a stable funding regime for the state pension. And I believe with some further work we can meet the other – encouraging private provision for retirement in an efficient manner; that is, strengthening the savings culture of ordinary New Zealanders without resorting to distortionary tax measures.

Regarding the stability of the state pension, there are essentially two forces to be balanced. On the one hand, the basic pension must provide the means for those with limited ability to save to live in a manner that is comparable with the prevailing standard of living in their community. We cannot have an important sector of the community whose standard of living is frozen in a bygone era, while the rest of the community moves on. Some might be happy to countenance this; but it is anathema to a Labour-led government, and I believe to the vast majority of New Zealanders.

That is why we are committed to maintaining a basic relativity with wages – rather than with prices – as the floor below which the state pension should not fall.

The other force to be balanced is the capacity of the economy and fiscal policy to fund state pensions. We could if we wanted be completely sanguine about the ability and the willingness of future taxpayers to fund out of current taxes the entire cost of pensions for the retired baby boom generation. Instead, the Labour-led government has taken a more prudent approach, by creating the Superannuation Fund which will partially pre-fund state pensions, so that when our demographic structure acquires the inevitable older age profile, there is a cushion to assist in the transition. This is a simple matter of prudence – of having eggs in more than one basket.

This Superannuation Fund will also have three important macroeconomic effects. Firstly, it will require governments to be disciplined in their tax or spending plans, and to avoid spending commitments or tax cuts that are impossible to sustain, but painful to reverse. Secondly, it will increase the level of national savings. And finally, it is likely to provide a more stable setting in which New Zealand firms can seek long-term capital investment.

I believe that these current policy settings balance those two opposing forces – the commitment to relativity for older New Zealanders, and the need to make the scheme sustainable when it comes under pressure.

The other challenge is to encourage the current generation of working New Zealanders to change their attitude towards retirement savings, so that they make better, more informed, decisions about their choices around consumption and saving.

I do believe we have a problem with the level of private saving in New Zealand. Whereas some people are more equivocal on this point. I also believe that tax incentives are not a magic bullet. If they are not carefully designed, they can end up having little effect on net savings, and simply leak revenue. Even if they are well designed, by themselves they are not an adequate policy response.

That is why my focus now is on developing an incentive package that concentrates on trying to reinvigorate employment based retirement savings schemes.

The workplace is an important environment for shaping attitudes towards saving and financial planning generally. Studies have shown that when workplace-based, small group programmes have been conducted focusing on how to develop a balanced portfolio of savings, the result has been that savings levels have increased, even when there has been no incentive like an increased employer contribution to retirement savings, or a tax break.

If, in addition to increasing the level of savings-literacy amongst employees, they have a savings vehicle available through their employer which enables them to make contributions painlessly, attracts employer contributions and has no tax disadvantages, then I think we are some way to fixing the problem.

There is work to do, however. In 1990, 311,000 employees – or 22.6 percent of the workforce – contributed to employee superannuation funds. Now, the number is 248,000, or 15 percent of the workforce. That is a 20 percent decline by number and a 33 percent decline in the relative proportion of the workforce participating in schemes.

If we want to reinvigorate employment-based savings, we need to do two things:

- ❖ First, we need to make it more attractive for employers to offer a retirement savings plan, and to divert money that would otherwise have gone into salary to that form of remuneration. The payback for an employer is to reduce staff turnover and thereby raise productivity; but as the declining numbers of participants shows, this incentive has not been enough to maintain employer interest.

- ❖ And second, we need to encourage employers themselves to design schemes that are attractive to employees. In particular, vesting rules and an ability to remain in a scheme – or transfer to a new one without punitive transfer valuations – are crucial in an age where the expectation is that employees will change jobs from time to time.

I do not have time to explore the various options in detail. On the taxation question, I explained in the Budget speech that I am considering two options for addressing the current problem with the differential rates of taxation for employer contributions to superannuation schemes on behalf of those earning under \$38,000.

The first is to reduce the employers' specified superannuation contributions withholding tax for those earning under \$38,000 to their statutory marginal tax rate. The alternative is to extend the present 6 percent concessional rate enjoyed by those earning over \$60,000 a year to all income earners. It is my intention that one or other of these changes will be introduced from 1 April 2004.

This will be part of the answer. But I do not want us to heave a sigh of relief and wait for the savings rate to pick up as a result of tax changes alone. As I said before, the main drivers of the current situation relate to changing demographics – including family size and structure, emigration, age of childbearing and so on – and changing patterns of engagement with the labour market. We need to engage directly with these drivers.

We need to find fresh new ideas to instill the value of retirement saving into a new generation of New Zealanders. That requires imagination on the part of both the government and the savings industry. I look forward to working with the superannuation industry to meet that challenge.

Thank you.