



# Retirement Income from a Grey Power perspective.

*“New Zealand Superannuation must be  
preserved for future generations”*

## Abstract:

Grey Power New Zealand Federation has closely monitored the debate on the future sustainability of ‘universal, state funded superannuation’ known as New Zealand Superannuation.

We have reviewed the historical context of state-provided retirement income and we identify our philosophic objectives along with the policy that underpins them.

Recognising the existence and growing importance of the KiwiSaver scheme, we attempt a ‘rationalisation’ of the differences between this form of supplementary provision and New Zealand Superannuation which represents the traditional method of providing universal, basic coverage. Our issues with each of these schemes are identified.

We acknowledge KiwiSaver is an important ‘savings vehicle.’ But from a ‘social contract’ standpoint, New Zealand Superannuation must continue to be provided for future generations, if a significant proportion of our grandchildren and their descendants are to avoid ‘absolute poverty’ during their retirement years.

Such concerns led us to review our strategic participation in the public debate surrounding the importance of government’s continuing delivery of the expectations of ‘social contract.’

This discussion document is basically informed by ‘literature review’ of academic opinion on the future provision of retirement incomes within the New Zealand context and draws on the life-time experience of real people aged beyond their continued participation in the workforce.

## **Introduction**

### **The ‘Grey Power Federation’**

The ‘Grey Power Federation’ is a non-government, voluntary organisation, founded in 1986. In the beginning it operated under the title Auckland Superannuitants Association.

In the early days a significant media campaign against the imposition of a taxation surcharge on retirement incomes meant our initial meetings were well publicised. The movement quickly spread with further local associations formed in other centres, which was instrumental in forming the Grey Power New Zealand Federation.

Through its elected board as the controlling body, ‘the Federation’ co-ordinates some seventy-six (76) local Grey Power associations. Our financial membership across the nation fluctuates between 60,000 to 90,000 individuals.

Grey Power has matured into an advocacy group more generically concerned with restoring New Zealand’s international reputation as a buoyant economy and a ‘model for social welfare’. Our board members and policy analysts actively monitor central and local government services and promote better, future provision of services, in support of the New Zealand Positive Ageing Strategy.<sup>1</sup>

This review has been prepared by the Federation’s, Superannuation and Taxation, National Advisory Group as a reference to Grey Power philosophy and policies related to the provision of Retirement Income in New Zealand. The philosophy expressed herein represents the core rationale underpinning our ‘advocacy’ activity and will hopefully inform kindred organisations, academia and the wider community.

There are many varying opinions on retirement income promoted by the institutions and younger people in general. We respect the principle of young people, having established their independent resources then wishing to ‘shape’ their ultimate transition to participation in community support structures.

As older people we alone have the responsibility to ‘temper’ aspiration with our experience of the realities which in any lifetime might lead to outcomes somewhat different from our earlier expectations.

We emphasize this publication is a discussion paper. It represents our claim to a voice in the conversations surrounding retirement income but it also is an invitation to our wider communities to offer responsive commentary which might encourage reflection and most of all; contribute to our continued learning

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<sup>1</sup> The ‘New Zealand Positive Ageing Strategy’ <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/planning-strategy/positive-ageing/towards-a-society.html>

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(September 2015)

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### ‘Conceptions and Misconceptions’

Grey Power has endeavoured to understand the apparent ‘public’ concern that the impact of state funded retirement income on ‘fiscal sustainability’ requires intervention by way of reducing the level of payment of New Zealand Superannuation. Such concern is attributed to the phenomenon of ‘population ageing’ throughout the world economies grouped within the Organisation for Economic Cooperation (OECD).

Across the wide spectrum of society there are a number of concerns related to retirement incomes. The predominant, probably universal concern is that ‘income’ is essential to independent living in retirement just as it will remain the basic determinant of independent living during the ‘productive’ years of an individual’s life-span.

In a modern democratic economy the greater number of people, are deemed to have ‘retired’ when they are no longer a fully participating member of the paid work-force.

From that point onward they rely upon ‘redistributed income’ to maintain their ability to live independently. However, people do not withdraw their willingness to ‘work’ coincident with their withdrawal from the paid work-force. For as long as physical and mental capacity continues, the majority of retired people maintain their work ethic and substantially ‘give of themselves’ to the economic contribution of the voluntary sector.<sup>2</sup>

It is disappointing, therefore, to encounter the current misconception that older people enjoying longer ‘independent living,’ funded by income redistribution, are a threat to ‘fiscal sustainability.’ Even under the worst scenarios the fiscal impact of a worsening ‘dependency ratio’ within New Zealand, does not exceed proportions that are presently commonly accommodated within OECD economies. Indeed, during their

family formation years the present cohort of retired New Zealanders willingly paid taxes, sufficient to fund pensions for their older folk, which reached almost nine percent (9%) of GDP.<sup>3</sup> The causation then was the high relativity of the ‘couple rate’ of pension paid at age 60 years reaching a level of eighty-nine percent (89%) of ‘average earnings,’ which has since been reduced to an arguably inadequate sixty-six percent (66%) of average earnings paid at age 65 years.

During the years when we as younger people were regarded as the ‘powerhouse of the economy’ as this relates to the contribution of ‘labour’ as distinct from ‘capital,’ the present cohort of retired people expected little more than the opportunity through gainful employment to nurture their children and, through honouring the principle of direct taxation, ensure the wellbeing of their older people. We believe it is important for present day participants in the labour force to honour the same principles.

**While we wish our children to prosper and to enhance their individual wealth as they progress toward personal maturity this must not be at the cost of entrenched poverty among their less fortunate peers. Marked and pervasive ‘income inequality’ is detrimental to the wellbeing of all age cohorts.**

Grey Power agrees with the present government’s refusal to adopt the recommendations of various research agencies, that:

- the ‘age of entitlement’ to New Zealand Superannuation be increased above its present 65 years, and
- that, ‘relativity to average earnings’ is reduced for the purpose of annual adjustment of New Zealand Superannuation.

Alternatively, should future ‘fiscal sustainability’ actually demand corrective attention then Grey Power suggests ‘equilibrium’ might be established through more progres-

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<sup>2</sup> MSD ‘The Business of Ageing 2013 Update’  
<http://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/research/business-of-ageing/business-of-ageing-update-2013-pdf.pdf>

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<sup>3</sup> Preston, David (2008) ‘History of pensions in New Zealand.’  
<http://www.cffc.org.nz/assets/Documents/RI-Review-BP-Retirement-Income-History-2008.pdf>

sive rates of income tax and, an internal economy which offers the essential opportunities of full and gainful employment, acquisition of a family home and, for those who so wish, an earlier start of family formation.

As older New Zealanders now in retirement we recognise these ‘milestones’ have proved important to our marginal income sufficiency. We realise younger people are facing widely different challenges as they now shape their individual participation in the modern economy. Younger New Zealanders will determine their own priorities but we do suggest home ownership and the support of family will ultimately emerge as equally important to the wellbeing of future retirees.

Perhaps, the biggest misconception of all is the apparent acceptance by younger people of the suggestion that New Zealand, in isolation from other OECD nations, actually faces a financial crisis arising from ‘population ageing; and that the predicated ‘crisis’ means that New Zealand Superannuation might not be there when they need it.

Even under the worst scenarios the fiscal impact of a worsening ‘dependency ratio’ within New Zealand, does not exceed proportions that at present are commonly accommodated within OECD economies.

Grey Power, as an organisation representative of the ‘heads of family’ within New Zealand, conscientiously believes an acceptable approach to future proofing New Zealand Superannuation is more likely to result from maintaining an economic environment which generates gainful employment, assists acquisition of a family home and encourages family formation; is the key to preservation of the social fabric and political stability of our nation.

It is disappointing, therefore, to encounter the untested conception that older people enjoying longer ‘independent living’ albeit funded by redistributed income; are a threat to ‘fiscal sustainability.’ There is a real need for a principles based discussion supported by evidence based data to reinforce the primary importance of New Zealand Superannuation in retirement income policy.

Pension systems expert Michael Littlewood<sup>4</sup> has recently released a thought provoking paper on ‘how and why’ we should be preparing for such a discussion. We recommend his paper for public consideration.

### **‘Issues concerning superannuation’**

This section reflects the author’s interpretation of many discussions with Grey Power members and other older people related to long-standing and emerging issues considered to be affecting the welfare of the ‘more needy’ retired people within the wider communities of New Zealand.

It is an expression of the experience of older New Zealanders who have conscientiously provided their labour or administrative skills to industry and other enterprise and nurtured their families through to independence. In spite of their patriotism, many face retirement from the workforce without independent retirement income and, therefore, depend until their demise on state funded New Zealand Superannuation.

The membership of the 76 local associations affiliated to Grey Power New Zealand covers a wide cross-section of community-minded, New Zealanders representing the ‘greatest repository of real life experience’ available to future generations. While our members come from a variety of working-life backgrounds our common concern is to advocate the welfare of dependent older people and future generations by promoting the incremental rebuilding of the social capital of our nation.

Had the New Zealand Positive Ageing Strategy (NZPAS) existed at the time of Grey Power’s inception then it could well

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<sup>4</sup> Littlewood, Michael  
<https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/RPRC/PensionBriefing/PC%202015-2%20The%20coming%20debate%20on%20New%20Zealand%20Superannuation%20-%20the%20review%20process.pdf>

have been our organisation’s founding document.

The NZPAS launched by the Minister for Senior Citizens in April 2001, is dedicated to the achievement of ten explicit goals. This review addresses the challenges inherent in achieving just three of the goals identified in the New Zealand Positive Ageing Strategy:

- **Goal One**  
Secure and adequate income for older people.
- **Goal Eight**  
People of all ages have positive attitudes to ageing and to older people.
- **Goal Ten**  
Increasing opportunities for personal growth and community participation.

These three ‘Positive Ageing’ declarations add relevance and dimension to Grey Power’s increasing concern that:

1. New Zealand Superannuation is an inadequate income for people not possessing supplementary private income upon retirement from the workforce.
2. Governments, commerce and communities do not have positive attitudes to ageing and older people, and
3. Opportunities for older persons’ personal growth and community participation are decreasing rather than increasing.

Having thus stated the real environment in which older New Zealanders struggle to maintain their dignity and preserve the nation’s heritage for the benefit of oncoming generations, we hope readers, in response, will acknowledge the relevance of our claims and work with us to identify solutions to the problems we will all encounter as we progress toward becoming ‘older New Zealanders.’

### **(1) Adequacy of New Zealand Superannuation**

We are not familiar with the research basis of the declaration contained in ‘the Accord on Retirement Incomes’ which identi-

fied an adequate retirement income shared by a married couple as being equivalent to between 65% and 72.5% of net, average, ordinary time, weekly earnings.

Our experience is that New Zealand Superannuation is clearly inadequate and we draw attention to the definitive, research based document:

#### **‘A minimum income for healthy living (MIHL) – older New Zealanders’**

(Jessica O’Sullivan and Toni Ashton)<sup>5</sup>

Which indicates a requirement some 23% to 34% greater than New Zealand Superannuation, for single persons and couples respectively.

When the ‘Accord on Retirement Incomes’ was agreed in 1992, the income of many households was limited to that earned by only one working individual. Today, the low-level of unskilled wages and the rapidly rising cost of living has virtually necessitated an earnings contribution from two or more individuals to fund basic household expenditure.

Furthermore, the important ‘Working for Families’ scheme and other selective subsidised services have significantly added ‘value’ to household incomes of younger people. These additions, not captured in average wage statistics, have compromised any validity the 65% to 72.5% relationship with average earnings could have legitimately claimed at the time of ‘the Accord’s inception.

### **(2) Indexation to Consumer Prices Index**

Grey Power maintains the only effective way of utilising the CPI to compensate superannuitants for increased prices is to apply the sum of all price movements, gathered in the primary survey data, as a fixed monetary compensation providing for increases in the cost of living. Such a system would be simpler and certainly more realistic than the present utilisation of ‘percentage adjustment’.

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<sup>5</sup> ‘A minimum income for healthy living (MIHL) – older New Zealanders’ (Jessica O’Sullivan and Toni Ashton) [http://journals.cambridge.org/abstract\\_S0144686X11000559](http://journals.cambridge.org/abstract_S0144686X11000559)



The inadequacy of CPI adjustment alone emphasises the importance of maintaining the requirement of Section 16, New Zealand Superannuation and Retirement Income Act to maintain relativity to average earnings regardless of the measurement of inflationary pressures.

### **‘Some Emerging Issues’**

Before identifying ‘emerging issues’ Grey Power wishes to acknowledge that the present government has thus far honoured its undertaking “to maintain the existing provisions of New Zealand Superannuation” throughout the tenure of Prime Minister John Key.”

#### **(1) KiwiSaver**

One of our ‘emerging issues, relates to the ‘income inequality in retirement’ arising from the significant state and employer subsidisation of KiwiSaver participants.

This phenomenon is increasingly relegating retirees born before 1st July 1942 to an inferior level of state funded retirement income support.

#### **(2) The ‘dependency ratio’**

Additionally, we are becoming concerned over certain of the several proposals advanced by Treasury, political parties, academia and the financial services industry to address future fiscal pressure arising from projected deterioration of the ‘dependency ratio.’<sup>6</sup>

These include the ‘proposals to address fiscal pressure,’ such as:

- Increasing the qualifying age for New Zealand Superannuation beyond the present 65 years,
- altering the ‘procedure for annual adjustment’ of New Zealand Superannuation by effectively negating the important ‘relativity to average earnings,’ and
- The insidious implication that ‘KiwiSaver’ might ultimately submerge

the social imperative of ‘citizenship dividend’ presently an integral feature of New Zealand Superannuation.

Should it actually transpire that a deteriorating ‘dependency ratio’ does create future fiscal imbalance, each of these proposals might well provide fiscal savings but their implementation will come at the cost of destroying the social fabric of our nation.

Our nation was built upon the proven stabilising principles of community, family formation and the prioritisation of internal economic stability over the ‘wholesale pursuit’ of ‘trade pact’ and other global considerations. In our firm opinion, a reiteration of these more traditional disciplines employed within an ecologically friendly environment, is more likely to encourage a sustainable future.

#### **(3) Overseas pensions**

An issue which falls outside the immediate scope of Grey Power advocacy but is vehemently disliked by a growing cohort of older people who have either immigrated to New Zealand, or while New Zealand born, have worked in an overseas economy; is the abatement procedure which can potentially negate the New Zealand Superannuation entitlement of ‘the partner’ of a person with an ‘overseas pension entitlement.

This anomaly in an otherwise arguably ‘principled’ arrangement to ensure citizens are not disadvantaged through continuous work in New Zealand: defies logic and runs counter to the underlying fairness of the ‘non-qualified spouse’ provision in New Zealand Superannuation.

Such provision permits a ‘qualified’ applicant to shield a partner from the scope of income testing and related abatement, by the simple expedient of the qualified person applying for half of the ‘couples, non-qualifying spouse’ rate of New Zealand Superannuation.

The author suggests that where one partner receiving an overseas pension declines to apply for New Zealand Superannuation the ‘other partner’ who does not receive an overseas pension should be permitted by an amendment to ‘the Act’ to pre-

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<sup>6</sup> ‘dependency ratio’... the ratio of ‘working age’ (productive) people to ‘retired’ (unproductive) people.

serve his or her access to half of the ‘couples’ rate’ of New Zealand Superannuation, without abatement.

#### **(4) The political environment we live and work within.**

What can we conclude from the environment we live and work within?

Our consideration of the developments in New Zealand’s retirement income policy which have occurred within the lifetime of existing retirees, leads to three clear indications:

- that for the greater part of the last three decades the major political parties have indicated a concern that universal, non-means tested superannuation, sufficient to ensure older people enjoy ‘participation within their communities’<sup>7</sup> requires an unsustainable funding ‘ratio to gross domestic product.’ Both major parties exhibit consensus, therefore, in confining New Zealand Superannuation to a low ‘income replacement level’<sup>8</sup> supplemented by additional ‘means-tested’ welfare support.

- that in the recent establishment of the KiwiSaver scheme successive governments have acknowledged ‘a need to support increased provision for retirement income’ toward achievement of the OECD ‘income replacement standard’ of eighty percent (80%) of pre-retirement income and, are selectively contributing to this ‘private accumulation process’ by requiring significant employer contributions supplemented by state provision of an ‘establishment grant’<sup>9</sup> and annual taxation credits, and

- that the major political parties nevertheless, are manifestly sensitive to established ‘public opinion’ that the state should provide a basic ‘income in retirement’ sufficient to avoid the impoverishment of individuals who have not accumulated sufficient funds to provide financial independence.

In this environment where governments display reluctance to increase taxation on incomes it seems unrealistic to expect any government to increase the payment levels of New Zealand Superannuation ‘across the board’ without either removing its ‘universality’ (*contrary to Grey policy*) or, alternatively, reviving the taxation surcharge on ‘other incomes’ in force during the period 1985 to 1998 (*opposition to this mechanism was the reason for Grey Power’s formation in 1986, but ‘evolutionary’ shift over later years to a philosophy of community wellbeing and welfare support, suggests that if any change should be implemented to reduce the cost of retirement income policy, then a more progressive ‘income tax’ regime should become our considered preference.*)

Through the period from the 1980’s to the present day, a pattern of political sensitivity toward older people seems evident in successive government initiatives to reduce the fiscal cost of superannuation; only to see such intended stringency rapidly withdrawn as a ‘damage control mechanism’ by a chastened incoming government. Equally apparent, is an aversion within ‘major political parties’ to the more classical affordability measure of progressive income tax regimes for middle and higher income earners’.

Therefore, if governments’ maintain their reluctance to increase taxes on higher incomes and do not effectively ‘close-down’ the widespread taxation avoidance practises of corporations and the self-employed, it seems the only other ‘proposed solution’ to the problem of fiscal impact’ to have emerged to date, is the New Zealand First proposal for changes in entitlement criteria for New Zealand Superannuation ‘adjusting payments directly proportionate to years of residence’

Peripheral advantages like ‘reducing the loss of skilled workers to overseas econo-

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<sup>7</sup> “**participation within their communities**’: this being essentially the ‘standard for avoidance of relative poverty.’

<sup>8</sup> ‘**income replacement level**’: the OECD maintains that a desirable level of income in retirement is equivalent to eighty percent (80%) of pre-retirement income. In practice however, the officially published OECD benchmark, per person, is 54% of ‘average worker’ income.

<sup>9</sup> The KiwiSaver ‘**establishment grant**’ was discontinued from 1 July 2015.



mies’ and a just solution to the problematic treatment of ‘overseas pensions,’ might also accrue from tighter residential qualification criteria for New Zealand Superannuation. Under the circumstances the New Zealand First proposal seems worthy of specific evaluation.

As part of their contribution to the principle of ‘social contract,’ governments’ need to encourage each individual citizen to personally dedicate their working years to ‘continuing participation in the New Zealand economy.’ Policy needs to be redrawn toward the betterment of local communities’ and the future security of that section of the population which presently has had little choice but to take advantage of the short term, personal benefit of employment in a foreign economy.

In summary, therefore, we believe New Zealand Superannuation, in itself does not deserve to be the ‘focus of concern’ related to fiscal sustainability. Rather, it is ‘the failure of the economy’ to provide full employment, adequate wages for low skilled workers, acquisition of a family home and consequent discouragement of family formation.

In the present economy younger people encounter real difficulty in achieving these necessary ‘building blocks’ for stable communities and this is putting pressure on dependency ratios and disproportionate costs of ‘citizenship dividends’ like superannuation, health and other welfare services.

We know from our experience of the three decades following World War II (*1940’s onward*) that given a healthy internal economy all these services are affordable and sustainable; consumption in itself is a catalyst to increasing economic activity.

Existing retirees, born before 1st July 1942, should have little to fear through to their demise if they have succeeded in accumulating significant savings for their retirement years provided the present model of New Zealand Superannuation is preserved along with a supporting social welfare system. However, the reality is that the introduction for younger people of additional ‘third tier’ retirement income through

the KiwiSaver scheme has created age-related inequity among retirees of like employment and savings discipline. An increasing proportion of older people, born before the qualifying date for KiwiSaver, facing real hardship over the next ten to fifteen years, will certainly need welfare assistance.

But we really need to make it clear that in addition to advocating assistance for our own age cohort we exist to also promote the principle for younger generations, of continued access to similar opportunity to that which we utilised during our working lives to advance the social fabric of our nation.

The challenge for Grey Power ‘advocacy’ is to retain New Zealand Superannuation with its existing relativity to average earnings and, in so doing, honour our obligation to our grandchildren and their dependants to ensure that as KiwiSaver matures as a supplementary retirement income scheme, it continues to be underpinned by and secondary to, our internationally, acclaimed first tier provision ‘New Zealand Superannuation.’

## ‘Conclusions’

### (1) The importance of New Zealand Superannuation for future generations.

Intergenerational equity of retirement income policy will be assured for younger people if we convince the wider public that:

**‘New Zealand Superannuation must be preserved for younger generations.’**

Convincing the general public in addition to advocacy before parliamentarians is important to ensuring the continued availability of New Zealand Superannuation. A political environment has to be developed whereby politicians recognise widespread loss of public electoral support will result from any move to diminish the present value and coverage<sup>10</sup> of New Zealand Superannuation.

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<sup>10</sup> ‘coverage’ in this context means ‘available to all residents’ but does not exclude the possible introduction of less generous ‘years of residency’ entitlement criteria.

**(2) New Zealand Superannuation is already ‘future proofed’ given a stable economy.**

In a buoyant economy the income support of older people will automatically improve in direct relationship to the living standard of younger people gainfully employed in the labour market, provided New Zealand Superannuation is preserved as a universal, non-contributory scheme indexed to prices and average earnings.

**(3) Grey Power support for ‘community well-being’.**

In the life-time experience of present retirees their wellbeing during family formation years, including their responsibility to contribute the taxation necessary to maintain retirement income support at levels sufficient to ensure older people continue participation in their communities, required an economy conducive to early participation in the labour market, a living wage, commitment to family formation and owner-occupied housing. The existing ‘market economy’ has not demonstrated an ability to meet these expectations.

In these circumstances Grey Power should not be constrained from publicly demonstrating support for other organisations which campaign responsibly for measures that restore the traditional ‘social welfare’ standards of New Zealand communities.

**(4) ‘KiwiSaver decumulation’ unlikely to appeal to future retirees.**

In recent months members of the Financial Services Council have begun attempts to attract government funding assistance to introduce a range of ‘annuity products’ for the New Zealand market. The author’s personal opinion is that KiwiSaver account ‘decumulation’ as a principle of ‘transition into retirement,’ is unlikely to appeal to future retirees.

In the first decade of life in retirement most present retirees regard ‘accumulated savings’ in the first instance as a ‘rainy day’ hedge against ‘extraordinary future expenses’

and ‘as a possible contribution to ‘bequeathed wealth’ in the second instance.

They would rather employ learned techniques for ‘living within a reduced income’ than become captive to a life-style requiring immediate commitment of such accumulated resources. It seems unlikely, therefore, that an annuity product will find much support amongst future retirees in the ‘low to middle’ income quintiles.

**(5) ‘KiwiSaver’ is more akin to a private savings scheme.**

‘KiwiSaver’ is more akin to a ‘private savings scheme’ dedicated to retirement income supplementation. In this country only New Zealand Superannuation fulfils the role of ‘state-provided retirement income’. The later must not be subjected to future diminishment. This conclusion amounts to a ‘position statement’ in itself and should not require further elaboration.

Dedicated savings plans like KiwiSaver require increasing and continuous income resources which only exist in a sustainable, ‘full employment’ economy. The instability of present internal economic settings causes Grey Power to conclude that predictability and security of pre-retirement income is essential as an accompaniment to an individual’s accumulation of private resources sufficient to supplement New Zealand Superannuation, being the primary ‘safety net’ for our nation’s working people.

**(6) Other mechanisms to address fiscal sustainability**

Containment of the ‘taxation avoidance’ techniques of companies, trusts, the self-employed, and other tax-efficient entities as an alternative to ‘more progressive’ direct taxation on incomes might, in itself, be sufficient to meet any possible increase in the ‘fiscal impact’ of retirement income policy.

**(7) New Zealand Superannuation and Retirement Income (Pro Rata Entitlement) Amendment Bill**

Coinciding with publication of this discussion paper, parliament has scheduled the above-mentioned ‘members bill’ for ‘first

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reading.’ It might subsequently be referred to select committee and possibly then, proceed to adoption in law.

Grey Power realises the ‘amendment bill,’ identifies a need to quantify, understand and offset any peripheral contribution counter-productive to the fiscal stability of New Zealand Superannuation arising from the ‘parent reunification’ consequence of an active immigration policy.

But after careful consideration we believe that for Parliament to intervene this far in the clear presence of widespread public ignorance of the complexities of the state's responsibilities in respect of present and future ‘provision of retirement income,’ will risk the precipitate introduction of ‘bad law.’

We conclude that a better way of attracting public attention to Grey Power's objective of ‘ensuring the long term continuation of New Zealand Superannuation,’ is to promote the inclusion of the measures proposed in the bill as questions to be examined, firstly in the 2016 Review of Retirement Income Policy (Part 4, Section 84, New Zealand Superannuation and Retirement Income Act 2001) and further, if necessary, by a higher form of ‘public inquiry’ with wider terms of reference.

Parliament has a responsibility to ensure the public is informed on the complexities of residency, the apparent need for New Zealand born workers to look overseas for gainful employment and, the ultimate expectation for the retirement income component of ‘citizenship dividends,’ before promulgating legislative change. Hopefully, the public will be better informed on these matters before the 2017 General Election.

### **Grey Power Policy**

The objectives of our policy on retire-

-ment incomes seeks to preserve New Zealand Superannuation for future generations and achieve increased weekly payments for households presently at risk of impoverishment, by:

- enhancement of annual adjustment procedures for New Zealand Superannuation to effectively pre-fund weekly payments, sufficient to meet anticipated ‘cost of living’ increases over the ensuing year to 31<sup>st</sup> March,
- achieving recognition of the potentially serious income inequality of incomes emerging over time, whereby retirees born before 1<sup>st</sup> July 1942 are economically disadvantaged in the absolute level of retirement income support, when compared with people born subsequent to 1st July 1942 and, thereby, enjoying participation in the state and employer subsidised, KiwiSaver scheme in addition to full entitlement to New Zealand Superannuation, and
- notwithstanding, the future coverage of the contributory KiwiSaver scheme, ensuring the key components of non-contributory New Zealand Superannuation are preserved for existing retirees and future generations.

The provisions of current policy reflect the philosophic basis of advocacy programmes maintained by the Federation, up to and including the commencement of this review. It is to be determined subsequently whether Grey Power policy should be amended as an outcome of this review.

The Superannuation Policy of Grey Power New Zealand Federation current at the publication date of this review, is detailed in Appendix No. 3 attached.

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<http://www.cffc.org.nz/assets/Documents/RI-Review-Report-to-Govt-Dec-2013.pdf>
- St. John, Susan    “Improving the Affordability of New Zealand Superannuation” (2015)  
<https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/RPRC/WorkingPaper/wp-2015-1-nzs-affordability.pdf>

## Appendix No. 1 ‘The Historical Context’

### *Author’s Note:*

*A comprehensive review of the history of Retirement Income in New Zealand (Preston, David (December 2008) can be downloaded from the Commission for Financial Literacy and Retirement Income Policy background papers to the 2010 Review of Retirement Income Policy:*

*[https://www.google.co.nz/search?q=history+of+retirement+income+in+new+zealand,+david+preston,+2008%3F&ie=utf-8&oe=utf-8&gws\\_rd=cr&ei=l0-9VefjFIHLmwWL47KAAw](https://www.google.co.nz/search?q=history+of+retirement+income+in+new+zealand,+david+preston,+2008%3F&ie=utf-8&oe=utf-8&gws_rd=cr&ei=l0-9VefjFIHLmwWL47KAAw)*

*Much of the detail included in this section has been ‘borrowed’ from the Preston paper.*

*It is notable that most of the significant structural changes in state-funded superannuation, whether precipitated by social imperative or fiscal stringency, have occurred within the lifetime of the present cohort of retired New Zealanders. As the predominant forum of responsible commentators on the ‘journey through life’ in this unique New Zealand environment, we owe it to following generations to commit to record the important principles we believe should underpin future ‘retirement income’ policy.*

*Retirement Income policy, particularly the legislated provisions related to New Zealand Superannuation has been the continuing concern of the Grey Power since the organisation was formed in 1986.*

*For a much longer period than this it also has been central to successive government’s delivery of the ‘citizenship dividend’<sup>11</sup> component of the ‘social contract’<sup>12</sup>. But, aside from our personal recollections of the importance our parents attached to the topic; for us as New Zealanders forming the present cohort of ‘retirees’ the contextual relevance of retirement income policy begins with the Social Security Act 1938 and extends through the ‘present day’ to include the future implications for our grandchildren.*

David Preston’s 2008 review of the history of retirement income provision in New Zealand provides an interesting narrative of the many structural changes which occurred during the 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> quarters of the 20<sup>th</sup> Century. The changes we consider to have provided a ‘useful learning experience’ and, thereby, deserve recognition as being relevant to stabilisation of future retirement income policy, have been gathered together and are highlighted in the form of a ‘Timelines’ review as presented in Table No. 1.

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<sup>1111</sup> **‘citizenship dividend(s):** “This objective is about maintaining social inclusion and cohesion by recognising, in a general way, the productive efforts and social and civic contributions made by citizens from all walks of life. This public recognition can be argued to have both an intrinsic and instrumental value. Building trust, respect and cooperation among citizens of all ages through this type of implicit social contract might arguably help lower the costs of transactions, raise overall life satisfaction and reduce the risk of civil unrest.” **Hurnard, Roger** (2012)  
<http://www.treasury.govt.nz/government/longterm/.../pdfs/ltfep-s3-04.pdf>

<sup>12</sup> **‘social contract’:** “New Zealand, more so than many countries, has [an explicit social contract in the Treaty of Waitangi](#), New Zealand’s founding document as well as in other legislation such as the Social Security Act of 1938.” ....“the universalism we expect in our social security, health, and education arises because the contract involves a trade-off between everyone contributing to the support of the welfare state, and thereby receiving reciprocal benefits when they are in need”. **Easton, Brian** (1994)

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**Table No. 1 – Timeline, changes in provision of retirement income.**

Year	Arising from:	Provided for:	Average Earnings relativity
1938	Social Security Act 1938	‘Age Benefit’ means tested, payable at age 60 yrs.	
1940	Social Security Act 1938	<ul style="list-style-type: none"> <li>• ‘Age Benefit’ means tested, paid age 60 years.</li> <li>• ‘Universal Superannuation’ minimal benefit, paid at age 65 years.</li> </ul>	
1960	Empowering legislation.	‘Universal Superannuation’ paid at age 65, increased to match ‘Age Benefit, means test discontinued.	
1972	Royal Commission on Social Security	Introduced more liberal welfare payments.	68%
1976	Empowering legislation.	‘Compulsory Contributory Scheme’ introduced for employees. ‘Universal Superannuation’ maintained.	72%
1977	Empowering legislation.	<ul style="list-style-type: none"> <li>• ‘Compulsory Contributory Scheme’ withdrawn.</li> <li>• ‘National Superannuation’ paid at age 60 years introduced, universally with no means test.</li> </ul>	80%
1980		‘National Superannuation’ maintained	89% <sup>13</sup>
1985	Empowering legislation	Taxation Surcharge of 20% on ‘other incomes’ targets supplementary private incomes of retirees.	
1989	Empowering legislation	‘Guaranteed Retirement Income’ replaces ‘National Superannuation’ breaking its implied minimum of 80% of ‘average earnings’.	65% to 72.5%
1991 & 1992	Empowering legislation	<ul style="list-style-type: none"> <li>• Annual adjustments cancelled.</li> <li>• Age of entitlement increased progressively to 65 years by 2001,</li> <li>• ‘Taxation Surcharge’ increased to 25%</li> </ul>	65% to 72.5%
1993	Accord on Retirement Incomes.	<ul style="list-style-type: none"> <li>• ‘Transitional Retirement Benefit’ for age cohort affected by increasing ‘age of entitlement.’ Paid at a rate \$30 per week lower than NZS couples rate.</li> <li>• ‘New Zealand Superannuation’ (NZS) introduced.</li> </ul>	65% to 72.5%
1996	Empowering legislation	Reduced the level of the ‘Taxation Surcharge’	65% to 72.5%
1997	Coalition Agreement and Referendum	<ul style="list-style-type: none"> <li>• ‘Compulsory Retirement Savings Scheme’ being a contributory ‘second tier’ pension scheme promoted to diminish importance of NZS but heavily (91.8%) rejected.</li> <li>• ‘New Zealand Superannuation’; continued.</li> </ul>	65% to 72.5%
1998	Empowering legislation	<ul style="list-style-type: none"> <li>• ‘Taxation Surcharge’ abolished.</li> <li>• Annual adjustments ‘New Zealand Superannuation’ based solely on CPI subject to lower ‘wage floor.’</li> </ul>	60%
1999	Coalition Agreement	<ul style="list-style-type: none"> <li>• ‘New Zealand Superannuation’ restored ‘average earnings’ relativity.</li> <li>• ‘Age of Entitlement’ 65 years fully implemented.</li> <li>• ‘N Z Superannuation Fund’ established</li> </ul>	65% to 72.5%
2005	Coalition Agreement	‘New Zealand Superannuation’ arbitrarily set at 66% of ‘average earnings.’	65% to 72.5%
2007	Empowering legislation	<ul style="list-style-type: none"> <li>• ‘KiwiSaver’ contributory, supplementary retirement income scheme introduced.</li> <li>• ‘New Zealand Superannuation’ continued.</li> </ul>	65% to 72.5%
2008	Prime Ministerial edict	‘New Zealand Superannuation’ arbitrarily set at 66% of ‘average earnings.’	65% to 72.5%

<sup>13</sup> It is notable that over the term 1971-72 to 1978 -79 the cost of pensions in terms of fiscal impact had increased from 3% to 6.9% of gross domestic product (GDP) and peaked at nearly 9% of GDP in the early 1980’s..

**Author's Note:**

*Noting the relatively high ratio of pensions to net average wages during 1960's and 1970's the impression is that in terms of intergenerational equity, present day retirees, having willingly funded such retirement income by paying their taxes and other heavy expenses during family formation years are presently being short-changed by 'later day' regimes of 'fixing' superannuation payments, shared by a 'couple,' at only 66% of net average earnings. This especially when it is considered that 'net average earnings' through the four decades to 1980 closely related to average household incomes; a ratio that is not replicated under the multi-earner income nature of the present day households.*

*The period from 1938 through to the present day is notable for its instability in retirement income policy with the successive governments of both major parties introducing significant change so as to reduce the fiscal impact of retirement income provision. However, equally evident has been the early rescindment of such stringency to accommodate minor party policy for 'pension enhancement' as core elements of 'coalition agreements.'*

*The remaining 'strength' of New Zealand Superannuation seems to be a benefit of Mixed Member Proportional Representation rather than the underlying philosophical support of the major political parties. If Grey Power is to achieve its long term objective of more adequate retirement income for retired working people and their spouse, it must do a lot more to ensure the support of the major political parties.*



## Appendix No. 2 ‘The Legislation’

### New Zealand Superannuation

Discussion of any aspect of the sustainability, fiscal cost, annual adjustment, sufficiency of payments or entitlement qualifications of **New Zealand Superannuation**, must take into account the requirements of the relevant legislation. The sections of the Act determining ‘entitlement criteria’ and the annual adjustment of payment levels, each being aspects that are pivotal to the considerations addressed in this review, are reproduced below in the form of an ‘extract’ from the Act.

#### Extracts from New Zealand Superannuation and Retirement Income Act 2001

##### Section 7: Age qualification for New Zealand superannuation

*“(1) Every person is entitled to receive New Zealand superannuation who attains the age of 65 years.  
(2) However, a person is not entitled to receive New Zealand superannuation in respect of any period for which he or she has made an election under any of [clause 52](#) or [clause 68](#) or [clause 72](#) of Schedule 1 of the Injury Prevention, Rehabilitation, and Compensation Act 2001 to be entitled to weekly compensation under that Act rather than to New Zealand superannuation.  
(3) Subsection (1) applies subject to the provisions of this Part and of the [Social Security Act 1964](#).”*

##### Section 8: Residential qualification for New Zealand superannuation

*“No person is entitled to New Zealand superannuation unless the person—  
(a) is ordinarily resident in New Zealand on the date of application for New Zealand superannuation; and  
(b) has been both resident and present in New Zealand for a period or periods aggregating not less than 10 years since attaining the age of 20 years; and  
(c) has also been both resident and present in New Zealand for a period or periods aggregating not less than 5 years since attaining the age of 50 years.”*

##### Section 12: Standard rates of New Zealand superannuation

*“(1) The rate of New Zealand superannuation payable to any person is the appropriate rate stated in clause 1 or clause 2 of Schedule 1.  
(2) A person who is married or in a civil union or in a de facto relationship and whose spouse or partner is not entitled to receive New Zealand superannuation may elect to receive the appropriate rate stated in either clause 1 or clause 2 of that schedule.  
(3) However, an election to receive New Zealand superannuation under clause 2 of Schedule 1 does not take effect until the employment has ceased in a case where—*

- *that person’s spouse or partner is or was in employment under a contract of service; and*
- *(b) the combined income of the person and his or her spouse or partner, during that employment, is or was enough to prevent receipt of New Zealand superannuation under clause 2 of that schedule*

*(4) A person who has made an election under subsection (2) may at any time change that election.”*

## **Section 15: Annual adjustment of standard rates of New Zealand superannuation**

*“(1) In this section,—*

**CPI** means the consumers price index-all groups published by Statistics New Zealand

**standard tax** means the amount of tax reckoned on a weekly basis that would be deductible in accordance with the tax code “M” stated in section 24B of the Tax Administration Act 1994.

*(2) Subject to subsection (3), the rates of New Zealand superannuation stated in paragraphs (a), (b), and (c) of clause 1 and paragraph (b) of clause 2 of Schedule 1 must be adjusted, by Order in Council, as at 1 April each year so that in each case the new rate (after the deduction of standard tax) is the rate at that date (after the deduction of standard tax and before the adjustment under this section is made) adjusted by any percentage movement upwards in the CPI between the CPI for the quarter ended with 31 December one year before the immediately preceding 31 December and the CPI for the quarter ended with the immediately preceding 31 December.*

*(2A) The adjustments (by any percentage movement upwards in the CPI) required under subsection (2) as at 1 April in any year from 2011 to 2017 (inclusive) must, despite subsections (1) and (2), be calculated,—*

- if, and insofar as, they relate to movements during quarters that end before 29 April 2010, using index numbers for those quarters of the consumers price index-all groups published by Statistics New Zealand; and*
- if, and insofar as, they relate to movements during quarters that end after 28 April 2010, using index numbers for those quarters of the consumers price index-all groups excluding cigarettes and other tobacco products published by Statistics New Zealand.*

*(3) Every Order in Council made under subsection (2) must adjust the rates of New Zealand superannuation, subject to subsection (4),—*

- so that the weekly amounts referred to in section 16 are set in accordance with that section; and*
- so that the rate of New Zealand superannuation stated in paragraph (b) of clause 2 of Schedule 1 preserves its proportional relationship (after the deduction of standard tax) to the rates stated in paragraphs (a), (b), and (c) of clause 1 of that schedule.*

*(4) An adjustment under this section must not reduce the weekly amounts payable under this section.*

*(5) Subsections (3) to (6) of section 61H of the Social Security Act 1964 apply to every Order in Council made under subsection (2) as if that Order in Council were made under that section.*

*(6) Every Order in Council made under subsection (2) comes into force or is considered to come into force on 1 April of the calendar year in which it is made, and applies to New Zealand superannuation payable on and after that date.”*

## **Section 16: Annual adjustment of New Zealand superannuation: relationship to net average wage**

*“(1) The annual adjustment of New Zealand superannuation under section 15 must ensure that—*

*(a) the standard weekly amount of New Zealand superannuation (after the deduction of standard tax) payable to a couple who are married or in a civil union or in a de facto relationship, both of whom are qualified to receive New Zealand superannuation, is not less than 65% or more than 72.5% of the average ordinary time weekly earnings (males and females combined) as determined by the last Quarterly Employment Survey of wages published by the Department of Statistics before 1 March in each year (after the deduction of standard tax and the earner levies payable on those earnings):*

*(b) the standard weekly amount of New Zealand superannuation (after the deduction of standard tax) payable to a single person who is living alone is 65% of the weekly amount of New Zealand superannuation (after the deduction of standard tax) payable to a couple who are married or in a civil union, both of whom are qualified to receive New Zealand superannuation:*

*(c) the standard weekly amount of New Zealand superannuation (after the deduction of standard tax) payable to a single person who is not living alone is 60% of the weekly amount of New Zealand superannuation (after the deduction of standard tax) payable to a couple who are married or in a civil union, both of whom are qualified to receive New Zealand superannuation.*

*(2) In this section, earner levies means the levies payable under section 219(1) of the Injury Prevention, Rehabilitation, and Compensation Act 2001.”*

A complete copy of the **New Zealand Superannuation and Retirement Income Act 2001** can be downloaded from:

[http://www.legislation.govt.nz/act/public/2001/0084/latest/DLM113924.html?search=ta\\_act\\_N\\_ac%40ainf%40anif\\_an%40bn%40rn\\_25\\_a&p=5](http://www.legislation.govt.nz/act/public/2001/0084/latest/DLM113924.html?search=ta_act_N_ac%40ainf%40anif_an%40bn%40rn_25_a&p=5)

## **KiwiSaver**

The sections of the empowering legislation related to Grey Power’s generic interest in the **KiwiSaver** scheme, relate to the ‘purposes of the scheme’ and the ‘age related’ restrictions. We include an extract from the Act, detailing these provisions:

### **Extracts from KiwiSaver Act 2006**

#### **Section 2: Commencement**

*(1) This Act comes into force on a date to be appointed by the Governor-General by Order in Council.*

*(2) One or more Orders in Council may be made bringing different provisions into force on different dates.*

*Section 2: KiwiSaver Act 2006 (except sections 10–21, 22, 23, 33–39, 40–43, 45, 66, and so much of Schedule 3 as relates to section NE 3(2)–(6) of the Income Tax Act 2004) brought into force, on 1 December 2006, by the KiwiSaver Act Commencement Order 2006 (SR 2006/357).*

### **Section 3: Purpose**

*(1) The purpose of this Act is to encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement. The Act aims to increase individuals’ well-being and financial independence, particularly in retirement, and to provide retirement benefits.*

*(2) To that end, this Act provides for schemes (KiwiSaver schemes) to facilitate individuals’ savings, principally through the workplace.*

### **Section 10: Who automatic enrolment rules apply to**

*The automatic enrolment rules apply to every employee who is not a secondee and—*

*(a) starts new employment with an employer that is not an exempt employer; and*

*(b) is aged 18 or over, but less than the New Zealand superannuation qualification age, when he or she starts that new employment.*

*Section 2: sections 10–21, 22, 23, 33–39, 40–43, 45, 66, and so much of Schedule 3 as relates to section NE 3(2)–(6) of the Income Tax Act 2004 brought into force, on 1 July 2007, by the KiwiSaver Act Commencement Order 2006 (SR 2006/357).*

A complete copy of the **KiwiSaver Act 2006** can be downloaded from:

[http://www.legislation.govt.nz/act/public/2006/0040/latest/DLM378372.html?search=ta\\_act\\_K\\_ac%40ainf%40anif\\_an%40bn%40rn\\_25\\_a&p=1](http://www.legislation.govt.nz/act/public/2006/0040/latest/DLM378372.html?search=ta_act_K_ac%40ainf%40anif_an%40bn%40rn_25_a&p=1)

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(September 2015)

**Appendix No. 3**

**GPNZ Policy (Superannuation and Taxation)**

<b>Policy Title</b>	<b>Grey Power New Zealand Federation Inc. Superannuation and Taxation Policy</b>	Date policy last reviewed 14/09/2014
<b>Policy Mission</b>	To maintain a state-funded universal superannuation scheme payable at age 65 years	
<b>Problems the policy addresses</b>	<ol style="list-style-type: none"> <li>1. A concerted campaign by vested interests in the financial sector seeks to convince all that the current universal pay as you go superannuation scheme with an age of eligibility of 65 is not sustainable.</li> <li>2. The current level of superannuation is insufficient to maintain a person as an active participant in society in accordance with Positive Ageing Strategy</li> </ol>	
<b>Proposed Solutions</b>	<ol style="list-style-type: none"> <li>1. Demonstrate through researched articles the fallacies and assumptions made in the arguments for changing the structure and/or age of eligibility for NZ Superannuation (addresses problem 1).</li> <li>2. To achieve a level of payment for couples of not less than 72.5% of the average after-tax weekly earnings with pro rata increases for single superannuitants (addresses problem 2).</li> <li>3. To establish an independent non-party political authority to review the adequacy of the level of superannuation on a tri-annual basis</li> <li>4. To achieve an 'eligibility for rate rebates' equivalent to the married couple rate of superannuation (these 3 solutions address problem 2).</li> </ol>	
<b>Policy goals</b>	<ol style="list-style-type: none"> <li>1. Prepare a comprehensive literature review of research on the implications of ‘population ageing’ related to the sustainability of New Zealand Superannuation over the next twenty five years (addresses solution 1).</li> <li>2. Establish a close working relationship with researchers in the field of retirement income including the Commission for Financial Literacy and Retirement Income (CFLRI), Institute for Governance and Policy Studies (IGPS) and Retirement Policy and Research Centre (RPRC) (addresses all solutions).</li> <li>3. Work with Statistics New Zealand to establish a targeted cost of living index applicable to the 65+ age cohort (addresses solution 2).</li> <li>4. Survey the Grey power membership to determine the adequacy of current New Zealand Superannuation (addresses solution 2).</li> </ol>	