The Interim Retirement Commissioner has recommended that the age of eligibility for National Superannuation is NOT increased.

It has long been a concern that previous Retirement Commissioners reports have recommended increasing the age of eligibility because NZ Superannuation is a Basic Income scheme and BINZ would like to see more people on a Basic Income not less.

The previous argument was that the cost of the NZ Superannuation scheme as a percentage of GDP would rise as the percentage of people in the over 65 age group rose while the percentage of people in the working age group fell. However, increasing the age of eligibility would reduce the number of people on a Basic Income and unduly impact on those with poor health in their 60s who need to retire at 65 or before and on those with shorter life expectancies. Some ethnic groups that have lower life expectancies.

We were also concerned because the calculations previously used appeared to be erroneous. It seemed that they were using a calculation described as the “Gross Income Error” by a delegate from Oxford University at the 19th BIEN Congress in Hyderabad, India, in 2019. People who make this mistake calculate the gross cost to government of the payments rather than the lower net cost. Because NZ Super is taxed, the after tax or net cost to government is lower. For example, if the government pays out $100 and receives $20 back as tax, the net cost to government is $80 not $100. Also, the government receives back up to another 15% as GST ($12) when the money is spent, so the cost to government is then reduced to $72. As the remaining money continues to circulate the government progressively taxes the remainder back until it is all returned. As the money returns to the government, the government can spend it again. Rather than costing the government the money spent boosts the economy.

This latest report argues that Treasury predictions now indicate that there is no need to change NZ Superannuation for at least 30 years. The Government will have adequate income to pay NZ Superannuation.

In the past, Susan St John has argued that there are other ways to lower the cost of NZ Superannuation that are better than rising the age of eligibility. The first suggestion is to insist that all those who receive NZ Superannuation pay a 33% tax on all their income. This will result in those on lower incomes receiving the same income from NZ Superannuation when the gross value is adjusted appropriately while those on high incomes will receive less than they do now. However, the reduction in income for those people on high incomes will be small as a percentage of their total income – they will not notice it. In a variation of this proposal Susan St John suggests a two stage tax rate for those receiving NZ Super with a lower rate of tax for those on below average incomes and a higher rate for those on above average incomes.

Others have suggested that NZ Superannuation should be made tax free in a mistaken belief that this will benefit those on lower incomes. This is not a good idea, however. If you ensure that those on low incomes receive the same income from NZ Super as they do now, those on high incomes will receive more than they do now as they will receive exactly the same amount as those on low incomes, rather than less as they do now. Those on high incomes currently receive less because they are on higher rates of tax. This pushes up the total cost of the NZ Superannuation Scheme while giving no benefit to those on low incomes and increased income to those on high incomes – the benefit of making NZ Super tax free goes to those who do not need it.

The recommendation that the age of eligibility for NZ Super remains at 65 is welcome. All we need to do now is extend the basic income provided to those over 65 to other age groups so that everyone receives a Basic Income.