

New Zealand: The supreme political football

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NEW ZEALAND: THE SUPREME POLITICAL FOOTBALL

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“THE SUPREME POLITICAL FOOTBALL”¹

The great disappointment about this debate is that it has been nothing but populism from go to whoa. It has not been about what is good for New Zealand. This debate on superannuation has been argued on a populism basis for the last 25 years or so, whether it was National or Labour in Government. It has always been about populist politics, promising the earth and then finding out we cannot actually afford it.”

—Hon. Tuariki John Delamere²

New Zealand, like Australia, entered the 1980s without a mandatory earnings-related pension program. Unlike Australia, however, New Zealand also ended the twentieth century without such a program. Although the New Zealand pension system has been perhaps the most frequently changed of any of the six countries considered here, the basic shape of that program remains very close to what it was two decades ago. Indeed, one prominent analyst of New Zealand pension policy has likened it to an “old-fashioned wobble doll [which] has taken many a thump from politicians in the last decade. But like the wobble doll, after some gravity-defying oscillations it returns to much the same position...of a basic, flat-rate, taxable, individual state pension, no compulsory private saving and no tax incentives...”³ Understanding those two seemingly conflicting attributes of New Zealand pensions—frequent pension policy change and the absence of a fundamental transformation of pension policy—is one of the primary objectives of this chapter.

The other primary objective concerns the lessons that New Zealand experience has to offer about the politics of major pension reforms. Since 1997, New Zealand has seriously both a move to an individual account system and a large collective investment fund. A contributory, individual accounts plan (although without earnings-related benefits) was put before voters in a 1997 referendum, and overwhelmingly rejected. A collective investment fund proposed by the current Labour-Alliance coalition government was enacted by Parliament in 2001, but it remains vulnerable to dismantling by a future government. Are there lessons that New Zealand can offer about the political hurdles that are likely to arise with each of these reform proposals? And does New Zealand suggest any lessons about ways in which these hurdles can be resolved?

¹ Characterizations of the New Zealand pension system as a political football are legion. “The supreme political football” is a quote from an editorial in the *Christchurch Press*, July 24, 2000. The author would like to thank Jonathan Boston, Gary Hawke, Roger Hurnard, and Michael Littlewood for helpful comments on earlier versions of this chapter.

² Minister of Immigration, in the debate on third reading of the Social Welfare (Transitional Provisions) Amendment Bill (No. 2), in the *Hansard*, September 29, 1999, section 150.

³ Susan St. John, “Parties Must Strive to Take Wobbles Out of Super Farce,” *New Zealand Herald*, December 7, 1999.

THE SOCIAL AND DEMOGRAPHIC ENVIRONMENT

New Zealand stands out among the relatively rich industrialized countries of the OECD for its small size and its geographic isolation. As the New Zealand Treasury noted in its 1999 briefing paper for the incoming Labour government, "Draw a circle with a radius of 2,200 kilometres centred on Wellington [New Zealand's capital] and you capture within it 3.8 million New Zealanders and rather a lot of seagulls. Draw a similar circle centred on Helsinki and you capture within it a population of over 300 million, from 39 countries."⁴ New Zealand is also notable for its continued heavy reliance on a few primary industries, notably agriculture. While butter, wool and meat have fallen from an overwhelming level of around 90 percent of exports in 1960, they still were close to 60 percent in 1999.⁵ New Zealand has also endured major declines in both its overseas terms of trade over the past thirty five years.

As in the United States, there are serious discrepancies both in the life expectancies and in the retirement incomes of New Zealanders of European ancestry and those of the two largest minority groups, Maori and Pacific Islanders. Maori make up only 3.9 percent of New Zealand's population age 65 and over, compared to 15.1 percent of the total population, while Pacific Islanders comprise 1.5 percent of the senior population compared to 5.9 percent of the total population.⁶ These differences are the result of both higher fertility (hence many under 18s) and higher mortality rates among these groups.

As in most other countries, concern over pension policy in New Zealand revolves heavily around the aging of the Baby Boom generation. The population aged 65+ is expected to grow dramatically as the Baby Boom retires, from 423,000 in 1996 to 1.15 million by 2051. Overall, the ratio between potential labor force participants and the elderly is expected to drop from about 4 to 1 currently to less than 2 to 1 by 2041.⁷ However, the corresponding increase in the elderly dependency ratio is projected to be partially offset by a decrease in children as a percentage of the population, with the potential working age population (15-64) comprising roughly the same percentage of the total population from 2040 onward that it did in its prior trough around 1960 when the Baby Boom was very

⁴ New Zealand Treasury, *Towards Higher Living Standards for New Zealanders: Briefing to the Incoming Government*, 1999, Wellington: The Treasury, 1999, p. 8.

⁵ New Zealand Treasury, *Towards Higher Living Standards for New Zealanders*, p. 6.

⁶ Statistics New Zealand, "Older People in New Zealand: Ethnicity," <http://stats.govt.nz/domino/external...o5cf2a2311d4c256800008194cd?OpenDocument>. Higher birth rates among Maori and Pacific Islanders also account for part of their distinctive age profile.

⁷ Ministry of Social Policy, *Post-election Briefing Papers*, p. 76.

young.⁸ Compared with the other countries considered in this study, New Zealand is in fairly good shape demographically, both in the near term and in the middle of the twenty-first century.

Recent pension policy in New Zealand has also been heavily influenced by macro-economic and budgetary pressures. Through the 1960s, unemployment in New Zealand was extraordinarily low—generally under one percent of the labor force. This was a result both of favorable terms of trade for New Zealand exports and government policies that encouraged full employment.⁹ But unemployment rose rapidly in the 1970s. New Zealand's savings rate has also been a matter of major concern, with household saving rates of near zero in the late 1990s.¹⁰ However, some of these economists argue that these savings rates are artificially low because they do not take into account New Zealander's very high rates of investment in home ownership.¹¹

THE INSTITUTIONAL ENVIRONMENT

For most of the twentieth century, New Zealand's political institutions clearly reflected its status as a former British colony and then autonomous Dominion within the British Commonwealth. Like the United Kingdom, it lacks a comprehensive written constitution and entrenched Bill of Rights.¹² And like the House of Commons in Canada and the United Kingdom, New Zealand's unicameral legislature, the House of Representatives, was prior to 1996 elected by plurality in single member districts. (A second, appointed, chamber, the Legislative Council, was abolished in 1950). The New Zealand electoral system did have some particular wrinkles of its own, however, notably a small number of seats reserved for Maori voters.¹³

⁸ Statistics New Zealand, *Figures and Facts 1998*, p. 75.

⁹ Department of Statistics, "The People of New Zealand," pp. 47-200 in Royal Commission on Social Policy, *The April Report*, vol. 1, *New Zealand Today*, Wellington: Royal Commission on Social Policy, 1988, at p. 173.

¹⁰ See James Weir, "Figures Show Strong Rise in National Savings Rate," *The Dominion*, (Wellington), July 30, 1997, p. 21.

¹¹ An estimated 68 percent of single and 86 percent of married superannuitants in New Zealand own their homes; within these groups, 94 and 93 percent, respectively, are mortgage free. Many of the remaining seniors live in homes owned by a family member or family trust. David Fergusson et al., *Living standards of Older new Zealanders, 2001*, Wellington: Ministry of social Policy, 2001, p. 24.

¹² The *Constitution Act, 1986* brings together many of New Zealand's basic statutes but did not comprise a major change in those fundamental laws. Moreover, "[e]ven statutes such as the Constitution Act, 1986 and the New Zealand Bill of Rights Act 1990 have no greater legal status than the Margarine Act 1908." B.V. Harris, "The Constitutional Base," pp. 56-76 in Hyam Gold, ed., *New Zealand Politics in Perspective* [third ed.], Auckland: Longman Paul, 1992, at p. 61. See also Therese Arseneau, "A Bill of Rights," pp. 22-40 in Martin Holland and Jonathan Boston, eds., *The Fourth Labour Government: Politics and Policy in New Zealand* [second edition], Auckland: Oxford University Press, 1990.

¹³ Like general constituencies, the Maori reserved constituencies were geographic in basis, overlapping general constituencies. Since 1975, Maori voters have been able to choose to vote either in reserved or general constituencies, and the number of reserved constituencies has been based on the number of persons who chose to

For most of the period through the 1993 election, New Zealand's single-member plurality electoral system did what political scientists like Duverger have argued it does: produce two large parties which compete for centrist voters, with one of those parties usually winning a majority of seats in the legislature with a minority of the popular vote. Smaller parties, which voters in most districts (realistically) dismissed as unlikely to win that seat, ended up with very few seats or none at all. Table 8-1 [to be added], which shows the percentage of seats won in general elections from 1960 through 1999, illustrates this pattern clearly: Parties other than National and Labour never managed to win more than two seats prior to 1993, and every election prior to 1996 produced a majority of seats for one or the other of the two parties.

As in the U.K. and Canada, plurality elections did not produce regular and even exchanges of power between the two dominant parties, National and Labour. Labour was in power continuously from 1935 to 1949. In the half century from 1949 to 1999, however, National was in office for 38 years and Labour for only 12. New Zealand also experienced one of the worst perversities associated with single-member plurality elections: in two succeeding elections, 1978 and 1981, the National Party won a majority of seats in the New Zealand House despite winning fewer votes than the Labour Party.

New Zealand's political institutions are extraordinary in the extent to which they concentrate power: no second chamber, no independently-elected executive to veto legislation, no checks on the central government from provinces with autonomous spheres of jurisdiction (as in Canada), no judicial review of legislation, and (prior to 1996) no coalition or minority governments. Indeed, prior to 1996 critics labeled New Zealand an "elected dictatorship" in which governing party elites could force their preferences into policy virtually unchecked.¹⁴

Centralization of power in New Zealand is further enhanced by cabinet dominance over the governing party(ies) caucus, which in New Zealand is reinforced by the relatively large size of cabinet (20 members) in comparison to the governing caucus in a small legislature (total seats in the House of Representatives gradually increasing from 80 seats in 1960 to 99 seats in 1993 and 120 seats since

vote in Maori constituencies in the preceding election. The number of Maori seats was four through the 1993 election, five in 1996, and six in 1999. On the evolution of Maori political representation, see Ranginui Walker, "Maori People: Their Political Development," pp. 378-400 in Gold, ed., *New Zealand Politics in Perspective* [third ed.].

¹⁴ See the discussion in Richard Mulgan, "The Elective Dictatorship in New Zealand," pp. 513-532 in Gold, ed., *New Zealand Politics in Perspective* [third ed.]. The only exception to the "simple parliamentary majorities rule" principle is a section of the 1956 Elections Act which "entrenches" certain provisions of the Act (a five year limit on the life of a Parliament, for example), making them amendable only by a three-quarters majority of the House or a majority in a national referendum. But because this provision is not itself entrenched, it depends ultimately on public opinion to prevent repeal by a future parliamentary majority that found it inconvenient. Mulgan, *Politics in New Zealand*, p. 52. The Fourth Labour Government's 1985 Bill of Rights similarly proposed that the Bill of Rights be entrenched with amendments requiring support of three-quarters of the members of Parliament or a majority in a national referendum, but entrenching provisions were not included when the Bill of Rights was adopted in 1989. See Therese Arseneau, "A Bill of Rights."

1996).¹⁵ Given Westminster traditions of cabinet solidarity (all ministers are expected to publicly support the government's policy even if they disagree with it) and party discipline, a majority within the governing party's cabinet can force its will on the rest of a reluctant cabinet, party caucus, and legislature.

The dual roles played by the Treasury as both the central source of policy advice for government and as a clearinghouse for all policy and spending proposals also contribute to centralization of power in New Zealand. For the past twenty years, the "Treasury line" has favored a more limited role for government, increased use of income targeting in social programs, and a move away from full employment to controlling inflation as a central objective of government.¹⁶ The potential for Treasury and Cabinet policymaking dominance was especially evident during New Zealand's fourth Labour Party government, which held power from 1984 to 1990. Under the leadership of Finance Minister Roger Douglas, New Zealand embarked on a process of privatization and market reforms despite failing to signal such a shift in their 1984 electoral platform, and despite growing opposition within the party (including Prime Minister David Lange) and on the part of traditional Labour constituencies.¹⁷

Tremendous concentration of power gave the New Zealand government strong institutional capacity to undertake politically painful loss-imposing actions such as cutting pension benefits, especially prior to electoral reform in 1996. New Zealand's concentration of power also leads to strong concentration of accountability, however. This is exacerbated by another important institutional

¹⁵ A non-binding citizen-initiated referendum to cut the size of the House of Representatives was held in conjunction with the 1999 general election, winning the support of 82 percent of voters. New Zealand Press Association, "Delight at Support for a 99-seat House," *New Zealand Herald*, November 29, 1999.

¹⁶ See for example Jonathan Boston, "The Treasury: Its Role, Philosophy and Influence," pp. 194-215 in Gold, ed., *New Zealand Politics in Perspective* [third ed.], and Chris Rudd, "The Welfare State," pp. 256-267 in Raymond Miller, ed., *New Zealand Politics in Transition*, at pp. 261-262. For a cabinet minister's perspective, see Ruth Richardson, *Making a Difference*, Christchurch: Shoal Bay Press, 1995, pp. 80-82.

¹⁷ On the greater bureaucratic resources available to Finance Minister Douglas than to Prime Minister Lange, see especially Jonathan Boston, "The Cabinet and Policymaking Under the Fourth Labour Government," pp. 62-82, in Martin and Boston, eds., *The Fourth Labour Government*, at p. 76. On the potential for cabinet dominance, and its manifestations under the fourth Labour government, see Richard Mulgan, *Politics in New Zealand*, Auckland: Auckland University Press, 1994, pp. 101-111. Cabinet dominance was strengthened in this period by "a formal rule that Cabinet members should not oppose Cabinet decisions in caucus, thus effectively blocking any potential resistance from a coalition of dissident Ministers and backbenchers. In particular, this rule prevented the Prime Minister from seeking support in caucus when outnumbered in Cabinet..." Mulgan, "The Elective Dictatorship in New Zealand," p. 522. In Labour governments, the bargaining leverage of the Prime Minister is further undercut by the fact that the parliamentary caucus rather than the Prime Minister chooses Labour members of Cabinet, although the Prime Minister does allocate individual portfolios and choose ministers and parliamentary under-secretaries outside of cabinet. See Elizabeth McLeay, *The Cabinet and Political Power in New Zealand*, Auckland: Oxford University Press, 1995, chapter 4, and McLeay, "Cabinet," pp. 81-93 in Miller, ed., *New Zealand Politics in Transition*, pp. 81-93 at p.85.

influence on New Zealand pension policy, the short—three years—electoral cycle for the New Zealand legislature.¹⁸ Pressures from the parliamentary backbench and from opposition parties were a relatively weak constraint on the power of pre-1996 governments in New Zealand to take deeply unpopular actions such as pension cuts, but short electoral cycles made all politicians more conscious of the political difficulties in avoiding blame for loss-imposing actions. Unless the public's memory is extremely short and opposition parties are very inefficient at prodding those memories, or the public is very forgiving, unpopular actions like pension retrenchment are likely to prove electorally very costly. The First-Past-the-Post electoral system tends to exaggerate swings in public opinion in translating vote shares into seat shares in Parliament. That is exactly what happened to the Labour Party in 1990, which suffered a devastating defeat (exaggerated in its effects by the electoral system) at the end of its radical market reform "Rogernomics" experiment.¹⁹

The combination of concentrated power and concentrated accountability has ambiguous implications for pension politics. In terms of overall patterns of pension policy change, Westminster parliamentary institutions enhance opportunities for major swings in pension policy when partisan control of government changes if the two parties have fundamental disagreements about pension policy principles. On the other hand, Westminster institutions may also facilitate offsetting initiatives by duopolistic parties to reach policy agreements that limit the scope of pension policy conflict. When the number of parties involved in negotiations increases, the incentives for one or more parties to stay out in order to make distinctive appeals to elder voters is likely to be irresistible, and initiatives to limit the pension agenda are less likely to succeed. As we will see below, New Zealand experienced both pension policy swings and one major inter-party accord between 1974 and 1996.

New Zealand's governmental institutions have also undergone a major transformation in recent years. The 1984-90 Labour government was followed immediately by a National Party government which, like its immediate predecessor, governed to the right of its electoral platform. These developments contributed to a general disillusionment with single-member plurality electoral system and to voters' decisions in two succeeding national referenda to replace SMP with a German-style Mixed Member Proportional (MMP) electoral system.²⁰ Thus beginning with the 1996 election, New Zealand

¹⁸ Officially, an election must be called within three years after the return of official results from the prior election, which means that the electoral cycle can be slightly more than three years. Initiatives to extend parliamentary terms were rejected in referenda held in 1967 and 1990. Mulgan, *Politics in New Zealand*, pp. 94-95.

¹⁹ See especially Jack Vowles and Peter Aimer, *Voters' Vengeance: The 1990 Election and the Fate of the Forth Labour Government*, Auckland: Auckland University Press, 1993. Vowles and Aimer stress the role of increasing dealignment away from the two large parties and argue (p. 217) that "rather than reflecting the breadth of its popularity in October 1990, National's majority was an artifact of the absence of support for Labour." Only 58 percent of 1987 Labour voters supported the party again in 1990 (p. 11).

²⁰ See for example Jonathan Boston, Stephen Levine, Elizabeth McLeay and Nigel S. Roberts, "Why Did New Zealand Adopt German-Style Proportional Representation?," *Representation* 33 (1996),

are now elected from a mixture of single-member constituencies and a nationwide party list system, with the party vote determinative of overall seat allocations. (Similar to Germany, parties must win five percent of the overall vote or at least one individual constituency to be allocated party list seats). Not surprisingly, the result has been a fragmentation in party support and an end to single-party majority governments in New Zealand's Parliament.²¹ While the National and Labour Parties, returning to their center-right and center-left roots, remain the largest two parties in New Zealand, neither can win a majority of seats in the New Zealand legislature. Thus pension policymaking is now complicated not only by the politics of coalition, but also by the tugs of smaller coalition partners whose preferences are frequently further from those of median voters than either National or Labour, and who may have strong incentives to try to build "niche" support by appealing to groups such as the affluent elderly.

Even under the new electoral rules, a determined New Zealand government nonetheless retains extraordinary legislative powers, including a virtual monopoly on introducing legislation that involves public expenditures.²² And if a coalition government has a simple majority on its side, it can, just like the old Westminster single-party majority governments, invoke "urgency" to extend the hours of Parliament to announce and enact legislation that it badly wants in one or two days, preventing the mobilization of any public opposition. The budget process—with initiatives kept secret until the budget is announced and enacted quickly thereafter—offers another vehicle for quickly enacting politically unpopular initiatives. But the budget process has downsides as well: precisely because political feedback and issuing of "trial balloons" is limited, cabinets may stake their legitimacy on commitment to policies that are not well thought-out and have political or design flaws that become painfully obvious once they are exposed to the light of day.

THE PENSION POLICY ENVIRONMENT

134-40; David Denemark, "Choosing MMP in New Zealand: Explaining Electoral System Change in 1993," in Matthew Soberg Shugart and Martin P. Wattenberg, *Mixed-Member Electoral Systems: The Best of Both Worlds?*, New York: Oxford University Press, forthcoming.

²¹ In fact, the move to coalition governments began in February 1996, eight months prior to New Zealand's first MMP election, with the formation of a short-lived coalition between the governing National Party and the much smaller United Party. On the latter, see Stephen Rainbow and Simon Sheppard, "The Minor Parties," pp. 177-185 in Miller, ed., *New Zealand Politics in Transition*.

²² Under rules in effect prior to revisions of the Standing Orders of the House of Representatives in 1994-95, only the government could propose legislation involving expenditure of public funds. Under the new rules, "MPs may now propose legislation requiring expenditure, subject to the government's right to exercise a veto if the legislation would have 'more than a minor impact' on the government's general economic policies." Mulgan, "Parliament: Composition and Functions," pp. 62-71 in Miller, ed., *New Zealand Politics in Transition*, at p. 66.

New Zealand boasts one of the oldest systems of public pensions in the world.²³ A modest, means-tested old age pension was enacted by the Liberal government headed by Richard Seddon in 1898. In 1938, New Zealand's first Labour Party government instituted a dual system of a means-tested Age Benefit payable at age 60 and a flat (and very low) rate universal superannuation benefit payable at age 65. In later years, both Labour and later National Party governments stated a long-term objective of raising the level of the universal pension benefit and phasing out the Age Benefit means test—thus integrating the two systems—when that became affordable. Universal benefits were indeed raised gradually over time, but the Age Benefit means-test remained in effect for persons under age 65 until 1975.²⁴

Beginning in the early-1970s, New Zealand entered into a prolonged period of policy instability characterized both by bidding wars between the major parties and partisan differences over how to provide supplemental, earnings-related pensions. A first move was made by New Zealand's third Labour Party government, which was elected in 1972 with a pledge to introduce earnings-related pensions. After a prolonged period of bureaucratic and legislative reformulation, the Labour government enacted legislation in 1974 to introduce an advance-funded, government-run contributory second-tier (universal pensions would remain in place) program. But this scheme had the usual political liabilities associated with such programs. It required many people to contribute immediately (4% of earnings each from employers and employees when fully phased in) with no beneficiaries at all for five years and 45 years until it paid full benefits. Moreover, the scheme was also likely to pay lower benefits to women because of their lower earnings histories.²⁵ The National Party opposition also attacked the contributory provisions as a huge tax grab, and government control of the very large capital pool expected until the plan reached maturity as socialistic. One of their television commercials in the 1975 election campaign was a cartoon of three dancing Cossacks, warning that with Labour's superannuation

²³ For historical overviews of New Zealand social policy, see W.H. Oliver, "Social Policy in New Zealand," pp. 1-45 in Royal Commission on Social Policy, *The April Report*, vol. 1, *New Zealand Today*, Wellington: Royal Commission on Social Policy, 1988, and Alexander Davidson, *Two Models of Welfare: The Origins and Development of the Welfare State in Sweden and New Zealand, 1888-1988*, Stockholm: Almqvist and Wiksell, 1989..

²⁴ A separate social security fund established by the 1938 Social Security Act was abolished in 1964 and social security tax in 1968. On the development of pensions in New Zealand, see Christopher J. Booth, "The National Party's 1975 Superannuation Policy," pp. 72-132, in Geoffrey Palmer, ed., *The Welfare State Today*, Wellington: Fourth Estate Books, 1997, at pp. 73-82, and Davidson, *Two Models of Welfare*.

²⁵ St. John, "Superannuation in the 1990s," pp. 281-282; Davidson, *Two Models of Welfare*, pp. 306-307. Labour had initially proposed a single-tier contributory scheme with higher contribution rates (5% for employees, 7% for employers). For a detailed discussion of formulation of the legislation, see David B. Collins, "Formulating Superannuation Policy: The Labour Party Approach," pp. 23-67 in Geoffrey Palmer, ed., *The Welfare State Today*, Wellington: Fourth Estate Books, 1997, and Booth, "The National Party's 1975 Superannuation Policy," at pp. 84-102.

fund “one day the Government could wind up owning literally everything. And you know what that’s called, don’t you?”²⁶

The National Party campaigned in the 1975 election on a pledge to scrap Labour’s contributory scheme and move to a simple one-tier universal (and taxable) flat rate pension payable out of general revenues at age 60 that would provide a married couple with a benefit equivalent to 80 percent of the average wage.²⁷ Historian Keith Sinclair has called this campaign pledge both “the most expensive piece of legislation in New Zealand history” and “the biggest election bribe in the country’s history.”²⁸ It was, in any case, a very effective electoral bribe, with “three great advantages over the Labour scheme: it was simple, it started immediately, and no one was excluded.”²⁹ National also benefited in the election from record high unemployment and high inflation in the wake of the first Arab oil embargo.

The new universal National Superannuation program instituted by the National Government headed by Robert Muldoon (1975-1984) led to an immediate increase in spending on pensions of more than forty percent.³⁰ The new government also abolished Labour’s nascent contributory scheme, returning the less than one year of contributions paid into the program.³¹ Their window of opportunity for terminating the new contributory program was probably fairly narrow—Prime Minister Muldoon later said he had felt that “by 1978 Labour’s New Zealand Superannuation Scheme would be a very difficult egg to unscramble.”³² But National’s success in doing so reconfirms Pierson’s findings in the United Kingdom regarding the vulnerability of immature contributory pension programs—especially if they are enacted late in the life of a one-term government under New Zealand’s short electoral cycle.

²⁶ Booth, “The National Party’s 1975 Superannuation Policy,” at pp. 89, 131.

²⁷ Single benefits were set at sixty percent of the married amount. For a discussion of the setting of these amounts, see Booth, “The National Party’s 1975 Superannuation Policy,” pp. 123-124.

²⁸ Keith Sinclair, *A History of New Zealand* [revised edition], Auckland: Penguin Books, 1988, p. 316. See also Francis G. Castles and Ian F. Shirley, “Labour and Social Policy: Gravediggers or Refurbishers of the Welfare State,” pp. 88-106 in Francis G. Castles, Rolf Gerritsen and Jack Vowles, eds., *The Great Experiment: Labour Parties and Public Policy Transformation in Australia and New Zealand*, St. Leonards, Australia: Allen and Unwin, 1996, at p. 93

²⁹ Davidson, *Two Models of Welfare*, p. 307.

³⁰ The forty percent estimate is in Booth, “The National Party’s 1975 Superannuation Policy,” p. 120. For a higher estimate, see Rudd, “The Welfare State,” at pp. 258-259.

³¹ Workers were refunded both their own contributions and those made by employers on their behalf. See St. John, “Superannuation in the 1990s,” pp. 281-282. For a more detailed discussion, see Booth, “The National Party’s 1975 Superannuation Policy.”

³² Comments by Rt. Hon. R.D. Muldoon,” pp. 132-135 in Geoffrey Palmer, ed., *The Welfare State Today*, Wellington: Fourth Estate Books, 1997, at p. 134.

New Zealand's almost exclusive reliance on a universal, flat rate public pension program financed from general revenues had several implications for pension politics as it and other OECD countries entered into a period of slower economic growth and increased pressures for pension retrenchment. First, reliance on a universal flat-rate payment at a fairly high level meant that policymaking in New Zealand has not been highly focused on addressing remaining pockets of poverty among the elderly (the fact that New Zealand does not produce poverty level or poverty rate data also has helped to limit a "poverty focus" in pensions policymaking).³³ Second, it meant that pressures for retrenchment were immediate, constant and intense, rather than being mitigated by a huge inflow of dedicated pension fund contributions by Baby Boomers in their peak earnings years during the 1980s and 1990s, as was the case in the United States. Third, it meant that targeting issues would be a core concern: should seniors with high incomes and substantial assets receive a full benefit? If not, how much should the universal pension be reduced? Should it be eliminated entirely for some pensioners? And should it be reduced through the general income tax mechanism, which could leave some high income seniors with a substantial benefit, or through a special "clawback" (as in Canada) or income tax surcharge that would cut benefits for the affluent elderly more but also spark more opposition?

Of course, policy feedbacks from the existing pension system affected the political barriers to and opportunities for reform as well as the reform agenda. Because the universal National Superannuation benefit put in place by National was received by all of the elderly, it was an extremely popular program. It is also extremely important as a source of income: in 1997-98, Superannuation and other social welfare benefits comprised virtually all of the income for the two bottom quintiles of older New Zealanders.³⁴ But the universality of New Zealand's superannuation benefit has affected retrenchment opportunities in two more specific ways. First, policymakers in New Zealand did not have available to them the same range of technical (and hard to understand) benefit formulas that are available with contributory pension programs. In the latter programs, techniques such as increases in the period over which earnings history is calculated affect different groups of retirees in different ways and make losses more obscure. In New Zealand's universal pension, any cutbacks that are proposed are likely to be fairly transparent and thus provoke widespread and unified opposition among pensioners. Uniform universal benefits also make it more difficult to weaken opposition to retrenchment initiatives by gradually phasing in benefits cuts for future recipients while "grandfathering" current ones. Second, payment of a uniform retirement benefit for all pensioners regardless of their earnings history or the year

³³ For a brief review of data on poverty among senior citizens in New Zealand, see Office of the Deputy Prime Minister and Treasurer, "Objectives and Design Principles of the Compulsory Superannuation Scheme," CSP (97)10, February 20, 1997, Annex 1.

³⁴ New Zealand Superannuation and other social benefits comprise 99.1 percent and 96.3 percent, respectively, of the two bottom quintiles of older New Zealanders. Partially as a result of surcharge on NZ Super benefits, however, these benefits comprise only 79.9 percent, 50.3 percent, and 14.0 percent of the income of the top three quintiles. Ministry of Social Policy, *Post-election Briefing Papers*, 1999, p. 74.

in which they retire has meant that pressures have been strong to adjust payments for *all* beneficiaries for wage growth rather than by (usually lower) changes in prices. In the U.S. Social Security program, by contrast, the initial benefits of later cohorts of retirees tend to be higher because of rising real wages, but once individuals retire, their benefits are adjusted only for inflation.

THE INTEREST GROUP ENVIRONMENT

More than most other OECD countries, New Zealand has large and well-organized organizations of the elderly. Most important is Grey Power New Zealand, which bills itself as “a lobby organisation promoting the welfare and wellbeing of all those citizens in the 50 plus age group.” It was formed (originally under the name New Zealand Superannuitants Association) in 1985 in response to the Labour government’s imposition of a surcharge on additional income of pensioners. It claims an extraordinary 80,000 members—almost in the same league as a percentage of the seniors population as the mighty AARP in the United States. It is organized into around eighty local chapters, with a national headquarters in Auckland.³⁵ Grey Power issues a steady stream of press releases critical of government cuts to seniors programs. Its local associations frequently host local MPs and cabinet ministers, and hold candidate forums during election campaigns.³⁶ While the organization is concerned with a number of issues, including health care and housing, superannuation is the highest profile concern for the organization. And Grey Power is widely perceived to be the most important interest group in pension policy. As one policy activist put it, “They had a simple message [of opposition to cutbacks in the state pension], and they repeated it endlessly. They didn’t give a continental for anyone else...[Moreover] it’s a middle class organization. It’s a lot of people with skills and a lot of contacts in the community...The ability to just focus their energies did draw in a lot of people who were used to organizing, used to running a Rotary Club.”³⁷ While it has developed substantial political muscle, Grey Power has very limited financial resources. It relies almost entirely on volunteer labor, and lacks the in-house analytical capacity to develop well-crafted critiques of government policies or propose detailed alternatives. But a political atmosphere in which pension policy has been highly politicized and support for the major political parties unstable, this has not been a major hindrance to policy influence.

A second seniors-focused organization, Age Concern, like Grey Power, is an federation of local organizations. But the major focus of Age Concern activity is the provision of social services by local chapters, including visitation of isolated senior, prevention of elder abuse and neglect, home help and transportation services (services offered vary by locality); it describes itself as “a not-for profit,

³⁵ For information on Grey Power, see the organization’s website at www.greypower.co.nz

³⁶ “New Zealand’s ‘Grey Power Starts to Flex Its Muscles,” *Financial Times* [London edition], November 2, 1998, p. 7.

³⁷ Interview, March 28, 2000.

charitable organisation, dedicated to promoting the quality of life and well-being of older people, and advocating a message of positive, healthy, active ageing for people of all ages.”³⁸ Both Grey Power and Age Concern have opposed a move away from a universal, pay-as-you-go pension system funded from general taxation.

Since 1992, New Zealand has had an Advisory Council for Senior Citizens made up of prominent community leaders that provides advice to the Minister for Senior Citizens. However, it has extremely limited resources that prevent it from undertaking substantial independent research. Moreover it has no access to central decisionmakers in the Treasury, and is prevented from taking an advocacy role by requirements that it provide its advice to the Minister in confidence. In addition, its agenda has tended to reflect the concerns of its membership with health, transport and other issues than pension policy.³⁹

Other organizations have also been active on pension issues. In The New Zealand council of trade Unions has made it a high priority, and the former NZCTU Secretary, Angela Fowlkes, served on several government pension advisory bodies in the last decade. But like seniors organizations, the NZCTU is hampered by limited financial and staff resources. Moreover, faced with a variety of serious threats to its members from a succession of governments determined to privatize state-owned companies and dismantle New Zealand’s centralized wage bargaining system, pensions were just one of many issues confronting a labor movement facing many threats and very much on the defensive.

Overall, however, interest group politics in New Zealand has probably been less important to pension policymaking than purely electoral politics. Unlike seniors in many other countries, there has been surprising volatility in voting by the elderly in New Zealand in recent years, fuelled in large part by conflict over pensions—in particular perceptions by seniors that the incumbent government had or was likely to cut their pensions.⁴⁰ Beginning with the 1975 Muldoon superannuation promise election of 1975, National enjoyed a strong margin of support over Labour among senior (age 60+ voters) in six successive elections. In 1990, after Labour imposed very unpopular superannuation surtax (discussed below) elder support for Labour collapsed with Labour’s share of seniors’ vote for the two major

³⁸ Quoted on the organization’s web page, at www.ageconcern.org.nz. See also Stephen Levine and Nigel S. Roberts, “Elderly People and the Political Process, *New Zealand’s Aging Society: The Implications*, Wellington, 1993, pp. 230-254

³⁹ See Senior Citizens Unit, *Advisory Council for Senior Citizens*, Issue Paper for the Minister for Senior Citizens, October 1996, <http://www.executive.govt.nz/96-99/minister/mcdonald/briefing/paper4.htm>.

⁴⁰ Levine and Roberts note that in the 1975, 1987 and 1990 elections, older voters in a national survey volunteered the response that superannuation was personally important to them in voting; very few older voters in the 1978, 1981 and 1984 elections, when there was little perceived threat to superannuation, and very few voters under age 60 volunteered that response in any of the six elections. Stephen Levine and Nigel S. Roberts, “Elderly People and the Political Process,” p. 238.

parties falling from 43 percent in 1987 to 35 percent in 1990.⁴¹ Senior unrest continued to be manifest in the 1993 and 1996 elections; in the latter, a combined 31 percent of the senior electorate voted for the left-wing Alliance or for New Zealand First, a party strongly identified with seniors' superannuation concerns—a higher percentage than for any other demographic group.⁴²

PENSION POLICY IN THE 1980s AND 1990s

The election of the fourth Labour Party government in New Zealand's history in 1984 is a convenient place to begin a discussion of the contemporary era in New Zealand pension policy and politics. The new government came to power in an atmosphere of economic crisis. The government's budget deficit had hit 6.7 percent of GDP in 1983-84, and was expected to go higher in the future years.⁴³

Immediately after winning election, the Labour government introduced two of the fundamental attributes that have defined pension politics since then: a surcharge on the incomes of better-off pensioners, and a new tax regime for the treatment of private retirement savings. The superannuation surcharge was by far the most controversial of the two measures. During the 1984 election campaign, Labour had pledged to leave National Superannuation untouched, a pledge that it could ignore only at significant political risk. Thus it chose another, more convoluted, mechanism to achieve the same objective as Canada's Old Age Security clawback: National Superannuation recipients with other income would be subject to an income tax surcharge (i.e., an increase in their income tax rate over the normal income tax rate) on that non-National Superannuation income above an exempt amount; for high income seniors, the surcharge stayed in effect until all of their National Superannuation benefits were effectively clawed back.⁴⁴

⁴¹ The Labour/National split of the entire 60+ electorate (including non-voters) was 35/46 in 1987 and 28/52 in 1990. Jack Vowles and Peter Aimer, *Voters' Vengeance: The 1990 Election in New Zealand and the Fate of the Fourth Labour Government*, Auckland: Auckland University Press, 1993, p. 33.

⁴² Nineteen percent of seniors voted for New Zealand First and twelve percent for the Alliance; six percent did not vote. Maori were the group showing the second highest rate of combined defection to New Zealand First (24%) and the Alliance (6%). Because their rate of non-voting (29%) was much higher than for seniors, their defection rate among actual voters was higher than for seniors. Jack Vowles, "A New Post-MMP Party System?," pp. 28-47 in Vowles, Peter Aimer, Susan Banducci and Jeffrey Karp, eds. *Voters' Victory? New Zealand's First Election Under Proportional Representation*, Auckland: Auckland University Press, 1998. On the 1993 election, in which seniors were significantly more likely than other voters to choose New Zealand First, see Jack Vowles, Peter Aimer, Helena Catt, Jim Lamare and Raymond Miller, *Towards Consensus? The 1993 Election in New Zealand and the Transition to Proportional Representation*, Auckland: Auckland University Press, 1995, chapter 2.

⁴³ New Zealand Treasury, *Economic Management*, July 14, 1984, pp. 69, 171-172..

⁴⁴ See Richard Mulgan, "The Changing Electoral Mandate," pp. 11-21 in Holland and Boston, eds., *The Fourth Labour Government*, at p. 15, and Investment Savings and Insurance Association of New Zealand, Inc., *The ISI Report on Retirement Savings: A Wake-Up Call*, Wellington: ISI, June 1998, p. 4.

The use of the tax surcharge mechanism, while technically meeting Labour's election pledge, had a number of negative consequences. First, it was widely (and not inaccurately) seen as a cynical ploy to avoid that pledge. Second, use of the income surcharge tax mechanism increased perceptions that it was unfair, because seniors were paying a higher marginal tax rate than younger persons with similar incomes from sources other than National Superannuation. Third, because income from different sources was treated differently with respect to the surcharge, it helped to create "a thriving market for 'surcharge friendly' investment products" to avoid paying higher taxes.⁴⁵

Retirement savings practices were also heavily influenced by the second major innovation in Labour's pension policy: a change in tax treatment of retirement savings. Prior to 1990, employer contributions (and employee contributions, up to a limit) to approved defined benefit pension plans in New Zealand were exempt from taxation, as were earnings of those plans; benefits were taxed as they were actually withdrawn (also known as Exempt, Exempt, Taxed, or EET). The Labour government switched to a system in which both contributions to and earnings on pension plans are taxed, but withdrawals are not taxed (TTE). The switch was made primarily not as a result of a deliberate retirement policy, but as part of a more general policy of lowering tax rates and eliminating special tax incentives.

The National Party promised during the 1990 election campaign a mixture of pleasure and pain: repeal the unpopular surcharge on other income of superannuitants in its first budget and an ironclad promise for pension indexation, along with a gradual increase in the pension age from 60 to 65.⁴⁶ But the new government inherited an economy that was once again in crisis. Unemployment had risen from around 4 percent in 1986 to almost 11 percent in 1990.⁴⁷ Briefing papers showed the government with an exploding budget deficit, and a leading U.S. credit rating agency threatened to give New Zealand a two-grade credit downgrading—all bad news for an incoming government that had promised to balance the budget in three years without a tax increase and with some expensive spending commitments, notably on the superannuation surcharge.⁴⁸ Thus as in 1984, a government that had promised a more generous superannuation program engaged in retrenchment instead.

⁴⁵ Insurance Association of New Zealand, Inc., *The ISI Report on Retirement Savings*, p. 4. Half of all payments from registered superannuation plans and life annuities were exempt from the surcharge, based on actuarial estimates that approximately one half of all payments from such schemes are based either on repayment of contributions or pre-retirement earnings, while half come from post-retirement earnings, Task force on Private Provision for Retirement, *Private Provision for Retirement: Overview of the Options*, August 1992, p. 109.

⁴⁶ On the evolution of this pledge, see the memoir of the Fourth National Government's first Finance Minister, Ruth Richardson, *Making a Difference*, chapter 8.

⁴⁷ New Zealand Treasury, *Towards Higher Living Standards for New Zealanders*, p. 6.

⁴⁸ See Richardson, *Making a Difference*, chapters 9-10. See also the economic statement of Prime Minister Bolger in the *Hansard* for December 19, 1990, section 26.

The actions of the new National government were far from sure-footed, however. The new government initially made relatively modest cuts in superannuation—a freeze in the benefit rather than adjustment for inflation the following year—along with much more severe cuts in other social programs.⁴⁹ This was followed up four months later by an extraordinarily draconian set of cuts in superannuation and other social programs as part of what Finance Minister Ruth Richardson labeled “the mother of all budgets.” Pensions were now to be frozen until 1993, and the age for receiving superannuation was to be increased very rapidly: from 60 to 65 over only a ten year period. Even more striking, the superannuation surcharge was to be replaced with a much stronger clawback regime. For persons under age 70, superannuation payments were to be reduced at a rate of 90 cents on the dollar for all income above \$4,160 per year; moreover the phase-in point for the income test was the same for couples as well as individuals. Thus individuals would lose all superannuation benefits at incomes of \$17,279 for a single person living alone and \$23,740 for a married couple (under prior law a couple could have other income of \$71,000 before the entire pension was clawed back).⁵⁰ Some couples of relatively modest means faced income losses of as much as \$10,000. And the impact on particular subgroups was particularly strong: men over age 60 married to younger women still in the workforce faced losing all of their independent income; many women over age 60 who had spent most of their adult lives in care giving who were married to men of more than modest incomes similarly faced a loss of all of the pension income that had previously been afforded in recognition of that caregiving role. And the interaction of the pension abatement regime with normal income taxation led to effective marginal tax rates of up to 92.8 percent.⁵¹

Not surprisingly, the government’s proposed superannuation changes provoked extraordinary opposition, and in November 1991 the government backed away from them. Rather than elimination of the surcharge, its rate was increased from 20 to 25 percent, and the exemption threshold cut almost in half over the level in effect under Labour.⁵² In addition, the age for receiving superannuation was to be increased over a ten year period from 60 to 65. By 1994/95, 29 percent of New Zealand

⁴⁹ See the statements on the government’s Economic and Social Initiative by Finance Minister Ruth Richardson and Minister of Social Welfare Jenny Shipley in the *Hansard* for December 19, 1990.

⁵⁰ Susan St. John, “National Superannuation: Or How Not to Make Policy,” pp. 126-145 in Jonathan Boston and Paul Dalziel, eds., *The Decent Society: Essays in Response to National’s Economic and Social Policies*, Auckland: Oxford University Press, 1992, at pp. 126-128.

⁵¹ These examples are drawn from Susan St. John, “National Superannuation: Or How Not to Make Policy,” pp. 126-127.

⁵² St. John, “Superannuation in the 1990s,” p. 287

Superannuation recipients were subject to the surcharge, and 4 percent were repaying all of their NZS benefits through the surcharge.⁵³

The National government, seeking both a long-term solution to the pension issue and a medium-term way to limit its political vulnerability for pension cuts, decided that an increased role for private pensions was the best approach, and appointed an independent task force (known as the Todd Task Force after its chairman) to provide advice on the best method for doing so (e.g., voluntary savings, tax incentives for retirement savings, or compulsory savings). The Task Force's final report in December 1992 opted for a continuation of encouraging voluntary savings rather than a compulsory approach, but it also stressed the need for the establishment of a mechanism to build inter-party consensus on pensions policy to replace the cycle of electoral over-promising followed by ad hoc and unanticipated cutbacks that bedeviled New Zealand pensions policy.⁵⁴

Heeding the Todd Task Force's call for a consensual approach, the governing National Party came together with representatives of the Labour Party and the Alliance (a coalition of smaller left wing and environmentalist parties) in August 1993 to sign an accord on retirement income policies that largely followed the substantive recommendations of the task force. The provisions of the Accord were quite explicit, although allowing some room for the differing policy preferences of its signatories. The value of NZ Super benefits was to continue to be indexed to the Consumer Price Index; but benefits for a married couple would also remain within a band of between 65 and 72.5 percent of the after-tax value of the average weekly wage. In practice, this meant that if real wage growth outpaced inflation, ad hoc adjustments would keep benefits at least at the 65 percent floor.⁵⁵ In addition, the parties agreed that benefits should be reduced for seniors with higher incomes, although neither the method (a surcharge or more progressive income taxation) nor the income level at which benefit reductions should take effect was specified; the current policy of moving eligibility for NZS to 65 should remain in effect, while making transitional arrangements for persons nearing retirement age; no new pension programs should be created; people should be encouraged to save for retirement, but they should not be compelled to do so; and current tax treatment of retirement savings (which did not defer taxation of contributions to or earnings of such plans, but did allow tax-free withdrawals) should remain in effect. The parties signing

⁵³ See Senior Citizens Unit, *Retirement Income*, Issue Paper for the Minister for Senior Citizens, October 1996, <http://www.executive.govt.nz/96-99/minister/mcdonald/briefing/paper6.htm>.

⁵⁴ Task Force on Private Provision for Retirement [Todd Task Force], *Private Provision for Retirement: The Way Forward, An Outline*, Wellington, The Task Force, December 1992. On the origins of the Todd Task Force, see St. John, "Superannuation in the 1990s," p. 284.

⁵⁵ Because the Retirement Income Accord linked the National Superannuation benefit to average *after-tax* income, changes in tax rates also had implications for benefit adjustments: a 1996 cut in income tax rates for example, was expected to increase the floor (and ceiling) on "Super" benefits as well beginning in 1998. Rt. Honorable Bill Birch, Minister of Finance, *Tax Reduction and Social Policy Programme—Details*, February 19, 1997, chapter 2.

the Accord agreed that they would not “alter, or agree to alter, in a material way publicly provided retirement income, except as provided for in this Accord.”⁵⁶

The Accord had both policy and political purposes. In policy terms, it was intended to ensure that “retirement income policies are “stable, certain, and sustainable, so that people can plan properly for their retirement.”⁵⁷ But the Accord also had a political purpose: to limit the scope of future debate and disagreement on superannuation and thus prevent costly pension bidding wars. Representatives from the signing parties met regularly to work out party differences.⁵⁸ In 1995 and 1996, for example, the Accord parties agreed to changes in the surcharge exemption amounts that were expected to lower the percentage of NZ Super recipients subject to the surcharge roughly in half, to 14 percent.⁵⁹ The latter cut was enacted just in time allow National to run on it prior to the 1996 election.⁶⁰

While the Accord had the potential to limit New Zealand’s populist pension politics, it also had serious limitations. The existence of a “band” within which Super benefits could be set left substantial room for election-time bidding wars, as did the lack of specificity on surcharge provisions. Moreover, there were no sanctions for non-compliance with the Accord, nor were there institutional hurdles (e.g., super-majority requirements in Parliament) to give it teeth. Thus signatory parties would be tempted to promise a more generous program when it was in their electoral interests to do so, and to make post-election cuts when it was economically desirable and politically tolerable.⁶¹

⁵⁶ “Accord on Retirement Income Policies,” section 2.7.2, August 25, 1993. The Accord is included as the First Schedule to the *Retirement Income Act, 1993*. The specific policy provisions are outlined in Sections 2.3 to 2.7.1. The Todd Task Force’s final report (*The Way Forward: An Outline*, p. 3) had called for use of the surcharge as the mechanism for reducing benefits to upper income New Zealand Superannuation recipients, but the Accord included higher income tax rates as an alternative because the Alliance was opposed to the surcharge.

⁵⁷ “Accord on Retirement Income Policies,” section 1.2.

⁵⁸ For a discussion, see Sir Geoffrey Palmer, “Review of the *Accord on Retirement Income Policies* for the 1997 Periodic Report Group on Retirement Income Policies,” May 1997, <http://www.govt.nz/prg/nzier/report6.htm>.

⁵⁹ See Senior Citizens Unit, *Retirement Income*, Issue Paper for the Minister for Senior Citizens, October 1996, <http://www.executive.govt.nz/96-99/minister/mcdonald/briefing/paper6.htm>; Rt. Honorable Bill Birch, Minister of Finance, *Tax Reduction and Social Policy Programme—Details*, February 19, 1997, chapters 1 and 2.

⁶⁰ The 1996 surcharge cuts were not approved by the Alliance, and were filibustered in Parliament by New Zealand First in an effort to force the government to abolish the surcharge entirely. They were finally rammed through using urgency. See Michael Rentoul, “Super Surtax to Change Despite Alliance Concern,” *The Press* (Christchurch), July 31, 1996, p. 6, and Michael Rentoul, “NZ First Attempt to Block Debate Fails,” *The Press* (Christchurch), August 29, 1996, p. 7.

⁶¹ On the absence of institutional sanctions for breaches of the Accord, see Palmer, “Review of the *Accord on Retirement Income Policies*,” paragraph 77. See also Susan St. John, “Superannuation in the 1990s: Where Angels Fear to Tread?,” in Jonathan Boston, Paul Dalziel and Susan St. John, eds., *Redesigning the Welfare State in New Zealand: Problems, Policies, Prospects*, Auckland: Oxford University Press, 1999, at pp. 285-286, 295.

An even more serious shortcoming of the Accord was the fact that it was not signed by all parties. In particular, it was rejected by New Zealand First, a populist party headed by Winston Peters, a charismatic but unpredictable Maori politician who had previously been a National Party Minister before being expelled from cabinet—and later the National Party caucus—for opposing government policies in the early 1990s.⁶² Rejection of the Accord was not a major problem in the early days of the 1993 Accord, since Peters was one of only two NZ First MPs elected in the 1993 election (the last held under single-member plurality electoral rules). But as the 1996 election approached, Peters tried to win support from upper-income seniors by promising to abolish the NZS surcharge, put a higher floor on benefits, and introduce a second, earnings-related, pension tier to which contributions would be compulsory, but in which individuals would retain choice of their fund managers. These accounts were, following the nationalist streak in NZ First's appeal, to have a set percentage of their investment in New Zealand, helping to buy back privatized state assets and reduce dependence on foreign investment.⁶³

Both elimination of the surcharge and a compulsory second-tier pension were major breaks with the 1993 Retirement Incomes Accord. Peters' opposition to the surcharge was particularly explosive: because it was widely unpopular, other parties were sorely tempted to break with the Accord and endorse its repeal as well during the election campaign. Eventually all major parties except National did so.⁶⁴

The 1997 Referendum Debacle

In the 1996 election, the first held under MMP, the National Party won a plurality of seats (44 of 120), and two smaller conservative parties, ACT and United, held a total of 9. Labour, on the other hand, won 37 seats and its presumed coalition partner on the left, Alliance held 13. Thus the two blocks were relatively evenly split. The balance of power was held by Winston Peters' New Zealand First, with 17 seats. And pensions figured prominently in negotiations held by NZ First with both National and Labour over formation of a coalition government. Peters proclaimed that his party's commitment to introduction of a compulsory second tier pension plan—opposed by both National and Labour— was “non-negotiable.”⁶⁵ After a seven week bidding war between Labour and National,

⁶² On Peters and New Zealand First, see Raymond Miller, “The New Zealand First Party,” pp. 165-175 in Miller, ed., *New Zealand Politics in Transition*, Michael Laws, *The Demon Profession*, Auckland: HarperCollins New Zealand, 1998, and Astrid Smeele, “He's Back: Winston Part 4,” *The Press* (Christchurch) December 10, 1999.

⁶³ Jane Clifton, “Peters' Pitch Muddies Super Waters,” *The Sunday Star-Times* (Auckland), July 21, 1996, p. 9; Brent Edwards, “Private Super Funds Must Invest Here, Says Peters,” *The Evening Post* (Wellington), July 23, 1996, p. 2.

⁶⁴ See Policy Barometer: Where the Big Four Stand,” *The Dominion* (Wellington), October 11, 1996, p. 15, and Brent Edwards, ““Super Surcharge Expected to Go,” *The Evening Post*, (Wellington), October 16, 1996, p. 1.

⁶⁵ “NZ Parties Spin Out Talks on Coalition,” *Financial Times*, December 2, 1996, p. 2. See also “Moore Urges Support for Compulsory Superannuation,” *Otago Daily Times*, December 7, 1996.

New Zealand First opted to go into coalition with National.⁶⁶ This further alienated voters, both because NZ First had signaled before the election that it would likely go into coalition with Labour, and because the detailed coalition agreement between the two parties was seen as a product of backroom extortion by New Zealand First rather than a new, more open politics and policymaking that had been predicted to result from MMP.⁶⁷

The new coalition also had particular implications for superannuation policy. Two of New Zealand First's primary election planks had been elimination of the superannuation surcharge and implementation of a new second-tier contributory earnings-related pension based on individual accounts. Elimination of the surcharge was included in the coalition agreement, assuring its adoption. Its removal, enacted in August 1997, was expected to cost the government \$550 million in lost revenue over the next three years.⁶⁸ But removal of the surcharge sparked further differences within the coalition: to NZ First, it was fulfillment of a campaign promise, to National, it made the current NZ Superannuation program clearly unsustainable in its current form.⁶⁹

On a compulsory retirement savings plan, the coalition partners agreed to hold a binding referendum in nine months. However, the coalition agreement did not specify that the plan considered in the referendum would be a second-tier plan (as New Zealand First had promised in its election platform), rather than a replacement for the current NZ Super. MPs of the coalition parties would be free to endorse or oppose its adoption, but if the public agreed to the proposal in the referendum, all coalition MPs would be required to back implementation of a plan by July 1998.⁷⁰

⁶⁶ See Jonathan Boston, "Coalition Formation," pp. 94-107 in Raymond Miller, ed., *New Zealand Politics in Transition*, Auckland: Oxford University Press New Zealand, 1997

⁶⁷ Boston ("Coalition Formation," p. 99) and Miller ("The New Zealand First Party," pp. 171,174) argue that NZ First supporters preferred coalition with Labour over National by a margin of three to one or more. Among other provisions, the coalition agreement provided that although New Zealand First held only 28 percent of the two parties' seats in Parliament, it would initially hold 25 percent of the twenty Cabinet positions and four of the six Ministerial posts outside of Cabinet. By October 1998, New Zealand First's share was to increase to forty percent of the twenty Cabinet posts and fall to half of the six Ministers outside of Cabinet. In addition, NZ First leader Winston Peters was made Deputy Prime Minister and Treasurer, "a newly created position which will be the senior position of the finance portfolio." New Zealand First and New Zealand National Party, *The Coalition Agreement*, December 10, 1996, section 7.4.

⁶⁸ The bill abolishing the superannuitant surcharge was introduced in July 1997 and enacted the following month. See New Zealand Press Association, "Parliament Passes Bill Removing Super Surcharge," *The Dominion* (Wellington), August 15, 1997, p. 2.

⁶⁹ See Prime Minister Bolger's statement, quoted in *The Dominion* (Wellington), March 12, 1997, p. 2.

⁷⁰ "Super Referendum by September 1997," *Otago Daily Times*, December 12, 1996. Labour had also agreed to a compulsory superannuation referendum in its coalition negotiations with national. However, the referendum would have been held two years later (simultaneously with the 1999 general election), Labour would have publicly opposed the NZ First Plan, and it would have been allowed to offer its own preferred alternative of a dedicated superannuation tax and fund without individual accounts. See Peter Luke, "Opposition Probes for Weakness in Ties Binding

From the outset, it was clear that National and New Zealand First would have trouble coming up with a workable proposal for an earnings-related pension. Treasury officials warned that it would not be possible to come up with a workable plan in time to have it come into effect simultaneously with tax cuts promised for mid-1998 (which would make the new compulsory superannuation payments less visible and painful). They also cautioned that women, who tend to spend less time than men in the paid labor force, might be disadvantaged by such a plan. And they warned that if workers viewed smaller paychecks resulting from compulsory super payments as a loss in income, it could contribute to inflationary pressures.⁷¹ Moreover, officials warned, there was no guarantee that the plan would increase overall national savings.⁷² Dissension within the coalition was also strong, as many National MPs opposed NZ First's desire to restrict investment of the new funds to New Zealand.⁷³

The superannuation plan unveiled by the government in July 1997 was very different from the one that NZ First had promoted in its 1996 election platform. Rather than an earnings-related add-on to a basic, universal NZ Super benefit, the new plan, dubbed the Retirement Savings Scheme (RSS), would instead replace the universal Super benefit, which would gradually be phased out.⁷⁴ The government's proposal would have required individuals to contribute 3 percent of their earnings over \$NZ96 per week (or \$5,000 per year), rising to 8 percent in the year 2003.⁷⁵ Individuals who reached

Coalition Marriage," *The Press* (Christchurch), March 1, 1997, p. 23; Michael Cullen, MP, "The Super Referendum"[letter to the editor], *The Sunday Star-Times* (Auckland), March 2, 1997, p. 10.

⁷¹ Cathy Bell, "Compulsory Super Three Years Off—Treasury," *The Dominion* (Wellington), February 8, 1997, p. 12.

⁷² See the discussion in "Super Canards" [editorial], *The Press* (Christchurch), July 25, 1997.

⁷³ See Brent Edwards, "Discord Over Investing Super," *The Evening Post* (Wellington), February 26, 1997, p.1

⁷⁴ The Officials Working Group planning the Retirement Savings Scheme had argued that allowing the current system and the new RSS in parallel, and simply abating the universal benefit from RSS would likely be subject over time to the same political "pressure to reinstate it as an unabated, wage-linked payment" that had doomed the Superannuation surcharge, leaving it as many retirees with substantially higher retirement benefits than under the status quo. See New Zealand Treasury, "The Relationship Between New Zealand Superannuation (NZS) and the Retirement Savings Scheme (RSS)" Cabinet Memorandum CSP(97)50, April 2, 1997, pp. 2-3.

⁷⁵ The contributions base was quite broad. In addition to wage and salary earners, self-employed persons, persons receiving student allowances and those receiving social or accident compensation benefits or would have paid into the funds on income over \$NZ5,000 per year. Payments would also have been made on interest, dividends or trusts, from the first dollar of income. Provisions were also made for the conversion of existing pension plans into RSS-approved schemes, which would lower some employees future RSS savings targets. For a description of the proposal, see New Zealand, Independent Referendum Panel, *Understanding the Compulsory Retirement Savings Scheme*, 1997. The income exemption level had been proposed by the Todd Task Force, and also represented a compromise between the views of different government ministries, with the Treasury and Inland Revenue favoring a zero exemption and the Department of Social Welfare and Ministry of Women's Affairs favoring a \$9,500 threshold, matching the level at which persons would begin to benefit from anticipated tax cuts. See New Zealand Treasury, "Contributions to Retirement Savings Scheme," Cabinet memorandum CSP(97)26, March 13, 1997, p.5.

a savings target of \$120,000 (targets would be indexed annually to wage increases)⁷⁶ could receive a refund of subsequent contributions, while those who did not reach that target—a group that was expected to be heavily female due to lower earnings and time spent outside the paid labor force in care-giving—would have their savings topped up by government. Investors could designate multiple funds, and fund charges (which could include entry, exit and ongoing management charges) would not be regulated by government. Those who did not designate a fund would have their contributions invested in one or more privately run default funds designated by government.⁷⁷ To address the issue of women’s longer life-expectancies, all women would receive an added top-up allowing them to purchase a comparable annuity to those purchased by men. And to address lower life expectancies of Maori, fund balances received prior to age 65 would be fully inheritable, while those who died prior to age 75 would have amounts equal to annuity payments they would receive up to age 75 added to their estates, discounted for any “top-up” received from the government.

RSS funds were not restricted on overseas investments, another break with Peters’ initial vision. Individual savings accounts would not be guaranteed, however: if a person invested in a fund that went bankrupt or lost money, they would have to start over in saving for the \$120,000 target, but they would receive a top-up necessary to reach their savings target. To make the steep new contributions to RSS more palatable to voters, the government promised that payments into the new personal pension funds would be largely offset by tax cuts if government’s fiscal situation allowed it.⁷⁸ (Key design features of the RSS are summarized in Table 1).

Initial annuity benefits for a married couple would drop very slightly from those under the current NZ Super program— from 67 to 66 percent of net average wage, tax free.⁷⁹ The newly individualized benefits for a single person would be only half the level (33 percent) of the married benefit, a substantial drop from the single benefit of 40.2 percent of the average wage (60 percent of the married benefit) under the status quo. However, the government promised a separately-delivered benefit from the Ministry of Social Policy to bring the single person’s benefit back to current levels. Moreover, annuity

⁷⁶ In addition RSS savings targets were to be reviewed comprehensively once every six years, in the year after an election. This would presumably provide maximum insulation to politicians from blame over raising savings targets.

⁷⁷ For a discussion of default options see New Zealand Treasury, “Retirement Savings Scheme Default Mechanism,” Cabinet memorandum CSP(97)82, May 15, 1997. A public sector default fund was rejected because it was expected to be “even if management is contracted out to the private sector,...likely to be less efficient over time and subject to intervention, by future Governments, in the investment decision process.” (p. 8)

⁷⁸ To make the loss of income tax revenue palatable to government, RSS funds would be subject to a 33 percent tax on all earnings.

⁷⁹ New Zealand, “Your Income in Retirement,” in *You and Your Retirement Savings*, July 1997. A smaller payment would be made to single people sharing accommodations. The justification for paying a separate single person’s allowance rather than building it into the annuity was to allow for changes in circumstances over a person’s lifetime, such as remarriage or moving in with a friend or family member.

benefits would be indexed only for inflation rather than changes in wages once a person reached aged 65, meaning that different age cohorts of retirees would receive different benefits, with later retirees receiving more. This change would presumably hit women hardest, since they tend to live longer than men.

In essence, then, the RSS was neither a defined contribution nor an earnings-related pension at all. It was instead an attempt to put old vinegar—a means-test and increased taxation needed to put a universal, flat-rate pension scheme on more stable financial footing—into the bright new bottle of individual accounts. The means-test would take on a new form: New Zealanders with a history of low earnings would receive a lump-sum to top-up payment for annuity upon reaching age 65 instead of being exempt from a surcharge on their non-NZ Super income once they reached that age. Private sector fund managers would play a greater role in administration of payments—presumably increasing administrative costs. Compliance and regulatory costs (e.g., to certify that a contributor had reached the target asset level, exempting them from further contributions) were expected to increase as well.⁸⁰ And earlier cohorts of retirees would now receive lower benefits than later cohorts (assuming that wages rose faster than prices). But the major effect of the proposal was simply to wall off income from a new payroll tax from other government spending claims in order to partially pre-fund pension payments to Baby Boomers and later generations of retirees. This was not, of course, the sales pitch that was made to the voting public, which focused on promoting individual responsibility for retirement savings and the added security that would come from individual accounts.

The referendum on the Retirement Savings Scheme in September 1997 was held under extraordinarily unfavorable conditions. Rather than a single-party majority government, contributory private pensions were pushed by the junior partner (New Zealand First) in a National Party-NZ First coalition government. The National Party-NZ First coalition held a slim majority in Parliament, and it was extraordinarily unpopular with, and little trusted by, the public. There was no clear electoral mandate for the reform. Nor was there a consensus within the coalition parties for the proposal, which is why the parties turned to the referendum device in the first place— an extraordinarily risky mechanism when new taxes, the phasing-out of a popular state pension program of long duration, and increased uncertainty over future pensions are all at stake.

The government's superannuation reform proposal encountered stiff opposition even before it was released. It was publicly opposed by two-thirds of National Party cabinet ministers, including Transport Minister Jenny Shipley, who was widely seen as Bolger's most likely successor as National Party leader.⁸¹ Shipley charged that 1.2 million New Zealanders—almost a third of the population—

⁸⁰ On certification of exemptions, see the discussion in New Zealand Treasury, "Retirement Savings Scheme: Target Capital and Other Wash Up Issues," T97C/1859, CSP(97)110, June 16, 1997, paragraphs 8-11.

⁸¹ All New Zealand First ministers supported it. For a list of Cabinet ministers endorsing and opposing the Retirement Savings scheme, see Christine Cessford and Sarah Boyd, "Both Sides of Super debate Claim Victory," *The*

would have lower disposable incomes as a result of RSS.⁸² It was also opposed by major opposition parties, trade unions, the Employer's Federation, a leading consumer organization, and Grey Power.⁸³ Leading firms in the New Zealand financial industry split on the plan.⁸⁴ Pension experts criticized the RSS savings target of \$120,000 as inadequate to provide an annuity equivalent to the current NZ Super benefit.⁸⁵ Newspaper editorialists denounced the referendum as a cynical, expensive, pre-planned failure, intended to permit New Zealand First to say that it had kept its election pledge, while allowing senior coalition partner National to kill it.⁸⁶ Labour and the Alliance denounced it as an income transfer to the rich, since the wealthy could stop contributing, and helping to pay superannuation costs for the less well-off, once they reached their savings target.⁸⁷ The plan's provisions to provide equivalent annuities to men and women through a top-up to women was attacked on the one hand as unfair to men and on the other hand as unfair to working class women in the labor force, who would be forced to contribute while non-working wives of well-off men would be handed their savings fund.⁸⁸ Alliance leader Jim Anderton said that even if the referendum passed, he would not honor it if he was part of the next government, threatening that the RSS could meet the fate of Labour's 1974 superannuation

Evening Post (Wellington), August 1, 1997, p. 2. See also Cathie Bell, "Shipley Finds Nothing Super in Compulsory Savings Plan," *The Dominion* (Wellington) July 15, 1997, p. 2.

⁸² New Zealand Press Association, "Spending Power Cut Under Super Plan," *Waikato Times* (Hamilton) July 22, 1997, p. 2.

⁸³ See for example Phil Love, "Watchdog Rejects Compulsory Super," *The Evening Post* (Wellington), July 30, 1997, p. 13; Mark Stevens, "Employers Reject Compulsory Super," *The Evening Post* (Wellington), August 15, 1997, p. 4; James Weir, "Consumers Institute Rejects Super," *The Dominion* (Wellington), July 31, 1997, p. 2. For Grey Power's views, see Lee Matthews, "Plans Under Fire," *The Evening Standard* (Palmerston North), February 26, 1997, p. 1.

⁸⁴ New Zealand Press Association, "Super Funds Return Up to 11.9% for Quarter," *The Press* (Christchurch), July 21, 1997; Phil Love, "NZ Superannuation Better—Nat bank," *The Evening Post* (Wellington), July 31, 1997, p. 13; Peter Luke, "Experts back New Pension," *The Press* (Christchurch), August 13, 1997, p. 7.

⁸⁵ "Savings Target Lowered in Super Plan," *Waikato Times* (Hamilton), July 7, 1997, p. 1.

⁸⁶ For editorial opinion hostile to the referendum, see for example "Referendum a Shallow Ploy," *The Evening Standard* (Palmerston North), February 26, 1997, p. 15; "Expensive Flim-flam," *The Press* (Christchurch) February 27, 1997, p. 7; "Passing the Ball on Long-standing Super Debate," *The Daily News* (New Plymouth) February 27, 1997, p. 6; "Super Referendum an Expensive Farce," *Waikato Times* (Hamilton) February 28, 1997, p. 6; "Too Hasty on Super Poll," *The Dominion* (Wellington) February 28, 1997, p. 10.

⁸⁷ Sarah Boyd, "How the Battle Lines are Drawn," *The Evening Post* (Wellington) July 8, 1997, p. 9; "Views Differ Over Who Gains," *The Press* (Christchurch) July 8, 1997. Of course persons with higher incomes would continue to subsidize persons with lower incomes through top-ups financed by general revenues, and thus in large part by a progressive income tax.

⁸⁸ James Weir, "Super Menu With Just One Choice," *The Dominion* (Wellington), July 12, 1997, p. 13; Sandra Coney, "Let's Make Sure That Big Con Is A Big Flop," *Sunday Star-Times* (Auckland), July 13, 1997, p. 5.

program.⁸⁹ And finally, almost comically, the government's own independent experts piled on. The Periodic Report Group of pension experts appointed by the government reported near the beginning of the referendum campaign that the current tax-financed superannuation system was sustainable at least through the year 2015, weakening the sense of immediate crisis that helps to win public acquiescence for unpopular reforms; its chairman criticized the RSS as poorly thought out and conceived in "indecent haste."⁹⁰ The head of the independent body appointed by government to provide information on the RSS to the public, meanwhile, admitted that it was unfortunate that the government had limited their mandate to describing the RSS rather than discussing the current NZ Super scheme and the relative merits of the two schemes, but said that he could do nothing about it—adding further fuel to a fire of criticism from the Opposition parties claiming that government was providing one-sided information to ensue a referendum victory.⁹¹ Nor was the credibility of the RSS helped by the fact that savings targets, contribution rates, top-up provisions, and benefit levels would be subject to later adjustments by government. Given the history of governments retreating on promises to pensioners, voters could have little confidence that such changes would work in their favor.

With the polls showing the RSS headed for a big defeat in the referendum, Prime Minister Bolger and Treasurer Peters tried to bolster the plan's fortunes by threatening that planned tax cuts might have to be cancelled if the referendum failed.⁹² However, this threat (a) angered National MPs, who felt that the tax cuts should go forward in any case,⁹³ and (b) was unlikely to sway many voters, some of who were likely to be worse off in terms of disposable income in any case as mandatory RSS contributions rose.⁹⁴ Peters also argued that passing the RSS was necessary for New Zealand to earn a

⁸⁹ Michael Rentoul, "Battle Lines Drawn on Super Plan," *The Press* (Christchurch) July 8, 1997.

⁹⁰ Retirement Income Policies Periodic Report Group [Todd Task Force], *1997 Retirement Income Report*, Wellington, July 1997; Sarah Boyd, "Todd Slams 'Indecent Haste' on Super," *The Evening Post* (Wellington), August 1, 1997, p. 2.

⁹¹ Peter Luke, "Super Off Panel's Brief," *The Press* (Christchurch), July 9, 1997.

⁹² Bolger also said that failure to pass the referendum might result in the age for New Zealand Superannuation being raised as high as 70. See for example Brett Edwards, "Bolger Still Turning Super Somersaults," *The Evening Post* (Wellington), April 5, 1997, p. 2.

⁹³ On the linkage of tax cuts to passage of the RSS referendum, see Brent Edwards, "Future Tax Cuts Linked to Result of Super Referendum," *The Evening Post* (Wellington), March 5, 1997, p. 13; New Zealand Press Association, "Tax Cuts to Go Ahead Despite Peters' Warning," *The Evening Post* (Wellington), July 18, 1997, p. 13; "Super Link to Tax Cuts Upsets National MPs," *The Evening Post* (Wellington), July 21, 1997, p. 3.

⁹⁴ For estimates of the combined impact of the RSS, surcharge abolition, and promised income tax cuts, see New Zealand, *You and Your Retirement Savings*, Wellington, 1997, Appendix 4, Tables 1 and 9. Low income recipients would lose income because planned tax cuts were targeted only at those earning over \$9,500 per annum, while RSS contributions began at earnings of \$5,000 per annum. See also Brent Edwards, "Super Plan Hits Lower Paid's Take-home Pay Hardest," *The Evening Post*, July 10, 1997, p. 3.

higher bond rating from Standard and Poor's—a claim that was promptly denied by a top Standard and Poor's executive.⁹⁵ Adding even further to the woes of the RSS proposal was the fact that its chief salesman was a by-now very unpopular Winston Peters. During the referendum campaign, Peters was accused by an independent government inquiry of acting irresponsibly in corruption and tax avoidance allegations he had made against prominent New Zealand corporations and government officials. Headlines over Peters' alleged assault of a National MP and misspending of government funds by NZ First cabinet ministers added to his woes. Even before the referendum postal ballots went out to voters, the leader of the conservative ACT part—a supporter of the RSS plan— was calling it “a bit of a dead cat, really...There is no doubt that this is a referendum on Mr. Peters.”⁹⁶ Given this staggering array of unfavorable conditions for fundamental reform, only the margin of defeat for the “super” reform was surprising: a staggering 91.8 percent of those voting in the September 1997 referendum rejected it.

Retrenchment Again

The failed Superannuation referendum was one of the final straws for a disgruntled parliamentary caucus of the National Party, the senior party in New Zealand's coalition government. Polls forecast electoral disaster in the upcoming 1999 election. Moreover, there was serious discord between National and its New Zealand First coalition partner, which was suffering an almost total collapse in public support and was seen by National MPs as a political albatross.⁹⁷ Jenny Shipley mounted a caucus challenge while Prime Minister Bolger was abroad, persuading him to step down in a face-saving retirement. Shipley had gained public opprobrium as a result of cutbacks during stints as Minister of Social Welfare and Health in earlier National governments, but she was seen by National MPs as offering the party a tougher image—and one more independent of NZ First—in the run-up to the next election.⁹⁸

⁹⁵ See New Zealand Press Association, “S&P Says Rating Upgrade Not Conditional on Super,” *The Press* (Christchurch), August 7, 1997, p. 27.

⁹⁶ ACT leader Richard Prebble is quoted in Helen Bain, “Super Referendum Hamstrung By Peters' Other Fights,” *The Dominion* (Wellington), August 18, 1997, p. 2. See also “Winston Peters' Options” [editorial], *The Press* (Christchurch), August 16, 1997, p. 19.

⁹⁷ A New Zealand Herald poll in October 1997 showed 90.3% of respondents dissatisfied with the government's performance. It also gave Labour the support of 50.2% of decided voters—enough to govern alone without coalition partners—compared to 33.2% for National and only 1.7% for New Zealand First. New Zealand Herald Political Service, “Coalition Takes King Hit from Poll,” *Otago Daily Times*, October 13, 1997. See also New Zealand Press Association, “Backing for Bolger Slumps in NBR Poll,” *The Press* (Christchurch), October 11, 1997. On tensions within the coalition government, see for example New Zealand Press Association, “NZ First May Lose Cabinet Increase,” *The Press* (Christchurch), October 10, 1997; Jeremy Kirk and Peter Luke, “Cracks Show as NZ First Does U-Turn,” *The Press* (Christchurch), October 15, 1997; Jeremy Kirk, “Frustrated Bolger Hits Out At NZ First, MMP,” *The Press* (Christchurch), October 16, 1997.

⁹⁸ See Astrid Smeele, “Former ‘Public Enemy Number One’ in Line for Top,” *Otago Daily Times*, November 4, 1997, and Christopher Moore, “Legacy of the Bolger Years, From Muldoon to Shipley,” *The Press* (Christchurch), November 5, 1997.

Relations between the new Prime Minister and New Zealand First were difficult from the outset, and the latter was itself wracked by internal dissent as its popularity plummeted.⁹⁹ The economy caused additional difficulties, as the Asian financial crisis caused hard won budget surpluses to disappear. In August 1998, New Zealand First leader Winston Peters led a literal walkout of his party's cabinet ministers from a cabinet meeting. However, eight of his party's seventeen MPs chose to leave NZ First and support Shipley's minority government as independents. Together with support from the conservative ACT Party, this allowed Shipley to cling narrowly to power.

Shortly after the collapse of the coalition, National turned once again to cuts in benefits for the elderly as a mechanism for saving money. Using the Asian economic crisis and a lowering of the government's international bond rating as a justification for belt-tightening, the government introduced legislation using urgency procedures at the end of September 1998 to lower the floor on NZS benefits for a couple from the 65 percent of average net wage that had been specified as the lower end of the "band" for pension levels in the 1993 Retirement Incomes Accord to 60 percent. At the same time, it decided not to go ahead with a prior pledge to abolish income and asset testing for long term geriatric care. Government ministers defended the pension change by arguing that nominal benefits would not be cut; indeed benefits would continue to rise in nominal terms and remain flat in constant dollar terms through annual CPI adjustments. However, the *relative* standard of superannuitants would decline relative to average earnings over time with the removal of the floor, eventually hitting the 60 percent level. Not surprisingly, this change was the political headline—and it sparked widespread misperceptions among the elderly that nominal benefits were also being cut.¹⁰⁰ The Super changes were expected to save \$NZ2.6 billion over ten years. At the same time, the National government tried to keep superannuation policy out of the upcoming 1999 election by appointing another independent task force to make recommendations on the future of superannuation. (They later appointed the secretary of the New Zealand Council of Trade Unions, the country's trade union federation, to head this new "Super 2000 Task Force").

⁹⁹ On National-NZ First relations, see for example David Barber, "Shipley Fires Warning to NZ First," *Sydney Morning Herald*, November 5, 1997; Jeremy Kirk and New Zealand Press Association, "Battle Ahead Shipley Says," *The Press* (Christchurch), November 7, 1997; "Shipley Shuns Bidding for NZ First Support," *The Press* (Christchurch), November 11, 1997; "Wink at Labour Doesn't Undermine Us," *The Press* (Christchurch), November 17, 1997; New Zealand Press Association, "PM Will Not Confirm Extra Ministers for NZ First," *The Press* (Christchurch), December 10, 1997.

¹⁰⁰ The parliamentary debate on the legislation is in the *Hansard* for September 29, 1999. For political reactions, see Peter Luke, "Bungling On a Super Scale," *The Press* (Christchurch), October 3, 1998 and "Political Suicide," [editorial], *The Press* (Christchurch), September 30, 1998. In the short term, the effect of the change was projected to be a nominal increase of \$2 for a married couple in April 1999 rather than the \$9 projected under previous policy. See Kirsty Macnicol, "Super Cuts Anger Gathering," *The Press* (Christchurch), October 7, 1998.

Predictably, the minority National government used urgency procedures to limit debate on its proposal to lower the NZ Super floor and prevent mobilization of negative publicity and interest group opposition. The truncated parliamentary debate that followed was a predictable exercise in blame-generating and counter-blame-generating. Opposition parties all blasted the cuts in NZ superannuation as a serious breach of the 1993 Accord and decried the “undercover farce of slamming legislation through this House once again under urgency” as undemocratic.¹⁰¹ Labour and Alliance leaders also denounced the new Super 2000 Task Force as a cynical political ploy and said that they would not cooperate with it.¹⁰² Even the conservative ACT party tried to distance itself from the Super cuts, denouncing them as unnecessary and unfair—while saying that they would live up to their agreement to support the government on motions of confidence and supply by providing the votes needed to pass those cuts. Both sides emphasized the theme of their opponents’ hypocrisy and untrustworthiness: Opposition members denounced Prime Minister Shipley for saying that NZ Superannuation was sustainable in 1997 when she opposed the National-NZ First referendum on retirement compulsory savings, then saying in 1998 that it was unsustainable; Prime Minister Shipley denounced Labour’s leaders for criticizing the use of urgency procedures now when they had themselves used them in 1984 when the fourth Labour government originally imposed the Superannuation surcharge.¹⁰³ The legislation was enacted in a single extended session, less than 36 hours after it was announced. It passed by a vote of 61 to 59, the narrowest possible margin.¹⁰⁴

Toward Collective Investment?

As the 1999 election neared, parties once again jockeyed for position on pension policy. The National Party, which was extremely vulnerable on pensions because of the cuts in the NZ Super floor it pushed through in 1998, tried to lie low on the issue, saying that it would await the proposals of the Super 2000 Task Force for longer term sustainability proposals.¹⁰⁵ At the same time, however, National

¹⁰¹ The quote is from Labour MP Janet Mackey in the debate on third reading of the Social Welfare (Transitional Provisions) Amendment Bill (No. 2), in the *Hansard*, September 29, 1999, section 149.

¹⁰² See Peter Luke, “Elderly Bear Brunt of Cuts,” *The Press* (Christchurch), September 30, 1998, and Mike Bruce, “Letter Campaign ‘Insult to Elderly,’” *The Press* (Christchurch), October 8, 1998. The next day, the government announced that it was dropping plans set in the now defunct National-NZ First coalition agreement to end asset-testing for long term geriatric care, although these tests were to be eased somewhat. See Peter Luke, “Government Retreat on Assets Hits Elderly Again,” *The Press* (Canterbury) October 1, 1998, Colleen-Mary O’Hanlon, “Double Blow Rocks Elderly” *The Press* (Christchurch), October 1, 1998.

¹⁰³ For Shipley’s response, see the debate on second reading, in the *Hansard*, September 29, 1999, section 61.

¹⁰⁴ *Social Welfare (Transitional Provisions) Amendment Act 1998*. See also Nick Venter, “ACT Abandons Nats Over Super Cuts,” *The Press* (Christchurch), October 02, 1998.

¹⁰⁵ New Zealand National Party, *A Fair and Affordable Superannuation*, no date, <http://www.national.org.nz/policy/superannuation.htm>.

cabinet ministers dropped hints that some sort of means test for NZ Superannuation might be necessary in the near future.¹⁰⁶ Labour promised to restore the cuts in the NZ Super floor made by National in 1998 and resist imposition of the surcharge. In addition, Labour promised to dedicate a portion of existing income taxes into an independently managed NZ Superannuation Fund that would be designed to raise national savings now and thus help pre-fund baby boomers' retirement. The remaining rump of Winston Peters' New Zealand First, on the cusp of political annihilation, promised to raise the NZS married couple floor to 67.5% of the average net wage in the short term (70% in the longer term), require 75 percent majorities in the House for any future changes to NZS, and try once again to win enactment of a second-tier mandatory retirement savings scheme with individual accounts.¹⁰⁷

The election, held at the end of November, produced neither a clear popular mandate for major changes in New Zealand pension policy nor a strong parliamentary majority capable of carrying through on it. Labour quickly formed a coalition government with its left-wing partner Alliance. But the two parties together won only 59 of 120 seats, and were therefore forced to rely on the Greens (with seven seats) and/or New Zealand First (with five seats)¹⁰⁸ for a parliamentary majority on specific pieces of legislation.

There were many echoes of the post-1996 election period in the new government. As in 1996, civil servant advisors warned the incoming government that the current pension system was unsustainable, and that major changes would have to be made to avoid a long term fiscal disaster.¹⁰⁹ Labour and the Alliance agreed on popular short-term election pledges—restoring the 1998 Superannuation cuts made by National. They were able to reverse those cuts almost immediately using urgency procedures.¹¹⁰

There was broad agreement among all parties on the magnitude of the long-term funding problem: New Zealand super costs were expected to increase from 4 to 9 percent of GDP as the baby

¹⁰⁶ Andrew Laxon, "Govt Flies Means-Test Kite," *New Zealand Herald*, February 10, 1999.

¹⁰⁷ New Zealand First, *Superannuation Policy*, no date, <http://www.nzfirst.org.nz/policy/superannuation.htm>.

¹⁰⁸ New Zealand First failed to clear the five percent vote threshold but was entitled to four compensation seats based on its vote share anyway because party leader Winston Peters narrowly held his constituency seat.

¹⁰⁹ "Officials Urge Super changes to Avoid 'Fiscal Time Bomb,'" *The Press* (Christchurch), December 28, 1999, p. 9; Matthew Brockett, "Aging Population 'Will Put economy Under Strain,'" *The Dominion* (Wellington) January 11, 2000, p. 2.

¹¹⁰ Because of a change in the way that Statistics New Zealand calculates the average wage, the increase—lifting the married couple pension from 62.66 to 67 percent of the average wage—was equivalent only to an increase to 65 percent under the old wage measure. Matthew Brockett, "Pension Rise May Push Up Interest Rates," *The Press*

boom generation retired. As in the 1996-98 National-NZ First coalition, however, there were disagreements between the coalition partners and other potential supporters on longer-term solutions. As noted above, Labour initially sought to institute a special superannuation fund drawn as a fixed share of income tax revenues (rather than from a politically unpopular new payroll tax) to be invested by an independent board as a partial pre-funding mechanism for the pensions of New Zealand's "baby boom" generation." Finance Minister Michael Cullen also floated the idea of "entrenching" the new plan through a referendum so that it could be altered in the future only with the support of a supermajority of MPs or another referendum--while admitting that a future parliamentary majority could just as easily "disentrench" it.¹¹¹

Labour was in no position to dictate the terms of legislation, however. Indeed, Labour faced three simultaneous coalition-building challenges: (1) building a firm agreement with its Alliance coalition-building partner; (2) winning the support of at least one additional party—probably the Greens or New Zealand First—needed to give their plan the two votes needed for a parliamentary majority; and (3) trying to build a broad base of support among other parties so that the plan was less likely to be reversed by a future government.

Just how daunting this coalition-building exercise was is shown in Table 2. As the table shows, Labour and the Alliance disagreed on two of four important "investment politics" issues. Even if the two parties could reach an agreement, it would be difficult to please both New Zealand First and the Greens, who disagreed on three of four of those investment politics dimensions. And it would be even more difficult to bring those parties and National together in a broad coalition, since either the Greens or New Zealand First disagreed with National's position on all four investment dimensions.

The most important disagreement between the Labour and the Alliance coalition partners concerned whether a separate investment fund should be created at all. A dedicated fund was opposed by the Alliance, which feared that it would limit government's capacity to manage the economy. If a fund was to be created, they preferred that it be drawn from budget surpluses rather than a share of tax

(Christchurch), January 28, 2000; John Armstrong, "Government Delivers on Super Promise," *New Zealand Herald*, January 28, 2000.

¹¹¹ Similarly, Prime Minister Helen Clark expressed reservations about a referendum and admitted that no future parliament could be legally bound by a referendum result. New Zealand Press Association, "Cool on Referendum," *Otago Daily Times*, July 25, 2000.

take, to make sure that it did not eat into social spending during lean times.¹¹² The Greens also preferred to finance the fund out of overall surpluses rather than the income tax, because they want to leave political room for substituting eco-taxes for personal income taxes. But Winston Peters of New Zealand First argued that simply applying (highly uncertain) budget surpluses rather than a stable, dedicated revenue source to a superannuation fund was unacceptable. Labour and its coalition partner also disagreed on whether any investment fund should be tilted toward investment in New Zealand: the Alliance (along with the Greens and New Zealand First) were in favor, while Labour (and the conservative parties) were opposed. Many experts—including the Treasury—warned that investing predominantly in New Zealand’s tiny and slow-growing economy was also a very high risk strategy for a retirement savings funds.¹¹³ The Greens were also concerned that a fund oriented toward maximizing returns would ignore environmental considerations in its investment decisions, a position rejected by the other parties.

Individual accounts were another potential source of trouble. Both Labour and the Alliance opposed individual accounts as too costly to administer and unfair to those with low lifetime earnings (e.g., many women, the disabled, and those in low-wage employment).¹¹⁴ But New Zealand First leader Winston Peters still favored the idea, arguing that they were the only sure defense against meddling politicians. However, Peters’ heavy dependence on senior voters, who were generally favorable to the thrust of Cullen’s proposals, increased the likelihood that he would eventually go along with whatever the coalition government proposed if modest concessions were made to his positions.¹¹⁵ As in the United States, the plan also sparked debate over whether it made more sense to use anticipated budget

¹¹² Ruth Laugesen, “Labour Super Pledge Hits Snag,” *The Sunday Star-Times* (Auckland), January 23, 2000, p. 1; Vernon Small, “Pre-Funded Super Plan Deserves Higher Profile,” *Otago Daily Times*, July 22, 2000.

¹¹³ Philip Macalister, “Super Myths Debunked,” *New Zealand Herald*, August 5, 2000, Matthew Brockett, “Invest Offshore Treasury Says,” *The Press* (Christchurch), November 22, 2000, p. 6. For Treasury’s views, see in particular Treasury Report T2000/1939, *Macroeconomic Effects of the Proposal for Pre-Funding New Zealand Superannuation*, September 18, 2000.

¹¹⁴ New Zealand Press Association, “Alliance close to Agreement on Super Plan—Anderton,” *New Zealand Herald*, August 18, 2000.

¹¹⁵ Michael Rentoul and New Zealand Press Association, “Govt. Backs off on tax-Funded Super,” *The Press* (Christchurch), March 2, 2000, Peter Luke, “Super Circus Hits Town,” *The Press* (Christchurch), March 11, 2000, and Small, “Pre-Funded Super Plan Deserves Higher Profile,” and Matthew Brockett, “Cullen’s Pension Plan in Trouble,” *The Dominion* (Wellington), July 20, 2000.

surpluses to reduce government debt or to invest a collective fund in equities markets while maintaining government debt (and interest payments) at a higher level.¹¹⁶

With the coalition government facing both internal and external division, and the short time-clock of a three-year New Zealand parliamentary term ticking away quickly, fears that New Zealand was entering another round of recrimination and stalemate or policy reversal were widespread. Indeed, many experts, including Jeff Todd, former head of the Periodic Reporting Group, warned that unless a broad multi-party consensus was achieved, Labour's scheme would likely be dismantled—at enormous cost, both financially and in terms of confidence in the pension system—just as Muldoon had done with an earlier Labour plan in 1975.¹¹⁷ When National Party leaders threatened to do just that—drain the fund and use it to pay off debt and possibly cut taxes when they returned to power—if they found Labour's scheme unacceptable, Finance Minister Cullen responded with a blame-generating blast that this was “kamikaze politics,” scolding that “New Zealanders will not vote for tax cuts for the wealthy at the cost of insecurity in old age for everyone else.”¹¹⁸

Labour engaged in a broad set of consultations with other parties to try to broaden the base of support for their proposal and reduce the risk of later reversal. Labour's initial legislative proposal, introduced into the House of Representatives in the fall of 2000, contained many elements of compromise designed to meet the concerns of other parties—and to make opposition to the plan politically costly. The first part of the bill focused on the politically popular step of “cementing into law” the benefit floor of 65 percent of average wages for a married couple—the primary objective of Labour's Alliance coalition partner. The second part of the bill contained the advanced funding provisions. These provisions did not attempt to move toward a fully-funded, actuarially sound pension in the future, which have required very high contribution rates by current workers. Instead, the objective was labeled as an effort to engage in “tax smoothing” or “smoothed pay as you go,” raising and investing more revenue now to pre-fund part of the requirements of the demographic bulge of baby boom retirement within the context of a system that was to remain largely pay-as-you-go out of general

¹¹⁶ Matthew Brockett, “Economists Wary of Super Fund Cost,” *The Press* (Christchurch), March 13, 2000.

¹¹⁷ James Weir, “Pension Funds as Risk Without Consensus—Todd,” *The Dominion* (Wellington), March 11, 2000, p. 14.

¹¹⁸ Cullen is quoted in Eugene Bingham, “Cullen Scorns Superannuation Critic,” *New Zealand Herald*, July 24, 2000. See also Vernon Small, “National Fins Little Good in Labour Pension Plans,” *New Zealand Herald*, July 20, 2000; Dene Mackenzie, “No Effective Means of Locking In Super Changes,” *Otago Daily Times*, July 20, 2000.

revenues.¹¹⁹ Thus rather than try to continue to accumulate funds to create full pre-funding for future generations of retirees, the fund would eventually be run down.

Responding to the concerns of the Alliance, government contributions to the Fund were not to be set as a fixed share of tax revenues. Instead, after a phase-in period, government contributions were to be set as a percentage of GDP, such that contributing that level of GDP over the next forty years would be sufficient to fund anticipated Super expenditures over that period.¹²⁰ When fully phased in (in 2004-2005), these contributions would initially total 5.54 percent of GDP, with 3.8 percent paid out immediately in benefits and the remaining 1.75 percent being invested. Total contribution rates were expected to rise over time as more “high cost” years were included in the 40 year planning horizon. The share of contributions being invested would begin to decline around 2010, as more funds were required to pay current benefits for retiring baby boomers. Fund assets were projected to peak between 2023 and 2029, then gradually decline to around zero near the end of the century. Governments could choose to contribute less than the GDP percentage required for level 40 year funding in any given year, although not less than the amount required to meet the net cost of Superannuation in the coming year. (Nor could they make net withdrawals from the fund before 2020, although a future parliamentary majority could change that restriction or any other aspect of the legislation). But if a government did choose to underfund for future obligations in a particular year, they would have to publish in the government’s annual Fiscal Strategy Report the amount of the undercontribution, the reasons for it, and their intentions and strategy for making up underfunding in the future.¹²¹ In other words, transparency and fear of political retribution for poor stewardship of pensions were to be the main barriers against potential underfunding.

The government’s proposed legislation also made detailed provisions for the management and operation of the fund. An elaborate nomination process for the fund’s governing board (grandly labeled the “Guardians of New Zealand Superannuation”) was put in place. The process was a curious mixture of group inclusiveness and provisions intended to shield the board--and the investment managers it hired--from political interference. The bill included a provision for the Finance Minister to call for board nominations from organizations representing the elderly, employees, and savings institutions. A nominating committee, also appointed by the Prime Minister, would consider all nominations (including those from the groups). Final appointments to the board would be made by Cabinet on recommendation of the Finance Minister, but the Minister was only allowed to appoint persons who (1)

¹¹⁹ Hon. Michael Cullen, “Questions and Answers on the Proposed NZ Superannuation Fund,” October 10, 2000, available at <http://www.executive.govt.nz/speech.cfm?speechralph=3269&SR=1>, accessed February 19, 2001.

¹²⁰ Treasury planners had initially planned on a sixty year funding time horizon, which would have required a higher contribution rate. See Treasury, *Pre-Funding New Zealand Superannuation: Working Document*, June 15, 2000, chapter 12.

¹²¹ Hon. Dr. Michael Cullen, *New Zealand Superannuation Bill*, November 28, 2000, sections 42-45..

“in the Minister’s opinion, ha[ve] substantial experience, training, and expertise in the management of financial investments,” and (2) have been approved by the nominating committee.¹²²

With regard to the operation of the fund, the main provisions were that it be managed on a “prudent commercial basis” following “best-practice portfolio management” while “maximizing return without undue risk to the Fund as a whole.” A very modest bow to the concerns of the Greens that the Fund undertake ethical investment practices was included by requiring that the Fund investments “avoid....prejudice to New Zealand’s reputation as a responsible member of the world community,” but it avoiding either more specific directives or mechanisms that would give that directive more teeth.¹²³ Nor were the Fund’s investments to be limited to or skewed toward New Zealand. The Guardians were not precluded from pursuing an active rather than passive fund management strategy, but the fund was barred from having a controlling interest in any company.¹²⁴ And while the Minister was allowed to issue “directions” to the Guardians (e.g., with regard to expectations regarding risk and return), those directions must be presented to the House of Representatives, and could not be “inconsistent with the Guardians’ duty to invest the fund on a prudent, commercial basis...”¹²⁵ Finally, as a mild concession to New Zealand First, the bill provided that if a future Parliament voted to convert the fund into an individual accounts system, the Guardians were to report within two years on the best means for doing so.¹²⁶

The coalition government’s bill also included provisions that were intended to convey a sense of political stability to the proposed new arrangements if they were adopted, but without the procedurally dubious “entrenchment” notion that had been discussed prior to the 1999 election. Instead, in a watered-down version of the 1993 Retirement Incomes Accord, political parties could sign up either to the benefit provisions of the new bill or to the advanced funding provisions or both. If they did so, the government would begin consulting with the signatory political parties at least 90 days prior to

¹²² The legislation also required that the Minister consult with other political parties before forwarding a nomination from the nominating committee for final approval. See *New Zealand Superannuation Bill*, section 53-57 and Schedule 3.

¹²³ The provisions are in *New Zealand Superannuation Bill*, section 58. These provisions were intended to bar fund investments in “government securities of particularly obnoxious Governments that were dictatorships, or particularly obnoxious forms of companies engaged in strange criminal behaviour,” but not to require “invest[ment] only in companies that fulfilled some very strict criteria.” The quotations are from Finance Minister Michael Cullen’s answers to Green Party co-leader Rod Donald in *Hansard*, October 11, 2000, Question 1. On government resistance to more specific directives, see the exchange between Finance Minister Cullen and Green Party co-leader Rod Donald in *Hansard*, November 29, 2000, Question 3, and Vernon Small, “Cullen Camp Tips Hands-Off Style on Pension Funds,” *New Zealand Herald*, October 23, 2000.

¹²⁴ See Brian Fallow, “Curbs on Superannuation Fund Board Possible,” *New Zealand Herald*, October 11, 2000, and Small, “Cullen Camp Tips Hands-Off Style on Pension Funds.”

¹²⁵ *New Zealand Superannuation Bill*, section 64. Treasury planners had proposed that the House have the opportunity to overturn any government directions, but this provision was not included in the government’s bill. Treasury, *Pre-Funding New Zealand Superannuation: Working Document*, June 15, 2000, chapter 12.

¹²⁶ in *New Zealand Superannuation Bill*, section 73(3). See also the debate in *Hansard*, December 5, 200, Question No. 1.

introducing a bill into the House, although it could move ahead anyway even if those consultations did not result in agreement.¹²⁷

Several patterns are notable about the investment provisions of the government's bill. First, the choices made split the difference between the coalition partners on the two investment politics issues on which they disagreed, with the Alliance winning concessions on its highest priority item: flexibility in annual funding rather than a fixed, dedicated revenue source. Second, only modest (and largely symbolic) concessions were made to New Zealand First and the Greens on their highest priority investment politics items (individual accounts and ethical investment standards, respectively). But in both cases, the government went out of its way to emphasize rhetorically the legitimacy of their concerns. Third and most important, with respect to all four investment provisions, positions were chosen that were closer to those favored by the National Party. Thus the coalition minimized the probability that National would oppose the initiative early and strongly, and increased the probability that a lasting agreement could be achieved. Finally, because the positions chosen on investment provisions were closer to those favored by National, the legislation might be acceptable to huge super-majorities (at least 98 of 120 members—the combined votes of Labour, the Alliance and National) in the House, and thus likely to be perceived as establishing a lasting basis for Superannuation, if National could be induced to sign on. Overall, the bill put maximum pressure on parties outside the coalition to demonstrate to the public their interest in providing stable funding for pensions by supporting the coalition government's package. Prime Minister Helen Clark tried to increase that pressure even further by saying that she was willing to fight the 2002 election on the issue of the Super fund if the government failed to win parliamentary approval for its proposal.¹²⁸

In the short run, this strategy was successful. Considerable sniping and skepticism was expressed by all of the non-coalition parties. National leader Jenny Shipley, for example, noted that if the New Zealand government was to meet its commitments to the fund without borrowing, it would have to run consistent budget surpluses at levels that it had achieved “in only three of the last 25 years...all in the mid-1990s under National [when] Labour criticized us for being too mean.”¹²⁹ National also noted that if governments were serious about such a commitment, it would mean that other portions of the budget, including politically popular health and education spending, would bear a larger share of risk when there was a revenue shortfall.¹³⁰ The right-wing ACT Party, predictably, raised

¹²⁷ in *New Zealand Superannuation Bill*, sections 72-73.

¹²⁸ Vernon Small, “Labour on Super Plan Offensive,” *New Zealand Herald*, October 10, 2000, Matthew Brockett, “\$100 Billion Pension Fund *The Dominion* [Wellington], October 11, 2000, p. 1.

¹²⁹ Shipley, “Compromise Required for a Successful Scheme,” *Otago Daily Times*, December 15, 2000.

¹³⁰ See for example *Hansard*, October 11, 2000, section 27. National also raised other concerns, including the possibility (raised in Treasury briefing papers to Cabinet) that such a fund might reduce private savings and the vagueness of the bill's wording on social/ethical criteria for investment. See the statement of National leader Jenny Shipley in *Hansard*, December 13, 2000, section 99.

concerns about such a large fund being under control of government.¹³¹ Within government, the Ministry of Justice raised concerns that the lower lifetime benefits likely to be received by most Maori, Pacific Islanders, and men of all backgrounds could be interpreted as a form of indirect discrimination that contravenes New Zealand's Bill of Rights—but the Ministry offered no alternative that would not pose even more problems.¹³² The bill won grudging acceptance of almost all parties to at least move forward to detailed consideration of the bill by a Select Committee. The vote was 113 to 0, with the seven Green members abstaining.¹³³

The spirit of consensus was short-lived, however. There was broad multi-party support for the 65 percent of the average wage floor on married couple benefits, reflecting its popularity among the electorate. Only the right wing ACT came out against it, although New Zealand First, playing to its core elderly constituency argued for 72 percent.¹³⁴ But the Green Party announced its opposition to the coalition government's Super Fund proposal in June.¹³⁵ Business groups were generally opposed as well.¹³⁶ Critics of the government's proposal complained that most of the fund buildup would be financed by increased borrowing, questioned the wisdom of taking huge quantities of New Zealand capital abroad (since a majority was expected to be invested overseas) and pointed to falling global equities markets and foreign exchange losses suffered by the government employees' pension fund as evidence that the fund was too risky.¹³⁷ The government denied that the Super Fund would be financed by borrowing, and threatened to place the issue at the center of the upcoming 2002 election campaign if they failed to win parliamentary approval for their proposal.¹³⁸ Ultimately, the legislation was saved by

¹³¹ For ACT views, and its broader strategic calculus, see for example Rodney Hide's statement in *Hansard*, October 11, 2000, Vernon Small, "ACT Backing off Super Fund," *New Zealand Herald*, October 18, 2000, and "Getting Their Act Together [editorial]," *The Press* (Christchurch), November 15, 2000, p. 8.

¹³² "Super Discriminates Against Maori Men, Favours Pakeha Women," *New Zealand Herald*, October 12, 2000.

¹³³ On the Greens' views, see for example Dene Mackenzie, "Greens Might Not Back Super changes," *Otago Daily Times*, October 11, 2000, and the statement by Jeanette Fitzsimmons in *Hansard*, December 13, 2000.

¹³⁴ See for example the speech of Winston Peters in *Hansard*, October 10, 2001, section 31.

¹³⁵ On the Greens, see Christine Langdon, "Super Plan Kneecapped by Greens," *The Dominion* (Wellington), June 4, 2001, p. 1; Vernon Small, "Super Fund Up to Peters After Greens Say No," *New Zealand Herald*, June 4, 2001; Peter Luke, "What Price Success?," *The Press* (Christchurch), June 9, 2001; Rod Donald, "'Do We Borrow Money to Gamble on the Casino Economy or?'-Green Strategies to Secure Superannuation," speech to Grey Power Ruahepu meeting, Taumarunui, October 9, 2001, available at <http://www.greens.org.nz/searchdocs/speech4698.html>, accessed November 23, 2001.

¹³⁶ See Brent Edwards, "Employers Slam Super Bill, AMP Sees Benefits," *The Dominion* (Wellington), April 27, 2001, p. 2.

¹³⁷ On losses in the government employees' pension fund, see Craig Howie, "Super Fund Gets Burnt in Currency Dealings," *The Dominion* (Wellington), June 13, 2001, p. 1. Up to 70 percent of the fund was expected to be invested abroad to spread the risks of poor economic performance in the New Zealand economy. See Nick Venter, "Cullen's Super: The Risk and the Opportunity," *The Dominion* (Wellington), June 9, 2001, p. 2.

¹³⁸ The government admitted but that it was planning to increase overall borrowing, but argued that this was a result of increased capital spending and an accounting change to include district health board and Housing New Zealand debt on its books. See Elinor Wellwood, "Cullen's Super: To Greens' Taste?," *The Press* (Christchurch), May 30, 2001, p. 7; Nick Venter, "Peters Gets Opportunity to Step Back Into Super Limelight," *The Dominion* (Wellington),

striking a deal with Winston Peters, who pledged New Zealand First's support in exchange for a modest strengthening of provisions that would allow a future government to convert the Super Fund into individual accounts, but with no provisions requiring that the funds be invested domestically. By the time that the National Party officially announced its opposition to the super Fund in July 2001 (which it had been signaling for several months), it was clear that the legislation would pass.¹³⁹ It did so in October, by the narrow margin of 63 to 55

Even after its adoption, however, the government's plan could be dismantled or heavily modified by a simple majority in a future Parliament. Indeed the Green Party, a possible coalition partner with Labour after the 2002 election (Alliance, Labour's current coalition partner, has frequently fallen below the five percent election threshold in recent public opinion surveys) has vowed to kill the Super Fund.¹⁴⁰ In the absence of a strong commitment from National as well as Labour, there is no guarantee that the New Zealand Superannuation Fund will remain in place for the long term. And even if it does, there is no guarantee that future governments—or even the current government—will not choose to underfund the system, undercutting the potential “tax smoothing” effects of the Fund.

REFLECTIONS ON THE NEW ZEALAND CASE

At the beginning of the new millennium, New Zealand is an outlier among the countries considered here in lacking a mandatory earnings-related pension tier under public management (as in Canada), private management (as in Australia), or a mixed system (as in the United Kingdom and more recently Sweden and Germany). Indeed, as the Ministry of Social Policy noted in its 1999 Briefing paper for the incoming Labour-Alliance coalition government, New Zealand is unique among industrialized countries in having neither mandatory contributions to public or private pension funds nor means or income tests for taxpayer funded income transfers to seniors.¹⁴¹

Patterns

New Zealand's pension policy agenda and choices over the past twenty years have exhibited both some patterns that recur frequently in other OECD countries and others that are unique to New Zealand (See Table 4 for a summary of recent policy changes). Certainly New Zealand is similar to

June 5, 2001, p. 2; James Weir, “Cullen, Treasury at Odds Over Super,” *The Dominion* (Wellington), June 28, 2001, p. 10.

¹³⁹ A National Party task force had issued a report in April 2001 criticizing the government's proposal, but the party did not formally announce its opposition until July. See Vernon Small, “All-Parties Super Hope Dealt Blow By National,” *New Zealand Herald*, April 20, 2001. On the National Party's strategic calculus in rejecting the Super Fund, see Peter Luke, “The Super Struggle,” *The Press* (Christchurch), July 21, 2001, p. 11, and Guyon Espiner, “Cullen's Super Fund May Give Election Weapon to National,” *The Star-Times* (Auckland), July 22, 2001, p. 2.

¹⁴⁰ Craig Howie, “Greens Threat to Super Fund,” *The Dominion* (Wellington), November 7, 2001, p. 2.

¹⁴¹ Ministry of Social Policy, *Post-election Briefing Papers 1999*, pages 78-79.

most other OECD countries in maintaining the fundamental character of its pension system in the face of multiple pressures--and multiple initiatives--for change. New Zealand is also similar to most other OECD countries in moving its standard retirement age up from the extremely generous age of 60 to 65, although it did so over a very short time period: ten years. The growing importance of investment politics and gender-related issues in efforts to redesign pension systems is another attribute that New Zealand shares with many other OECD countries.

In other critical ways, however, the New Zealand experience is highly distinctive. Perhaps most notable is the persistence of conflict and high degree of politicization over New Zealand pensions. Conflict over pensions has been a constant rather than an intermittent item on the New Zealand political and policy agenda. Second, this persistent conflict has led to very frequent policy changes at the margin, largely having to do with benefit levels, financing mechanisms and income testing. Even the name of the universal superannuation benefit has changed repeatedly, from New Zealand Superannuation to National Superannuation (1975) to Guaranteed Retirement Income (1979) to National Superannuation (1980) back to New Zealand Superannuation—a level of symbolic uncertainty that reinforces pensioners' concerns about the degree of underlying policy change. Finally, New Zealand is distinctive in policy outcomes, both for continued reliance on a universal flat-rate pension and for the absence of tax concessions for retirement savings.

Explanations

How can we explain these patterns of Kiwi distinctiveness from and similarity to other OECD countries? The common pressures for pension austerity—demographic, budgetary, competitive and ideological—common to all OECD Countries have certainly been felt in force in New Zealand. But three main factors stand out in explaining the distinctiveness of New Zealand policy: the role of policy feedbacks, political institutions and a well-organized elderly constituency. The role of policy feedbacks looms large in explaining the overall continuity in New Zealand pensions policy, and in particular its distinctive reliance on a universal pension funded from general revenues. Moving away from a universal pension and from pay-as-you go principles for public pensions raises enormous political problems. Dropping universality imposes immediate, visible losses on current retirees, while moving away from pay-as-you-go requires a tax boost among current workers (if a payroll tax is used or the budget is not in surplus). Thus both are likely to be major vote losers; even if governments attempt them, opposition parties are likely to see reversal of such a policy change as a handy electoral issue in the next election campaign.

Universal flat-rate pensions funded from general revenues create resistance to change in two additional ways. First, they lack a clear action-forcing mechanism for retrenchment: unless the paying government exhausts the willingness of lenders to extend credit, there is no danger that superannuation checks will not be sent out--the situation that the United States came close to facing in its contributory, trust-fund based Social Security program in 1977 and 1983. The action-forcing mechanism of a trust

fund not only compels policy change, they also give politicians political cover for imposing it: surely it is better, politicians can argue, to make some modest sacrifices in benefits and eligibility rather than risk uncertainty about when those checks will go out. Second, as noted at the outset of the chapter, flat-rate pensions make it more difficult to use “grandfathering” to protect current retirees and those who are likely to be retiring soon (the groups most likely to be attentive and sensitive to pension policy) while cutting benefits for later retirees, because it makes the cuts more visible to those who are affected by them. If a credible case can be made that those beneficiaries will avoid a real income drop in other ways (notably the phasing in of a new contributory program), cuts in a universal pension may be sellable, but it will always be a tough sell. The convoluted structure—and overwhelming public rejection—of the 1997 Retirement Savings scheme are a strong testimonial to the political and programmatic challenges in moving away from a universal, single tier, flat-rate pension without making anyone visibly worse off.

If policy feedbacks are important to helping the stability in New Zealand pension policy, two reinforcing aspects of the country’s political institutions—Westminster-style parliamentary institutions and short electoral cycles—are critical for explaining the high degree of “policy wobble.” Westminster political institutions mean that there are minimal veto points where dramatic policy change can be blocked: thus a government determined to cut can do so. But short electoral cycles mean that government accountability as well as power is maximized. This political combination means that there is pressure on governments to put its plans in place quickly, even if they are not well thought out, in order to get them firmly imbedded before the next election—the 1990 “mother of all budgets” cutbacks and the 1997 Retirement Savings Scheme plan being good examples. For unpopular actions, quick action also maximizes the distance between those policy changes and the election. But short electoral cycles also mean that many changes, notably Labour’s 1974 contributory earnings-related scheme, are not deeply imbedded with a loyal constituency when there is a turnover in the party in power, and can therefore be dismantled more easily. Indeed, the fate of Labour’s 1974 NZ Super scheme suggests how much more radically Margaret Thatcher might have transformed the State Earnings-Related Pension Scheme (SERPS) in the U.K. if the Conservative Party had come to power in 1976, a year after the creation of SERPS, rather than three years later.

Short electoral cycles have also made it more difficult for New Zealand political parties to form a “policy cartel” to limit bidding wars on pension issues that lasts more than the one electoral cycle attained by the 1993 Retirement Incomes Accord. There is a more basic political logic that undermines the prospects for such accords, however: governing parties always have a strong incentive to offer such accords when retrenchment is on the agenda as a way of spreading the blame; parties in opposition always have a strong incentive to reject such a bid. As former New Zealand Finance Minister Ruth Richardson put it in discussing the Fourth National government’s debate over whether to seek an all-party accord on superannuation after coming to power in 1990:

National had been offered just such a chance of all-party talks when in Opposition: we had preferred to stand back, let Labour take the flak for imposing the [superannuation] surcharge, and outbid them at the electoral auction. Labour now had precisely the same incentive: to excoriate the government from the sideline for broken promises.¹⁴²

The role of a large, well-organized senior constituency also plays an important role in explaining why cuts in New Zealand's public pensions have been so difficult to sustain politically, leading to repeated policy reversals. But it also suggests that organization of the elderly is not, as political scientists say, an "exogenous variable": something that takes place independent of what happens in the world of pension policymaking. Indeed, it suggests just the opposite: repeated policy changes that caused real, short term income losses for many seniors and anxiety among the vast majority of seniors created a more generalized sense of anger that has fuelled political mobilization of the elderly through Grey Power.

Challenges and Choices

New Zealand faces a number of challenges and choices in pension policy in recent years. Some of these challenges are much the same as those in other OECD countries, while others reflect its unique policy heritage of a universal flat rate pension. The first policy challenge, of course, is whether (and if so how) to partially pre-fund the retirement needs of future generations of the elderly. While New Zealand shares this problem with other countries, the absence of a distinct and dedicated payroll tax clearly makes it more difficult politically to build up an accumulation of funds. Thus even if the new Superannuation Fund is sustained by future New Zealand governments, it is far from clear that they will have the fiscal discipline to fund it.

A second critical challenge for New Zealand is a political challenge: how to build a political consensus or a political mechanism that can sustain some combination of austerity measures and/or the creation of a pre-funding mechanism. Superannuation politics in New Zealand over the past fifteen years has followed a depressingly monotonous routine. Excessive promises are made at election time, followed by cutbacks imposed under urgency after the election. Once in power, the major party in government claims that only its policies can produce a sustainable superannuation program, while the parties out of power criticize these proposals as unnecessary or counterproductive. Government and

¹⁴² Richardson, *Making a Difference*, p. 87.

Opposition point fingers at the other for past transgressions against the elderly and/or fiscal good sense. New Zealand political institutions under single-member plurality electoral rules made it difficult both to attain insulating mechanisms and to sustain an insulating elite policy consensus. The new MMP electoral system, and the power that it affords to minor parties seem, if anything, even less propitious.

Both bidding wars for the electoral support of senior citizens and efforts by the Treasury and governing parties to use Super cuts for short-term budget-balancing purposes have proven disruptive and counter-productive. Restoring a more positive dynamic to New Zealand Super politics requires two fundamental changes: reestablishment of some sort of mechanism that creates a workable framework for the major parties to discuss pension policy within agreed parameters, and restrictions on unilateral action by governments. The experience of the 1990-92 Todd Task Force suggests that an independent body can be helpful in building a multi-party agreement on Super policy. And experience since then suggests that building consensus is not something that party politicians are capable of doing on their own.

Some sort of restrictions on unilateral action by governments are equally necessary. New Zealand governments seeking to avoid criticism and obstruction by opposition parties have over the past two decades repeatedly rammed legislation through the House under urgency-- most recently the present coalition government's policy restoring a 65 percent wage floor for NZ Super benefits. This repeated use of urgency is not only undemocratic, it has also caused governments to make some judgements of monumental political stupidity. Governments pushed through policies that ultimately proved to be politically unsustainable, most notably in Ruth Richardson's 1991 "Mother of All Budgets." As noted earlier, the current Labour/Alliance coalition initially floated the idea of entrenching super legislation, making it amendable only through special parliamentary super- majorities or a referendum, but ultimately decided on a watered-down accord mechanism that would require consultation with any accord signatories before a government introduced Super legislation. Another (and somewhat stronger) alternative would be to change the rules of the House of Representatives so that going into urgency on Super legislation would require the support of sixty percent of the members of the House. Governments could still enact Super legislation through normal channels. This rule could be repealed by simple majority, but there would be an added moral and political sanction against doing so. The likely result of this rule change would be more deliberation before action is taken, better Super legislation, and less voter cynicism about politicians breaking their promises.

A third issue that needs reconsideration is New Zealand's policy of denying tax incentives for supplementary pensions under the current TTE (contributions and earnings taxed, but withdrawals exempt) regime. Currently New Zealanders receive three very inconsistent sets of signals about the importance of savings for retirement. The Office of the Retirement Commissioner runs a public awareness campaign telling them that such savings are extremely important. The Treasury says that while saving in general is important, retirement savings are not more important than any other form of savings (e.g., paying off a mortgage) and therefore should not receive any special incentives. And the current tax system actually discourages retirement savings by taxing all employer contributions to registered superannuation schemes at the 33 percent rate, even for employees in lower tax brackets. It is little wonder that the percentage of Kiwis covered by employer-provided superannuation has dropped dramatically over the past decade, as employers increasingly have decided simply to give their employees cash rather than making contributions to retirement savings plans. The current policy is reaping blame not only for New Zealand's extremely low savings rate but also for a tendency to invest in real estate (which is not taxed until sold) rather than equities as an investment vehicle.¹⁴³ The Labour government elected in 1999 has announced that it will reconsider the issue of incentives for retirement savings, but faces opposition from both the Treasury and the Inland Revenue Department.¹⁴⁴ How to increase retirement savings incentives without creating windfalls or major losses for current holders of retirement investments or for the Treasury is a policy design issue of major proportions.

A final issue is whether--and if so, how—to reduce benefits for upper income seniors. No element of superannuation politics in New Zealand has been more controversial than the surcharge on incomes of NZ Super recipients. Many New Zealand seniors were justifiably outraged about the instability of their pension incomes as governments repeatedly altered the structure of the surcharge. And a small number of better-off seniors, after a life-time of paying taxes, received no Super benefit at

¹⁴³ See Bob Gaynor, "NZ Lacks Saving Graces," *New Zealand Herald*, February 13, 1999; Brian Fallow, "Cullen says Super Tax Regime Needs Review," *New Zealand Herald*, July 23, 1999; Michael Cullen, "The State of the New Zealand Economy," July 22, 1999, <http://www.labour.org.nz/MediaCentre1/Speeches/990722.html>.

¹⁴⁴ see Craig Howie, "Cullen urges tax change to Private Super," *The Dominion* (Wellington, February 9, 2001, p. 13. Finance Minister Michael Cullen has estimated that moving to a Tax-exempt-taxed system would involve deferring about \$400 million in revenue for the government. See New Zealand Press Association, "Tax Proposal Aimed at Superannuation Saving," *The Dominion* (Wellington), March 3, 2001, p. 2, and Brian Fallow, "Tet Offensive Planned on Private Super," *New Zealand Herald*, April 10, 2001

all as their benefits were clawed back entirely. Again, a middle ground is possible between the extremes of the current no-surcharge policy and the former policy that clawed back all benefits for some seniors. New Zealand could, for example, reimpose a modest surcharge on the incomes of better-off seniors, but with three important limitations. First, it could be modest in scale, no more than 20 percent above normal income tax rates, and with a substantial income disregard before it takes effect. Second, it could be capped. Instead of taxing back all Super benefits, well-off recipients should retain a minimum of one-third of their Super benefit, retaining the universal character of New Zealand Super and recognizing their lifetime of contributions to New Zealand society. Third, a surcharge could be phased in gradually, applying only to future retirees. Current retirees should not be subjected to a cut in their incomes for which they were unable to plan in advance. In short, a surcharge should be part of a broader effort to build a universal, sustainable and equitable NZ Super--not as part of an effort to balance government's books in the short run. But given the poisonous atmosphere that has built up over Superannuation politics in general and means-testing in particular over the past two decades, any political party that tried to introduce even modest means-testing for upper-income recipients would be risking both parliamentary rejection and electoral suicide.

As with the other countries examine in this volume, there is no panacea for superannuation policy in New Zealand. The country still faces a very real long-term funding problem as the baby boom generation retires after 2015. But panaceas are not what New Zealand needs. Instead, what is required are small, solid steps to restore confidence in Super policy, to dampen the poisonous atmosphere surrounding superannuation that the country's politicians have created over the past two decades, and to prepare for the costs of baby boom retirement.

LESSONS FOR THE UNITED STATES

New Zealand offers a number of lessons for the United States about the politics of pension reform. Many of these lessons are of a negative nature—lessons about how *not* to make pensions policy, and the perverse political dynamic that can be put in place if pension politics becomes both highly politicized and partisan. But that does not make them any less important. While many of the specific mistakes made in New Zealand would not be possible in the U.S. given different political

institutions and different policy inheritances, there are still lessons to be learned. For example, perhaps the biggest policymaking mistakes in New Zealand were that policy was changed too many times, enacted too rapidly (often through the use of Parliamentary urgency procedures) by narrow majorities, and then implemented rapidly as well, without “grandfathering” current pension beneficiaries to prevent them from incurring rapid, significant income fluctuations. These changes stirred fear and uncertainty among the elderly and led to the growth of a politicized seniors movement. As the United States enters a period where major Social Security reforms are once again on the agenda, New Zealand is a worst case scenario of what happens when pensions become the “supreme political football” and is modified by narrow partisan majorities rather than a broad bipartisan consensus.

Given the multiple veto points in the American political system, continued strong partisan division over Social Security in the US is more likely to result in stalemate than the New Zealand pattern of policy swing and reversal. But stalemate is not much of an improvement over policy swings as an outcome in addressing the long-term financing problems of our Social Security system. Both the New Zealand experience with reversals of benefit cuts and the relatively successful Kiwi experience in phasing in a higher retirement age suggest that long lead times and grandfathering current recipients are essential to successful changes in pension policy.

New Zealand offers some more specific lessons about potential mechanisms to modestly increase the capacity of politicians to devote additional revenues to pension provision in advance of when those revenues are required for current payouts. Addressing long-term funding requirements has been especially difficult in New Zealand because of its tradition of a pure pay-as-you-go pension financed through general revenues. A first—somewhat cautionary--potential lesson from New Zealand concerns the timing of payroll tax increases. The 1997 Retirement Savings Scheme proposal would have timed a new RSS payroll tax to coincide with income tax increases, so that most New Zealand taxpayers would have had a stable or falling total tax burden. As noted earlier, however, some taxpayers would have had an increased tax burden. The RSS proposal was rejected by New Zealand voters, but not for this reason. And the New Zealand lesson remains a sound one: using economically flush times to combine a personal tax cut with a (partially or completely) offsetting payroll tax increase can be an effective mechanism to dampen opposition to payroll tax increases. But it is important to recognize that in any such shift, some group of taxpayers would likely be made slightly worse off. In the

case of the United States, that group would be low-income workers not currently subject to the income tax.

A second lesson on forward funding of a public pension system concerns a fail-safe mechanism. The New Zealand government's new Superannuation Fund legislation will require the New Zealand government to state annually whether (and if so, why) they are falling short of a contribution rate that would be sufficient to fund pensions if carried forward on a consistent level-funding basis for forty years. This is a weak reed rather than a strong "failsafe" on which to hang hopes of funding solvency. But it could provide a useful framework for dealing with funding shortfalls in the United States if combined with the U.S. Social Security payroll tax and a stronger action-forcing mechanism. What is most useful about the New Zealand approach is the focus on what is being done *this year* in relation to the longer-term funding problem. An adaptation of the New Zealand approach would require that when Social Security actuarial projections show the system is out of balance for some future period (perhaps 40, 50 or 60 years), the President could be required to issue a report stating how much the shortfall in the upcoming fiscal year was projected to be (measured as the current dollar equivalent of a percentage of revenues from a level payroll tax sufficient to fund the system for that defined period), either present a plan to deal with the shortfall or explain why nothing was being done to address the problem this year, and explain what the administration was planning to do about it in the future. A stronger version would require the President to present a plan that would address some percentage (or all) of the current level-funding shortfall through an immediate injection of general revenues, benefit and eligibility cuts and/or a payroll tax increase. All but the general revenue injection could be scheduled to go into effect in the future, so long as they had a measurable effect on the level funding requirement. To give this measure more clout, both houses of Congress could be required (through a change in their chamber rules) to take an up or down vote on the plan within a specified number of days after it is submitted. An even stronger version would have the President's plan go into effect automatically unless vetoed by Congress. With any of these approaches, the planning horizon over which funding adequacy was measured could be gradually increased on a phase-in basis (from forty to sixty years, for example), to make the immediate task of balancing revenues and spending less daunting.

Additional lessons from New Zealand experience relate more directly both to the political problems that arise when considering individual account and collective investment choices and to

potential solutions to those problems. Some aspects of the New Zealand situation obviously travel better than others, of course. In the United States, for example, the question of whether benefits should be flat-rate or income related has already been settled in favor of the latter. Thus in considering individual account reforms, the United States need not confront the issue that New Zealand planners faced in 1997 of how to marry a payroll tax in which upper earners pay more with a flat-rate benefit. Other issues raised in the Retirement Savings Scheme, are far more relevant to U.S. debates, even if the answers adopted by New Zealand might not be. Three issues in particular are important: how to deal with the longer life expectancy of women in an individual account system, how to account for the lower work rates of women as a result of their generally higher responsibility as caregivers, and how to accommodate resistance to full annuitization of funds accumulated in individual accounts. With respect to women's issues, providing a top-up from general government revenues at the time of annuitization is one option that could be considered, although it would almost certainly be a very expensive one.

The annuitization and inheritance provisions of the RSS proposal again offer some possible lessons for the United States as it debates individual accounts. The main political problem with annuitization is that it seems unfair to those with very short life expectancies in old age—who in the United States as in New Zealand, are disproportionately members of racial and ethnic minorities. But requiring a pay-out of lump-sums to the estates of those who die young means that less money is available to pay annuities to those who live longer; thus their monthly benefit is likely to be significantly lower. The RSS proposal attempted to strike a balance: it would have required full annuitization of fund balances, but paid amounts accumulated in individual accounts as a lump-sum to the estates of those who die prior to age 65, as well as the expected annuity payments that would have been received between ages 65 and 75 of those who died before age 75. Government top-ups received to individual accounts would have been subtracted from these pay-outs. If individual accounts are adopted in the United States as a partial substitute for rather than a supplement to current Social Security benefits, full annuitization will be advisable to insure that seniors have an adequate income stream in retirement. Top-ups to contributions for those with low earnings (although probably on an ongoing basis rather than at the time of annuitization) may also be included. A variant on the New Zealand approach—perhaps paying out half of fund balances to those die prior to age 65, and half of anticipated annuity payments up

to age 75 for those who die prior to age 75, again subtracting government top-ups—might be a way to make a requirement for full annuitization more politically palatable.

With respect to collective investment funds, some New Zealand issues are once again more easily recognizable to U.S. observers than others. In New Zealand's small economy, the question of whether to have one or several collective investment funds is less relevant than in the United States. The question of foreign investment is also somewhat different: the U.S. economy offers a greater variety of investment opportunities, and has in recent years shown far more robust growth, than New Zealand. Thus restricting a majority of investments in a U.S. fund to investment in the United States would be less risky than in New Zealand's case—although probably still a poor idea. Perhaps the most basic relevant feature of the New Zealand plan under consideration is at the level of rhetorical justification for a collective fund. As noted above, the Labour-Alliance government shifted its rhetoric to justifying the New Zealand Superannuation Fund from a permanent feature of pension policy to a temporary (although long-lived) “tax smoothing” mechanism to prepare for the retirement of the baby boom. Posed in this way, a collective investment fund may be somewhat less prone to an ideological assault from the right. The use of an independent nomination committee for Superannuation Fund board members is another potentially useful device, although it would have to be adapted for the U.S. context, perhaps by ensuring a bipartisan composition of the nominating committee and dropping the requirement for consultation with groups. Similarly, the New Zealand plan's strong emphasis on commercial investment criteria, relatively weak social/environmental investment criteria, broad delegation of authority to the board to determine a precise investment mix, and prohibitions on Fund control of individual companies all could serve as potential models for comparable U.S. legislation.

TABLE 1. KEY ATTRIBUTES OF THE RETIREMENT SAVINGS SCHEME

DESIGN ISSUE	RSS FEATURE
<i>FUND STRUCTURE ISSUES</i>	
Individual accounts tier mandatory or opt-out from a state pension program?	Mandatory participation by all employees in privatized defined contribution tier
Breadth of investment fund choice be and administrative arrangements for fund selection and collection of funds	Wide range of fund choices permitted. Collection and distribution of funds generally by Inland Revenue Department.
Government role in certifying or regulating fund choices and in providing a minimum guarantee	Government registers but does not certify investment funds. Funds allowed to charge broad range of fees, including entry, exit and management fees. Individuals' fund balances guaranteed at retirement, but no guarantee for particular investment funds.
Investment policies of government default	Government to designate one or more commercial funds as default fund; investment policies not specified
<i>INVESTMENT POLITICS</i>	
Restrictions on risk in investment accounts	Broad range of investment options, including self-management allowed, so long as arms-length relationships are maintained and diversification requirements are met
Domestic investment requirements	No restrictions on foreign investment
<i>BENEFIT STRUCTURE ISSUES</i>	
Requirements for annuitization of personal account funds	Full annuitization required at age 65, with government top-ups for those who had not met compulsory savings targets
Mechanisms to protect against fluctuations in annuity prices	No regulation of annuity price fluctuations
Should annuity providers be able to charge higher prices to women than to men for annuities of equal value?	Yes, with government topping up womens' contributions to allow them to purchase annuity equivalent to those purchased by men
Inheritability of accumulated funds in personal accounts	Fund balances of those who die prior to age 65 added to estate. For those who die between 65 and 75, annuity payments that would have been receive through age 75 paid as lump sum to estate, with reductions for those who received government top-ups.
Restrictions on early withdrawal of funds in personal pension accounts	Almost all early withdrawals or use of fund balances as security prohibited

TABLE 2. POLICY DISPUTES REGARDING THE NEW ZEALAND SUPERANNUATION FUND

Issue	For	Against
Benefit Politics		
Higher Benefit Guarantee	<i>Labour</i> <i>Alliance</i> New Zealand First Greens	<i>National</i> ACT
Investment Politics		
Earmarked Revenue Source	<i>Labour</i> New Zealand First ACT	<i>Alliance</i> Greens <i>National</i>
Individual Accounts	New Zealand First ACT	<i>Labour</i> <i>Alliance</i> Greens National
Investment in New Zealand	<i>Alliance</i> Greens New Zealand First	<i>Labour</i> National ACT
Strong Ethical Investment Code	Greens	<i>Labour</i> <i>Alliance</i> National ACT New Zealand First

TABLE 3. KEY ATTRIBUTES OF NEW ZEALAND SUPERANNUATION FUND

KEY ISSUES	OPTIONS
Number of investment funds	Single investment fund
Mechanisms for protection from political interference	Board of trustees can be nominated by multiple social interests but appointed by government with the sole fiduciary responsibility of managing funds in contributors' interests. Board in turn contracts with invest firm(s) to manage investments
Restrictions on fund investment mix	Fund managers determine investment mix
Restrictions on active investment policies	Active investment policies permitted, but control of individual firms prohibited
Domestic investment requirements	No restrictions on foreign investment
Should social criteria be considered in investments as well as maximization of return consistent with reasonable risk?	Very weak social/environmental investment criteria

TABLE 4. KEY CHANGES IN NEW ZEALAND PENSION POLICY

Year	Governing Party (ies)	Pension Policy Changes
1984	Labour majority	Labour government introduces superannuation surcharge (effective 1985) and eliminates tax incentives for retirement savings.
1990	National majority	CPI adjustment for 1991 dropped.
1991	National majority	Income tax surcharge rate for superannuitants increased to 25%, effective 1992. Age of eligibility for superannuation increased to 65, phased in over 10 years
1993	National majority	Four major parties agree to Accord on Retirement Incomes to limit scope of debate on pension policy (United Party joins in 1995).
1996	National majority	Higher exemptions introduced for superannuitants surcharge, phased in over two years.
1997	National/NZ First majority coalition	Superannuation surcharge abolished effective April 1998. September referendum to phase out NZS in favor of private pension with government top-up for low-income recipients is overwhelmingly defeated
1998	National minority	New Zealand Superannuation married benefit will continue to be indexed for inflation, but will be allowed to fall to 60 percent of average net earnings.
1999	Labour/Alliance minority coalition	Floor on New Zealand Superannuation married benefit restored to 65 percent of average net earnings.
2001	Labour/Alliance minority coalition	Superannuation Fund to partially pre-fund future New Zealand Superannuation expenditures created, financed out of general revenues

Sources: Task Force on Private Provision for Retirement, *Private Provision for Retirement: Overview of the Options*, Wellington: The Task Force, August 1992, p. 116; Investment Savings and Insurance Association, “A Brief History of Public Pension Policies,” http://www.isi.org.nz/backgrounder_public_pension_policies.htm; Susan St. John, “Superannuation in the 1990s: Where Angels Fear to Tread?,” p. 279.

TABLE 5. NEW ZEALAND CHOICES IN PENSION POLICY

Policy Options	New Zealand Choices
Austerity/Enrichment Politics	
<u>Retrenchment</u>	
Retirement Age	Increased from 60 to 65 over 10 year period
Partial means-test for upper-income recipients	Surcharge for superannuitants introduced in 1985, modified repeatedly, repealed in 1998
Changes in indexation mechanism	
<u>Refinancing</u>	
Increase payroll tax	Separate payroll tax repealed and reintroduction repealed, and later rejected again
“Fail-safe” funding mechanism	Weak mechanism proposed in 2001: government must contribute percent of GDP adequate for 40 year level advanced funding or justify failure to do so
<u>Restructuring</u>	
Increase incentives for and reliance on employer or individual retirement savings	Inconsistent signals sent by TTE taxation regime and promotion of retirement savings by Retirement Commissioner
Investment Politics	
<u>Privatization/Individual Accounts</u>	

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