

Government Response to the Periodic Report Group Report

| PRG 2003 Recommendation   | Summary Government Response | Government Response   |
|---|-----------------------------|---|
| 1. Private provision: the risks and opportunities   |                             |   |
| 1.1 The Retirement Commission take responsibility for co-ordinating the ongoing monitoring of risks and opportunities to private provision.   | Partially accepted*         | <p>The government agrees there is a need for ongoing monitoring. However, it is considered that responsibility rests with a central government policy department given the importance of this work to future policy development.</p> <ul style="list-style-type: none"> <li>• The Ministry of Social Development (MSD) will lead an exercise, in consultation with Treasury, the Retirement Commission, the Ministry of Women’s Affairs and other relevant agencies, to consider and advise government on the appropriate governance and administrative arrangements to take this work forward and to co-ordinate retirement income research and policy development.</li> <li>• The government recognises the independence of the Retirement Commission and its day to day operations would not be affected by the new governance arrangements. However, it would be a priority of any new governance group to establish cooperative working arrangements with the Retirement Commissioner.</li> <li>• The Retirement Commissioner would monitor and report on progress in relation to work on the ongoing monitoring of risks and opportunities to private provision.</li> </ul> |
| 1.2 We need ongoing data and research to give estimates of net worth at different points in time. The Household Savings Survey has been an important step forward, but only a first step, and should be repeated.                         | Partially accepted          | <p>The government agrees that there is a need for data on the net worth of households.</p> <p>However, there will not be an immediate need to repeat the Household Savings Survey to collect data on household net worth as the Survey of Family, Income and Employment (SoFIE) will collect the necessary information. The SoFIE surveys, which commenced in 2003, are funded for 8 years.</p>   |
| 1.3 A research fund, managed by the Retirement Commission with guidance from an independent panel of experts to be appointed by the Retirement Commissioner, is established to extend and develop research on household saving behaviour. | Accepted principle*         | <p>in The government agrees there is merit in establishing a research fund. As part of the MSD led exercise to recommend appropriate governance arrangements (refer recommendation 1.1):</p> <ul style="list-style-type: none"> <li>• the research programme’s content and priorities will be determined</li> <li>• the management of the research fund will be considered</li> <li>• mechanisms will be considered for the most effective way to obtain stakeholder input.</li> </ul>  |
| 2. Work-based savings   |                             |   |

\*any funding implications to be considered in Budget 2005 or subsequent budgets.

Government Response to the Periodic Report Group Report

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| 2.1 The government establish a Work-based Savings Group (WSG) to develop an agreed approach to promote work-based savings by the end of 2004.   | Noted                       | <p>The Minister of Finance and Revenue has established a Savings Product Working Group (SPWG):</p> <ul style="list-style-type: none"> <li>• the Group reported to the Minister on 31 August 2004 and the report was released publicly on 15 September 2004</li> <li>• the public and interested parties have been invited to make submissions to the government on the SPWG report by 31 October 2004</li> <li>• the issue of promoting work-based savings will be considered in the context of the government's response to that SPWG report.</li> </ul> |
| 2.2 The government consider the possibility of extending the new public service savings scheme beyond the core public service; in particular, providing for organisations in the wider state sector to opt into the new scheme. | Noted                       | <p>The new State Sector Retirement Superannuation Scheme (which commenced on 1/7/04) is a "pilot" of a larger concept. The scheme will be evaluated over the next couple of years. At that time, government will be informed of the results of the pilot and in a better position to decide on the scheme's coverage.</p>   |
| 3. Personal financial education and information   |                             |   |
| 3.1 The Retirement Commission promote workplace seminars and either provide them itself or contract providers to do so.   | Noted                       | <p>The issue of promoting work-based savings will be considered in the context of the government's response to the Savings Product Working Group report.</p>  |
| 3.2 The Retirement Commission extend the Sorted programme to include more information, targeted information and supplementary written materials.  | Noted*                      | <p>As part of its purchase agreement for 2004/05 the Retirement Commission is funded to extend and enhance its Sorted programme as part of its core ongoing activities.</p>   |

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Government Response to the Periodic Report Group Report

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| 3.3 The Retirement Commission increase its promotional campaigns to encourage New Zealanders to use Sorted and other Personal Financial Education (PFE) programmes. | Deferred*                   | <p>The government strongly supports the role the Retirement Commission plays in educating people about the benefits of saving for their retirement and more generally, improving New Zealanders' financial literacy.</p> <p>Any decision to invest significant additional resources into the further promotion of Sorted needs to be based on an assessment of the benefits that that would result and considered against other competing priorities.</p>   |
| 3.4 The Retirement Commission provide a face-to-face or telephone information service to supplement Sorted.   | Accepted in principle*      | <p>The government supports the pilot of a telephone information service. Any subsequent decision to establish an ongoing information service is to be informed by the results of the pilot and to be considered in a subsequent budget context.</p>   |
| 3.5 The Retirement Commission enhance and extend its provision of information about public provision.   | Accepted                    | <p>The Retirement Commission's Sorted programme already includes some information about public provision. The Retirement Commission will expand the information it provides on the level and structure of New Zealand Superannuation and the implications for private provision.</p> <p>Responsibility for ensuring that people are aware of and receive their correct entitlement to New Zealand Superannuation rests with Work and Income. Work and Income are committed to developing a proactive strategy to provide people before they retire with information about New Zealand Superannuation and other entitlements and services available to retired people.</p> |
| 3.6 The Retirement Commission establish a methodology to make fees for savings products more transparent.   | Accepted                    | <p>The Retirement Commission already has action in hand.</p>  |
| 3.7 The Retirement Commission develop criteria for assessing the appropriateness of savings products and advice for retirement saving.                              | Noted                       | <p>The Retirement Commission will address this recommendation as priorities permit.</p>   |
| 4. Issues for women, Māori and Pacific peoples  |                             |   |

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Government Response to the Periodic Report Group Report

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| 4.1 The Retirement Commission make it a key education priority to increase the knowledge of women about the need to save for retirement on their own behalf. We recommend a particular focus on the periods in women's lives when they have disposable income.        | Accepted principle*         | in The development of information targeted for women has already been identified by the Retirement Commission as part of their 2004/05 work programme. The government supports pilot programmes being undertaken. The pilots will be developed and evaluated in consultation with the Ministry of Women's Affairs.  |
| 4.2 The Retirement Commission develop criteria for a 'best-practice' vehicle for retirement savings that accommodates the needs of those people with periods of broken employment or reduced earnings during their working life.                                      | Noted                       | The Retirement Commission may choose to develop criteria for a best practice vehicle for retirement savings as suggested by the Periodic Report Group (PRG) as part of its continuing development of more targeted information programmes.<br><br>In addition, the work of the Savings Product Working Group is relevant to this recommendation. The Group's terms of reference required it to address what design features are necessary to take account of the needs of low and middle income employees and people with periods of non-employment.  |
| 4.3 Efforts continue to be made to close the gender pay gap in the state sector and recommend these efforts extend across the labour market.  | Noted                       | The government has responded to the final report from the Taskforce on Pay and Employment Equity in the Public Service, Public Health and Education Sectors.<br><br>As part of that response the government has agreed to the establishment of a dedicated pay and employment equity unit within the Department of Labour from 1 July 2004 to promote and support implementation of the five year Plan of Action for pay and employment equity in the public service, public education and health sectors. Matters for consideration for a second phase of the Plan of Action that would extend beyond the public service, the public health and education sectors will be included in a report to government in December 2004. |
| 4.4 The Retirement Commission, in consultation with Te Puni Kōkiri, develop a research programme to address the information gaps regarding Māori experience and attitude to savings and to facilitate a better understanding of Māori attitudes to retirement saving. | Noted                       | The government considers there is merit, as priorities permit, for the development of such a research programme. This work could be commissioned through the research fund discussed in recommendation 1.3.   |

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Government Response to the Periodic Report Group Report

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| 4.5 If it is successful, the financial education pilot programme for young Māori, developed in partnership between the Retirement Commission and Ngāi Tahu, is extended.   | Accepted                    | The Retirement Commission has indicated that, subject to successful pilots, the joint Te Puni Kōkiri-Retirement Commission programme for young Māori will start to be rolled out in 2004/05.   |
| 4.6 The Retirement Commission and Te Puni Kōkiri work with interested Māori organisations to assess the feasibility of those organisations taking an active role in the provision of savings and insurance services for the organisations' beneficiaries.  | Noted                       | The government considers there is merit, as priorities permit, for the Retirement Commission and Te Puni Kōkiri undertaking this work.   |
| 4.7 The Retirement Commission work with Pacific communities to facilitate education programmes, tailored to the Pacific peoples, which highlight the benefits of preparing for retirement. These programmes should take into account the important characteristics of Pacific peoples we have identified, such as the existing commitments to the church, the extended family and the community. | Accepted principle*         | in The government supports piloting some programmes to test the most effective ways to target some Retirement Commission Personal Financial Education programmes to the specific needs of Pacific peoples. The pilot programmes will be developed and evaluated in consultation with the Ministry of Pacific Island Affairs. |
| 4.8 The Retirement Commission, in consultation with the Ministry of Pacific Island Affairs, facilitate research to see whether the current arrangements in which extended family groups establish trusts for various events, such as weddings and funerals, could be involved in superannuation funds and insurance schemes.   | Noted                       | The government agrees, as priorities permit, to the Retirement Commission and the Ministry of Pacific Island Affairs facilitating this research.<br><br>This work could be commissioned through the research fund discussed in recommendation 1.3.   |
| 5. Taxation of savings   |                             |  |

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Government Response to the Periodic Report Group Report

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| 5.1 Make it a priority in its tax work programme to resolve the tax non-neutralities arising from the indistinct capital/revenue boundary.  | Accepted                                     | The taxation review of savings will consider options for addressing the current problems with the taxation of investment income both domestically and offshore. These options may provide a mechanism for addressing this recommendation.   |
| 5.2 Continue its work to resolve disparities in the treatment of international investments.   | Accepted                                     | The taxation review of savings will consider options for addressing the current problems with the taxation of investment income both domestically and offshore. These options may provide a mechanism for addressing this recommendation.   |
| 5.3 Revisit options, such as those developed by the Working Party on Taxation and Life Insurance and Superannuation Fund Savings (TOLIS), to address inequities in the taxation of superannuation funds and life insurance companies. | Accepted                                     | The taxation review of savings will consider options for addressing the current problems with the taxation of investment income both domestically and offshore. These options may provide a mechanism for addressing this recommendation.   |
| 5.4 For equity reasons, either remove the tax advantage for employees earning over \$60,000 on employer contributions to superannuation funds or make it available to all taxpayers irrespective of their marginal tax rate.          | Deferred                                     | A decision to remove the tax advantage for employees earning over \$60,000 on employer contributions to superannuation funds should only be taken after consideration of the options developed as part of the taxation review of savings.   |
| 5.5 Review the fund withdrawal tax and remove it if there is no compelling evidence it is successfully acting as an anti-avoidance mechanism.   | Deferred                                     | Officials are monitoring the impact of salary sacrifice arrangements on the new Specified Superannuation Contribution Withholding Tax rules to determine whether employer contributions are being channelled through superannuation funds to avoid tax and the significance of that avoidance risk. Until the results of this monitoring exercise are known, the fund withdrawal tax should not be removed. |
| 6. Financial services market and regulation   |  |   |
| 6.1 The government remove the prospectus requirement from employer superannuation schemes, as proposed in the Business Law Reform Bill currently before Parliament.   | Accepted (no change to current arrangements) | Employer superannuation schemes have been exempted from the requirement to maintain a prospectus in the Securities Amendment Act 2004 (received royal assent on 14 April 2004).   |

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|--|-----------------------------|--|
| 6.2 The Ministry of Economic Development and the government Actuary review how much leakage is taking place from employer superannuation schemes because of written consent requirements for member transfers, and assess whether it is practical to better facilitate transfers in cases where transfer provides equivalent benefits. | Noted                       | <p>The information received by the Government Actuary, as per section 21 of the Superannuation Schemes Act 1989, (a set of audited financial accounts as at the date of windup) does not provide an analysis of the cash paid out to members and/or assets transferred to another registered superannuation scheme.</p> <p>The level of leakage cannot therefore be readily assessed. The Ministry of Economic Development will, however, consider for inclusion on its ongoing work programme whether there is a more practical method to better facilitate transfers in cases where transfer provides equivalent benefits and in particular where the transfers are between Master Trusts' products providing equivalent benefits.</p> |
| 6.3 The Retirement Commission promote best practice guidelines for dispute resolution for group and employer superannuation scheme members.  | Accepted                    | The Retirement Commission has already developed best practice guidelines. The government will ask the Retirement Commission to promote the existing guidelines more widely.  |
| 6.4 The financial services sector develop an agreed approach to self-regulation of financial advisers and report to government with a comprehensive proposal by the end of 2004.   | Deferred                    | On 26 August, the Minister of Commerce, Hon Margaret Wilson, announced that she would establish a Task Force on the Regulation of Financial Intermediaries to examine current regulation in New Zealand and suggest options for reform that will ensure effective consumer protection of retail investors. The Task Force is due to report within 6 months of commissioning. Government decisions are expected in mid-2005 as part of the Review of the Securities Act and Other Issues, the final phase of the government's four-part securities markets law reform programme.  |
| 6.5 The government's proposed review of the tax rules applying to life insurance consider the tax barriers to the development of annuities; in particular, home equity reverse annuity mortgages.  | Accepted                    | The taxation review of savings will consider options for addressing the current problems with the taxation of investment income both domestically and offshore. These options may provide a mechanism for addressing this recommendation.  |
| 7. Implementing PRG 2003's proposed work programme   |                             |  |
| 7.1 An ongoing work programme, based on the government's response to PRG 2003's recommendations, is established to replace six-yearly reviews.   | Accepted                    | The government's response to the PRG report will form the basis of a retirement income work programme.   |

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| 7.2 The Retirement Commissioner monitors the progress of the work programme.  | Accepted                    | The government will ask the Retirement Commissioner to monitor the progress of the work programme and report to the Minister of Finance and Revenue and the Minister for Social Development and Employment annually (the reports would be publicly available with the first report to be provided to Ministers by the end of 2005). The government will provide \$90,000 to the Retirement Commissioner in 2004-05 for this task. Any additional baseline funding for this function will be considered in Budget 2005.   |
| 7.3 The Retirement Commission establishes an advisory group to provide a mechanism for stakeholders to provide input into the work programme. | Noted                       | <p>The Retirement Commissioner already has an established group of significant stakeholders with an interest in retirement income. This group provides a valuable mechanism to obtain stakeholder input to the work programme.</p> <p>As part of the MSD led exercise to recommend appropriate governance arrangements (refer recommendation 1.1) consideration will also be given to other mechanisms to obtain stakeholder input.</p>  |
| 7.4 By the end of 2007 the Retirement Commission, in consultation with the advisory group, review retirement income policy.                   | Accepted*                   | <p>The government agrees that there is value in the Retirement Commissioner undertaking a review or 'stock take' of retirement income policy by the end of 2007 and at three yearly intervals thereafter. The government will include this requirement for 3-yearly reviews by the Retirement Commissioner in legislation.</p> <p>These reviews will maintain an independent assessment of whether New Zealand's retirement income policy framework continues to work well for New Zealanders. The scope of the 2007 review would be along the lines suggested by the PRG in their report.</p> <p>The Retirement Commissioner would report to the Minister for Social Development and Employment on the results of the reviews with those reports being publicly available. This review requirement will address any concerns regarding a reduction in public reporting given the removal of the PRG function.</p> |

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