UK can learn from New Zealand

The New Zealand Retirement Commissioner has been in town. (New Zealanders do not, apparently, use the word "pensions"). One of our major insurers thought UK politicians and their own industry might have something to learn from her. They were right! But, more interestingly, why does New Zealand Government want a Retirement Commissioner?

Are pensions in New Zealand as inadequate as they are here? New Zealand public pension provision looks pretty straight forward to most of us in the UK. New Zealanders become eligible for the New Zealand superannuation at the age of 65. The scheme used to be contributory but almost no-one can now recall when it switched to a tax-based system. At the magic age of 65 New Zealanders can therefore expect a state pension of 42 per cent of average earnings for a single pensioner and a staggering 65 per cent of average earnings for a couple. Not bad.

So was the Commissioner appointed because politicians believed that the cost of this scheme was unsustainable over the long-term? No. The current cost is, amazingly, less than four per cent of GDP which probably tells us something significant about the age profile of the New Zealand workforce. Even 50 years hence that sum will rise to only 8 per cent of GDP.

In order to meet that bill without increasing taxes a separate New Zealand superannuation fund was established in 2001 to build up a fund to help finance future pension costs. The fund is being increased through tax contributions and investment growth. No increase in taxes for the superannuation scheme itself is expected for another 20 years. So what exactly does the Commissioner do?

Their parliament has laid down three broad functions. The first is that the Commission reports regularly on whether Government pension's policy is stable and effective. Its second duty is to monitor public trust in financial services. Its third task, and one which takes an increasing amount of its efforts, is to educate the New Zealand population about the need to save.

The Commission is currently undertaking a national survey to gauge the levels of financial literacy. This is where interest in the NZ Commissioner's work is focusing. For a pittance, Diana Crossan has created a range of fun, interactive games that teach children and adults how to save appropriately for their needs. Out of a population of only 4 million, the site is attracting about three quarters of a million hits a year. That, by any measure, is a success. In the decade since the Commission was created, personal savings in retail funds has almost doubled, from 12 to 20 per cent.

The Commissioner, Diana Crossan, is extraordinarily impressive, a real person rather than a pensions anorak. But I could not help wondering why the New Zealand Government established this post. Most Brits would sell their granny for a pension like that delivered by the state in New Zealand. There is no great need for individuals to save excessively for their retirement even though 14 per cent and 20 per cent of the working population respectively are members of occupational or personal pension schemes.

The New Zealand financial services are highly deregulated. But in New Zealand's circumstances does that matter too much? And while this is a country with more than a good dose of the Puritan Ethic savings belief there is far less urgency on this front in New Zealand than there needs to be in Britain.

So, back to the original question: why a Retirement Commissioner? In politics, the truth is usually stranger than fiction. In 1997 New Zealand's electorate was asked if it would agree to a compulsory retirement savings scheme. The polls showed that, while voters were in favour of the move, they so disliked the minister making the proposal that the idea was given a thumbs down.

Politicians from all parties, distressed at such a rebuff, decided that one aspect of the reform could be salvaged, namely, establishing a retirement commission. Why should we Brits care?

Let's speed forward a little. Suppose the Turner Commission fails to turn in a unanimous report. The Prime Minister decides that mega pension reform is not going to be part of his legacy. The Treasury has already offered the DWP a modest pension Bill. The inclusion of a pension commission would give a positive spin to what will be essentially a pretty empty measure.

One of Diana Crossan’s private meetings was in the British Treasury who, no doubt, eagerly hoovered up her ideas. Let us hope that politicians in Britain can, if major pension reforms are not forthcoming, salvage something similar to a New Zealand Retirement Commission.

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