From Social Policy to Economic Policy: Taxation Incentives for Retirement Income Savings in New Zealand (1910 – 2005)

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Abstract

New Zealand has seen a change in policy direction from the provision of taxation incentives for retirement income savings from 1910 through to 1988, to removal of all incentives from 1988 through to 2004. In 1910 the focus was primarily on decreasing state dependency, while simultaneously assisting individuals to be self-reliant. By 1988 the focus had moved to increasing efficiency and removing inequities that were present in the incumbent scheme. In 2004 and 2005 the New Zealand Government demonstrated that they are no longer opposed to providing 'incentives' to encourage retirement income savings, with the implementation of schemes targeted at the individual level and the work-based level. The indication is that taxation incentives to encourage retirement savings are more likely to be witnessed in a welfarist political environment. Conversely if the political environment has a stronger neo-liberal focus, the support for taxation incentives is likely to reduce.

FROM SOCIAL POLICY TO ECONOMIC POLICY: TAXATION INCENTIVES FOR RETIREMENT INCOME SAVINGS IN NEW ZEALAND (1910– 2005)

Introduction

The New Zealand government has provided some form of state-funded retirement income for its elderly population since the Old Age Pensions Act (OAPA) in 1898. Over the next 100 or so years (1898-2000) there were three main periods of differing approaches to retirement income provision that can be delineated by pivotal legislation. In addition, during this 100-plus year period there have been a variety of viewpoints expressed on the advantages and disadvantages of providing taxation incentives to encourage private retirement income savings by individuals. Today no deliberate taxation incentives associated with retirement income savings are provided in New Zealand.[1] Nonetheless, the debate continues as to whether the non-provision of retirement income taxation incentives is the appropriate path, particularly as the New Zealand population ages.[2]

The objective of this paper is to investigate the historical debates and policy arguments for, and against, the provision of taxation incentives for retirement income savings. The paper considers the debates (or lack of) that occurred during each of the three periods (1898-1938, 1938-1984, 1984-2000) to explain the nature and role of taxation incentives on retirement income savings. It then considers the approach taken in the current period (2000-2005).

Parker (1997) writes that history helps us put our present into context and better informs the accounting and management decisions we must make tomorrow. This is based on a utilitarianism view of history whereby historical research provides insights into the origins of current concepts and practices and can provide explanations and solutions to contemporary issues as well as informing future directions (Napier, 1989). This research considers previous policy decisions in order to build a

view of how well history assists in explaining the present situation, which may, in turn, help to inform future policy decisions.

Research on taxation in New Zealand is limited. Hooper (1998) provides an overview of the origins of New Zealand customs, excise, income, land, estate and other taxes and duties, while Holmes (2001) examines the origins of income. More recently, Hooper and Kearins (2003 and 2004) consider the historical aspects of nineteenth century New Zealand taxation, using a genealogical methodology based on the work of Foucault. Their first paper examines the implementation of capital taxation and public finance and the impact on Māori. It concludes that taxation by pre-emption (the monopoly purchase of Māori land by the New Zealand Government for resale at inflated prices between 1840 and 1859) is in substance a capital gains tax on Māori landowners. The second paper considers the wealth tax affect caused by Māori land confiscation, which provided the Government with a major revenue source in the 1860-1880 period. This study, on taxation incentives for retirement income savings, covers a later period of New Zealand history than the above, and investigates an area not covered by previous New Zealand taxation histories.

This paper commences with an overview of superannuation and related taxation incentives during which the research method is presented. Following this, the theoretical background used for analysis is detailed, outlining some of the fundamental justifications used for the provision of taxation incentives. The following three sections analyse the policy changes for each period together with any discussions that occurred around the proposed policies. The paper concludes with a discussion on the extent to which history can explain the present day situation.

Background and method

One of the key analytical tools used in historical research is that of periodisation. This allows us to make sense of historical events over an extended time frame by separating the chronology into specified time divisions. The classification of the periods requires the identification of significant

events, dates or turning points that determine change and allow the researcher to divide the chronological timeline. Researchers need to identify "*an event of such significance that it would mark the beginning of a new period*" (Phillips, 2002, p.371; Lieberman, 2001). This paper analyses the debates around taxation incentives and retirement incomes savings during four periods in New Zealand history, including the current approach.[3]

1. The Liberal State (1890-1935).
2. The Welfare State (1935-1984).
3. The Neo-Liberal State (1984-2000).
4. The Neo-Welfare State (2000-2005).

These periods are based on a Weberian interpretation of the development of New Zealand that focuses on the contingent and contextual nature of the State; that is, State formation and the development of State institutions based on the nature of the social forces that intrude on the State and the social policies originating from the State (Wilkes, 1993; Thorns and Sedgwick, 1997).

In each of these periods the role played by the state differs. The Liberal State resulted from the election of a Liberal Government (a coalition of small farmers, workers and manufacturers) and was a result of firstly, the 1880s long depression, where the number of settlers who were unable to avoid poverty grew, and secondly, a change to a one-person one-vote system (McClure, 1998). This Liberal Government laid the foundation for the welfare state via state intervention and regulation. It reformed land ownership by imposing a steep graduated land tax that broke up the land monopolies, and introduced labour regulations and legislation. New social polices gave targeted support for old age. The OAPA 1898 provided a modest pension of £18 a year (or around one-third of a working-man's wage (Preston, 1999)) to people aged 65 years and over who met certain criteria such as residency requirements, being of good character, and an income and asset test (Ministry of Social Development, 2003). Only around one-third of the population aged over 65 qualified for the pension, and targeting measures meant that most Māori received less than the full rate. Furthermore, until 1936 individuals of Asian nationality were excluded. The OAPA 1898 was amended several times in subsequent years.

After the implementation of the targeted old age pension, successive governments looked for ways to encourage people to provide for their own retirement rather than relying on state funded pensions. The incentives introduced included the establishment of the National Provident Fund in 1910, and tax concessions for investment in private superannuation, the investment earnings of superannuation funds, and employer contributions to superannuation funds. Nonetheless increasing political agitation and changing social forces in the 1910-1935 period along with World War I and the depression led to the election of the 1935 Labour Government and a significant change to State policy and institutions (Wilkes, 1993; Thorns and Sedgwick, 1997; Hooper, 1998).

After the 1935 election, welfare arrangements based on the ideals of security, citizenship, universalism and equity were introduced (MacGregor, 1999). The result was a "*…coalition formed of Labour, Capital and State*," (Thorns and Sedgwick, 1997, p.176) based around full employment, economic growth and targeted and universal social welfare support. This was a response to the recent hardships and the perceived failure of neoclassical economic policies. The policies introduced were based on the nuclear family and the male breadwinner and incorporated a 'cult of domesticity' and 'ethnic paternalism' and hence ignored minorities such as women and the Māori (Wilkes, 1993; Thorns and Sedgwick, 1997; MacGregor, 1999).

The 'watershed' Social Security Act 1938 saw the introduction of a dual publicly provided pension system. People of retirement age, who had been resident in New Zealand for twenty years, were able to choose between an age benefit, which was not taxed, but was subject to an income test, and payable from the age of 60 (Social Security Act 1938, s14 – 17); and a superannuation benefit, which was not income tested, but was taxable, and payable from the age of 65 (Social Security Act 1938, s13). Individuals that did not qualify for the means-tested age benefit of initially £78 per year received the universal[4] superannuation benefit (of initially £10 p.a. with yearly increases of £2-10s, until parity was reached with the means-tested benefit) when they reached 65 years of age (Rice, 1992). This system changed little until the 1970s when governments attempted to incorporate some of the minorities, such

as women and the Māori into the Welfare State. For a brief 22 month period in the mid 1970s New Zealand had a compulsory contributory superannuation scheme (1975-1977), which was highly unpopular and very short-lived. Throughout this period taxation incentives were provided for private retirement income savings, however, there were no significant changes in policy relating to retirement savings, and the taxation thereof.

Nevertheless, due to changing environmental, social and economic forces in the 1970s and early 1980s the Labour Government, elected in 1984, made significant changes to State policy and institutions, based on a neo-liberal ideology. Neo-liberal principles envisaged a minimal role for the State, with a focus on market forces, competition and individual choice. This period (1984-2000) resulted in a retrenchment from the ideal of full employment, a reorganisation of government administration and process, reform of social welfare and the implementation of a new tax regime (Wilkes, 1993; Thorns and Sedgwick, 1997; Hooper, 1998; MacGregor, 1999). It also resulted in the removal of taxation incentives for retirement income savings.

The election of a Labour Government in 1999 appears to have repositioned New Zealand in a neo-welfare state. Among its welfare policies has been the introduction, in July 2004, of the State Sector Retirement Savings Scheme. While the scheme is not tax-preferred, employer contributions (i.e. government subsidies) are provided up to six per cent of the public sector employee's base salary.[5] A second, more significant, initiative was introduced in the 2005 Budget. This scheme introduces work-based, voluntary savings accounts, known as 'Kiwisaver accounts'. Kiwisaver is due to commence in April 2007, and after this date employees aged 18 years and over will be automatically enrolled with a Kiwisaver account on commencement of new employment. A three-week opt out period will exist[6] with the onus on the employee to advise the Inland Revenue Department if they intend to take this option. Contribution rates will be set at either four or eight per cent of salary, and will be 'locked in' until retirement, with certain exceptions.[7] As with the State Sector Retirement Savings Scheme, the accounts are not tax preferred, but 'incentives' will exist in the form of a $1,000 government contribution to each new KiwiSaver account, together with a fee subsidy. These new initiatives, that

promote individual responsibility in conjunction with government assistance, suggest a change to a social policy focus that permits taxation incentives for retirement income savings.

The information in this paper is derived from both primary and secondary sources of information. Primary sources include the parliamentary debates and newspapers of the periods under investigation. The paper uses a narrative approach to build a view of the past, with a particular focus on the economic and social perspectives of the time. Previts, Parker and Coffman (1990) write that even pure narratives must employ explanation and seek in some manner to predict. This paper adopts an economic theory framework to provide this explanation. The analysis focuses on any debates and discussions that occurred at the time of each policy change and focuses on the key piece of legislation involved. Economic theory is used to group the various arguments of each period. Nevertheless, as it is recognised that neo-classical economics has developed significantly during the second half of the twentieth century, economic theory is predominantly used as a basis from which to consider the arguments raised during the periods discussed, rather than as a measurement of sufficiency or completeness.

The theory of taxation incentives

This section discusses the literature on taxation incentives. For the purposes of this paper, incentives are considered to be any concession, rebate, credit, subsidy or contribution the government makes, either directly or via an employer, towards an individual's retirement income saving. The economic and policy justifications commonly raised relating to taxation incentives are numerous. This paper does not attempt to cover the range of arguments and perspectives on the topic of taxation incentives, instead it will use some of the fundamental theoretical views expressed as a framework for the discussions that follow. These theoretical arguments are covered in this section. Firstly, some of the primary arguments in support of taxation incentives are outlined, followed by those against taxation incentives.

Arguments in support of taxation incentives

Increased national savings

There is mixed evidence on the likelihood of an increase in national savings occurring as a result of taxation incentives. The best available estimate is that up to 30% of balances resulting from incentives are new savings, while the remainder of savings represent funds redirected from other extant savings schemes. However, there is general agreement that income constraints prevent a large part of the population from saving for retirement at any meaningful level.[8] Saving will only be achieved to the extent that individuals fund contributions by reducing consumption or increasing labour supply; transfers from other savings mechanisms, increases in debt-holdings or reductions in existing asset holdings will not increase national savings (Engen, Gale and Scholz, 1996).

Economic growth

An argument for encouraging saving is that even in economies with imperfect capital mobility, higher levels of saving leads to more productive investment and ultimately wider economic development. However, the effects that increased savings may have on economic growth are uncertain. The OECD (1994) concludes that if savings can increase investment in human capital or research and development, then the productivity of investments in physical capital financed out of the extra savings is increased, which would lead to a virtuous circle of growth. If, however, these virtuous circles of growth do not exist the impact of an increase in savings (and accordingly an increase in investment in physical capital) would be to increase the capital intensity of production, which would in turn lead to short-term increases in growth. However, over the long term, growth would be determined by the increase in labour supply.

Schulz (1992) writes that it is a common misconception that there is a direct relationship between the personal saving of individuals (for retirement and other reasons) and economic growth. While there is a need for saving to facilitate investment in the economy, there are a variety of ways such saving can be accumulated; for example, in corporate production the majority of funds needed to finance new investment comes from internal funds saved by the corporations themselves. Furthermore, the level

of savings within any country is made up of private, corporate and state funds, not just individual savings. Many economists caution that even if individual savings were to increase, this would not necessarily increase investment, productivity or growth. There is also the potential for savings incentives to distort the allocation of funds in capital markets. The OECD (1994) argues that it is possible for this distortion to be more significant than any tax-induced increase of savings.[9]

Decrease dependency on state provided retirement income

The provision of a tax incentive now, to achieve a saving in the future (i.e. reduce dependency on state-provided income) requires the value of the tax incentive to be recouped in order to be economically efficient. Rewarding saving (as with work force participation) has the potential to reduce future dependency traps. The OECD (1994) notes that some authors have found that increasing the possibility of financial independence in old age may motivate households to save more in other forms.

Change behaviour

Tax incentives may change peoples' behaviour by encouraging them to take responsibility for their own retirement income. This can include encouraging them to start saving adequately and earlier, and in the case of those who are already saving, to save more (New Zealand Government, 1992). Assuming a degree of rationality exists in individual behaviour, tax incentives may act to encourage taxpayers to provide for their own retirement through reduction of potential free-riding behaviour, whereby the trade-off between the risk associated with reliance on entire government provision of retirement income is tempered by the incentive to undertake self-responsibility in this regard.

Arguments against taxation incentives

Inefficiency

Inefficiency is created as incentives are provided on a universal basis, and accordingly they do not differentiate between individuals who would have saved without the presence of the incentive. Accordingly, incentives are allocated both to where they are needed to encourage saving, as well as to

where they are not. Furthermore, efficiency is decreased to the extent that the benefit provided by the incentives is greater than any additional saving created as a result of the policy. Incentives will only increase personal saving to the extent that individuals fund their contributions by reducing their consumption. Contributions that are funded by reducing saving through other mechanisms, while at the same time paying fewer taxes, will not raise overall savings.

Where different savings instruments are close substitutes and one receives advantageous tax treatment over another there is clear evidence of a very high degree of switching out of the more highly taxed assets into those which are tax privileged (OECD, 1994). As departures from equivalent taxation of different savings vehicles will tend to divert savings away from assets which offer the highest rates of return before-tax, into assets that are less productive but yield greater after-tax returns because of the preferential tax treatment that they enjoy, tax relief for specific types of saving may stimulate the overall level of saving at the expense of an efficient allocation of saving (OECD, 1994).

Expense

There is significant fiscal cost associated with the provision of a taxation incentive. The possibility that any increase in the quantity of savings might be achieved at the expense of a decrease in the quality of savings represents a major potential cost of introducing taxation incentives (Goss and Duncan, 1999). Research undertaken by Engen, Gale and Scholz (1996) finds that where savings incentives indicate increased savings, the results can be traced to various biases that overstate the effects of saving incentives. When these biases are removed the positive effect of the incentives of savings is removed. Research by Jump (1982, cited in OECD, 1994) examined the effect of tax incentives on the rate of savings in Canada. Jump (1982, cited in OECD, 1994) concluded that the incentive would effectively be a lump-sum transfer that would not encourage saving at the margin. Jump (1982, cited in OECD, 1994) observed that such incentives required the government to set higher tax rates, and accordingly may actually have perverse effects insofar as the incentives have been financed by increased taxes.

Equity

Distributional effects are likely to rise because tax incentives are most likely to benefit higher income earners.[10] Burman, Gale and Orszag (2004) argue that evidence suggests that high-income, high-wealth households are more likely to finance contributions to tax-preferred accounts through shifting assets from other sources, whereas middle-income households are more likely to finance contributions through a reduction in consumption. Accordingly, higher income households are more likely to be accumulating adequate private wealth to maintain current living standards in retirement, regardless of the existence of tax incentives, whereas low or middle income households are more likely to face difficulty accumulating adequate amounts for retirement. The outcome is that retirement saving programs will not encourage saving where it is most needed.

Munnell (1982) writes that where tax concessions are given for private retirement plans, all taxpayers must pay higher taxes to make up foregone revenues, whereas not all taxpayers will be covered by such private plans. Munnell (1982) also notes the potential for benefits of tax concessions to accrue primarily to higher paid workers because the value of deferral increases with a worker's marginal tax bracket.

Distortion of decision making

The presence of taxation incentives may act to distort decision-making between different types of savings vehicles, whereby individuals will invest their funds in the vehicle that will provide the greatest returns. Where some institutional investments such as pension funds are tax-advantaged, neutrality is removed from the taxation system and may lead to lower overall rates of return to private savings as the tax benefit will shelter providers of preferred products from the pressure to perform faced by their non-tax-advantaged competitors. This then results in the tax benefit being dissipated through lower before-tax rates of return.[11] This pattern of distorted decision making may act to discourage risk-taking, as these non-risk-seeking institutions are generally reluctant to provide venture capital to newly established small companies which have been considered as being in the forefront of technological developments and providing large employment opportunities (OECD, 1994).

Conflicting theories exist regarding rates of return and impact on saving. Boskin (1982, cited in Swanstrom, 1989) has posited that savings respond to an increase in the after-tax rate of return – implying that tax cuts raise savings.[12] The converse to this is that higher rates of return may discourage savings, as they make it easier for individuals to reach their savings goals (Bernheim, 2002; Swanstrom, 1989). A study undertaken by Auerbach and Slemrod (cited in Engen, Gale and Scholz, 1996) finds a strong effect of tax-based saving incentives on the allocation of saving and assets, but little or no effect on the overall level of saving or wealth accumulation.

In summary, the theories discussed above are inconclusive regarding the extent of the impact that taxation incentives may have on increasing savings for retirement. Generally the theories that relate to macroeconomic benefits are the most uncertain. It is difficult to state with authority whether incentives are costly for the government as it is problematic to isolate the increased (or decreased) savings that occur from such a policy change. Tax incentives are only expensive to the extent that taxation revenues foregone exceed increased levels of savings.

Most studies conclude that tax incentives affect the allocation of household portfolios, but the effect on the amount saved is less clear (Japelli and Pistaferri, 2002; Auerbach and Slemrod, cited in Engen, Gale and Scholz, 1996). There is general agreement from researchers and politicians that taxation incentives favour those individuals that have the least need of them. There is also general agreement that the presence of taxation incentives may influence behaviour whereby individuals will make decisions based on the investment vehicle that will provide the greatest returns, thus removing neutrality from the taxation system.

The theories outlined are used as a framework to group the primary themes that arose from the discussions during times of policy changes. The following three sections investigate three periods of differing policy practice towards the provision of tax incentives for superannuation and the different roles of the state in each period.

1898 – 1938: The Liberal State

Towards the end of the nineteenth century events such as the 'long depression' (1878 – 1895) and a growing elderly population highlighted the need for public income support for the elderly. Consequently the highly targeted Old Age Pension Act 1898 was implemented in New Zealand. Hooper (1989) writes that the Liberal government of the 1890s did much to raise the prosperity of the country. Revenues raised through taxation produced *"a social welfare system that was the envy of many countries"* (Hooper, 1989, p.17). In the early twentieth century, New Zealand governments looked for ways to encourage people to provide for their retirement privately rather than expanding the scope of the tax-funded pension (Preston, 1999). Incentives introduced included:

- The National Provident Fund that was set up in 1910. The intent of the National Provident Fund was to provide state-subsidised pensions to low-income earners. This provided large government subsidies for those who joined as contributors to its superannuation scheme.
- Tax concessions for private superannuation were provided for in the Finance Act 1915. This resulted in individuals that were contributing to private superannuation funds receiving deductions from their taxable income of up to £100 a year.
- In 1916 concessions were extended to the investment earnings of superannuation funds. This saw investment earnings that accrued to superannuation funds receiving preferential tax treatment.
- In 1921 employer contributions to superannuation funds qualified for tax concessions.

The following subsection considers the debates around the first of these changes: the setting up of the National Provident Fund. This policy change was chosen as it was the first policy movement in this direction and accordingly it generated significant discussion.

The National Provident Fund scheme

Contributors to the National Provident Fund were required to be New Zealand citizens, between the ages of 16 and 45, and earning an income of less than £200 a year (National Provident Fund Act 1910,

s 9(1)). In return for a compulsory weekly contribution, together with a government-provided subsidy, a pension plan provided sickness insurance, family support measures and a maternity allowance. The relative generosity and welfare intentions of the National Provident Fund are indicated by the fact that membership was initially restricted to those with an income of less than £200 per annum.

The fund provided flexibility whereby contributors could elect to cease membership, in which case a return of contributions made to the fund would be received. Fund members would be paid a weekly pension[13] after turning 60 and contributors could elect the amount of provision that he (or she, although female participation was low) could elect to receive when reaching the age of 60. This ranged from a weekly pension of ten shillings up to a weekly pension of forty shillings, based on the level of original contribution (National Provident Fund Act 1910, s12(1)).

Under section 25(1) of the National Provident Fund Act 1910 the benefits provided were guaranteed to contributors by the government. Furthermore legislation allowed for the fund to be supplemented by the government to the amount of one-fourth of the total contributions paid into the fund during the preceding year, with further amounts (if any) deemed by the Governor-in-Council (National Provident Fund Act 1910, s25(2)). In reality the subsidy proved to be much greater than the one-quarter allowed for by legislation, in effect being almost pound for pound subsidisation (Thomson, 1998).

Arguments in support of the National Provident Fund

Overall there was considerable support for the National Provident Fund from all major political parties. The discussion that follows considers the primary arguments that were proposed in support of implementation of the National Provident Fund.

The duty of the State and decreased dependency

There is some disagreement about the original purpose of the National Provident Fund. The New Zealand Government Consultative Document on Superannuation and Life Insurance (1988) states that the National Provident Fund was explicitly designed as a vehicle for targeting and distributing

government welfare assistance to "*the poorer classes of our community*". There were a number of views raised at the time to support this perspective including that of the Attorney-General of the time, the Hon Dr Findlay, who said:

> *"this class of legislation was symptomatic of a very great movement. It is still further proof that this country is recognising with clearer vision that the duty of the State is to do all it can to help those who genuinely need assistance".* (The Dominion, November 12, 1910)

However, newspaper articles of the time stated that the government was determined to encourage growth of self-reliance in an environment where private pension scheme evolution had been slow. This was despite the apparent willingness of New Zealanders to invest in life insurance policies during this time (Thomson, 1998). A further line of reasoning was that the National Provident Fund was established to satisfy a gap that was not met by 'friendly societies'[14] and other organisations. The guiding principle being:

> "*intervention of the state to induce the wage earners to make provision for certain of the eventualities of life, the state bearing a share of the costs*".[15]

The then Attorney-General, the Hon Dr Findlay is cited as saying that:

> "*New Zealand recognised years ago that it was the duty of the State to provide for people in the shape of an old-age pension. It is of great importance that people who are doing the best they can for themselves, should not be left to suffer privation so long as the people as a whole can, without undue burden, help them. The justification of the State aid which underlies this Bill is found in the work that has already been done by nearly all the advanced nations of the world*". (November 10 1910, the National Provident Bill in Council)

There may also have been a view that contributing to this type of saving mechanism remained within the parameters of receiving state aid – or charity. This is reflected in an opinion expressed by the Hon J E Jenkinson during the third reading of the Bill, where he stated he was *"totally opposed to the State aiding any fund whereby pensions should be granted to persons who were able to help themselves*". A similar opinion was stated by the Hon J Rigg who is quoted as saying that the Bill subsidised annuities *"for men of small means…it gave something for nothing"* (The Dominion, November 16, 1910).

Change savings behaviour

There was an indication of a desire to induce individuals to increase their levels of savings. Mr E Newman (House of Representatives) believed that *"undoubtedly it is the duty of the State to induce people as far as possible to be thrifty and saving"*(NZPD, 1910a). Mr Newman is quoted as saying:

> "*Unfortunately a large number of people who are quite capable of saving money, and are willing to deny themselves to do so, are not capable of investing the money so saved to advantage, and many have the sad experience late in life of losing their savings. This measure will meet the case of such people. But this Bill deals with thrifty people, while the real difficulty, of course, is to make the unthrifty people provide for old age and sickness. This would mean compulsion"* (NZPD, 1910a).

Arguments against the National Provident Fund

There were two main arguments raised against the implementation of the National Provident Fund. These related to the cost of the scheme, and the potential for inequity (or unfairness) to result from its presence.

Expense

Overall the financial burden was not viewed as being potentially onerous in the future. The Right Hon Sir J W Ward (Prime Minister) noted during the second reading of the Bill that:

> *"in the course of five years from now I calculate as a result of a careful investigation into the matter that the proposals contained in this Bill will require a contribution of possibly £50,000 from the Government. The amount the Government is called on to contribute is not by any means a heavy one, but it is sufficient to constitute a sound basis for the fund…"* (NZPD, 1910a).

However, Mr W F Massey, the Leader of the Opposition believed that New Zealand was probably spending more money per head *"in these directions"* than any other country in the world. Nevertheless, Mr Massey is quoted as saying during the second reading:

> *"I am quite certain that whatever the Bill costs us by way of subsidy will be recouped to the country later on – that is to say, the inducements held out in connection with this scheme will be sufficient to encourage thrift and industry and the making provision for old age, on the part of many people who would not otherwise attempt to do anything for themselves and who*

eventually, perhaps, would become a burden on the State in the way of old-age pensions and charitable aid. Though there may be a deficit at first it will come back to us in years to come" (NZPD, 1910a).

Lack of equity

Concern for fairness appeared to be confined to whether the fund could be exploited by the wealthy and its potential to exclude workers that were not in constant full-time employment. Mr A S Malcolm (House of Representatives) said:

> *"I fear that in practice it will be found to provide for the wealthy rather than for the poor. The provision under which anyone of sixteen years of age, no matter how rich the parents may be, can become a contributor to the fund will mean simply this: the wealthy – who are in a position to contribute – will make a point of insuring their children as they reach the age of sixteen years, and have 25 per cent of their contributions paid by the State. Those who are poor will not find themselves able to join the fund or to insure their children, so the 25 per cent of the contributions paid by the State will advantage the wealthy and not the poor"* (NZPD, 1910b).

This would appear to indicate a concern for tax planning measures that might be undertaken by wealthier individuals, where National Provident Fund accounts could be opened in children's names in situations where parents were wealthy enough to be able to meet the contributions.

A view was expressed by the Hon J Rigg that there would be thousands of workers who would like to take advantage of the scheme but who would be unable to do so because their employment was so intermittent (NZPD, 1910b). When asked what the situation would be in the case of a worker whose employment was intermittent the Prime Minister replied that the provision existed for an individual to pay in advance, and there was a further provision of six months' grace given to a contributor to enable payments in arrears to be made without any penalty. The Hon J Rigg continued to say:

> "*in conclusion I want to say that I have not attempted to deal with the broader and more difficult question of making provision against poverty in the wider sense. In that connection ... I presume we are in all countries,*[sic] *unhappily, for all time likely to have a section of the poor ever with us*" (NZPD, 1910a).

While there was both support for, and arguments against, the National Provident Fund Act during its preliminary stages, the majority appeared to support the initiative. The two primary arguments raised against the scheme did have an economic basis and related to the cost and equity, although neither appeared to be a significant concern at the time. With the exception of those related to changing behaviour, the discussions did not have a strong link to the theories proposed above, although this is not surprising as the theories have largely evolved since the implementation of the National Provident Fund. The stronger focus of the time was on providing an incentive – and the means – to allow individuals to save for their own retirement.

1938 – 1984: The Welfare State

From the early few years of the century until 1938 there was little innovation in the welfare field in New Zealand (Rudd, 1993). The next significant event came from the implementation of the Social Security Act (1938), which introduced the first effectively universal retirement benefit. The two-tier public pension system introduced by the Act was to last through to the 1970s.

After the achievements in the welfare field under the first Labour Government, the periods of the 1950s and 1960s were "*relatively barren years*" (Rudd, 1993, p.228). The various taxation concessions that were implemented from 1915 onwards, such as the deductions from income for tax purposes (to defined limits) for contributions to approved pension funds, and the deductions for employers for subsidies paid to approved pension schemes for their employees, remained largely unchanged until 1982. There was little movement on the provision of taxation incentives, with the exception of some minor changes in rates of subsidies. Asset testing on the age benefit was removed in 1960. There was little discussion of significance on the issue of taxation incentives between 1938 and 1984.

Around the mid 1950s the National Provident Fund's Annual Reports recorded that about half of those eligible employees had joined the National Provident Fund. In the late 1960s this figure began to decline. Despite the tax concessions, by the 1970s only about one-third of the labour force were members of superannuation funds (Holmes, 1975). Thus the majority were relying on State provided benefits, other forms of saving, or private assistance to provide for retirement in old age. This may, in part, reflect the relative generosity of the State provision, which reduced incentives for individuals to undertake their own retirement income savings.

Towards the end of this period there were signs of both dissention between the political parties with regard to superannuation and a greater public awareness and concern with the future of superannuation. Two schemes were tried; the first was in 1974 when the Labour Government passed the New Zealand Superannuation Act 1974, which implemented a compulsory contributory superannuation scheme. The compulsory scheme was to have had combined contribution rates for employees and employers of up to eight per cent of earnings, which were to fund individual contributions-related pensions at retirement (Preston, 1999). However, the scheme was highly unpopular and played no small part in the success of the National Government in the next election.

The second scheme tried was when the newly elected National Government repealed the short-lived compulsory superannuation scheme in 1976 and New Zealand returned to a universal superannuation scheme titled National Superannuation. Superannuation was now financed out of ordinary government revenue, whereas prior to this time the social welfare benefits of the Social Security Act (1938) were funded by a compulsory contribution (social security tax) to the Social Security Fund (King, 2003). National Superannuation was a generous superannuation scheme, with a provision of 80 per cent of the average wage by 1978. Rates in other countries were noticeably lower, for example the USA was 49 per cent, Australia 40 per cent, Britain 38 per cent and Sweden 32 per cent of the average wage (McClure, 1998). A single person was entitled to 60 per cent of the married pension. There were few qualifying criteria, and no requirement to be retired to qualify for the pension. The generosity of the scheme was, in many ways, its downfall. Between 1975 and 1977 the number of

individuals receiving a government pension rose 28 per cent, with total pension costs increasing by 69 per cent between 1975/76 and 1977/78 (Preston, 1999).

This generous superannuation provision was at a time of deteriorating economic performance in New Zealand, which led to further pressure on government spending. No taxation increases were linked to the increased costs of superannuation, and there was no apparent consideration given to providing incentives for individuals to provide for their own retirement. Given that membership of superannuation funds such as the National Provident Fund or the Government Superannuation Fund had been declining since the mid 1970s,[16] the situation in New Zealand during this period would tend to indicate that the provision of tax incentives to encourage individual retirement savings is not effective in the presence of generous state provision of retirement income savings.

1984 – 2000: The Neo-Liberal State

During the 1980s and 1990s New Zealand was to experience considerable social policy change. Both Labour and National Governments turned from an interventionist state model with a sheltered economy to a deregulated economy, a more minimal state and *"a range of strategies to lighten what came to be called the welfare burden"* (McClure, 1998, p.210).

When the Fourth Labour Government won the 1984 election, economic progress was of primary concern to policymakers. The prosperity seen in earlier decades had disappeared and the new Minister of Finance, the Hon Roger Douglas, was faced with a near-bankrupt economy and the requirement to reduce government expenditure. Superannuation, as the costliest of the universal benefits, was the first area to be challenged, despite prior assurances to the population that superannuation would not be changed.

The Labour Government introduced an income test for national superannuation in 1985 and increased the age of eligibility to 65 (on a gradual basis), as well making it taxable (Rudd, 1997). In 1990 the National Government replaced National Superannuation with the Guaranteed Retirement Income Scheme, with an associated tax surcharge on 'other income' above a specified limit. As part of the deregulation process, the Labour Government enacted the Taxation Reform Act (No 5) 1988, which amended the Income Tax Act of 1976. Tax concessions on contributions to private and occupational pension or superannuation schemes were abolished, as were tax concessions to the superannuation funds themselves. The superannuation funds were required to pay the applicable standard company tax rate. The new 'level playing field' on investment resulted in funds paid from (fully taxed) private superannuation funds being received without further tax obligation due.

The New Zealand Economic Statement of December 1987 (New Zealand Treasury, 1987) outlined the new Labour Government's proposals for the future of superannuation, which included ensuring that individuals and companies were given the maximum incentive to earn and invest while shouldering their fair share of the tax burden. The objectives included improving the fairness of the tax systems by removing tax concessions that benefited some at the expense of others and ensuring that assistance was provided in an even-handed way to those whose needs were the same. The reforms included:

- changing the taxation rates for superannuation funds, life offices and related organisations;
- removal of personal and employer concessions for superannuation contributions, life insurance premiums and other related expenses; and
- making fund earnings taxable at full rates.

These changes were designed to move the tax treatment of superannuation and life insurance on to the same basis as other forms of saving and investment. Table 1 outlines the tax treatment of schemes as they stood in 1987.

Table 1: Taxation treatment of superannuation and life insurance schemes in 1987 [17]

	Tax Treatment of		
Type of investment	Contributions / premiums	Fund Earnings	Emerging Benefits
Pre-1984 life policies	Exempt	Taxed at 33%	Exempt
Post-1984 life policies	Taxed	Taxed at 33%	Exempt
Pre-1982 lump sum superannuation	Exempt	Exempt	Exempt
1982 – 1984 personal lump sum superannuation	Exempt	Taxed at 33%	Exempt
Post-1984 personal lump sum superannuation	Taxed	Taxed at 33%	Exempt
Post-1982 employer lump sum superannuation	Exempt	Taxed at 33%	Exempt
1987 Pension superannuation	Exempt	Exempt	Taxed

Source: New Zealand Government Economic Statement 17 December 1987.

Arguments for removal of incentives

In the mid to late 1980s a number of economic reforms of taxation incentives were enacted, most of which had the general aim of increasing efficiency. The majority of the arguments for removing the extant incentives had a neo-classical economic foundation. The primary arguments raised in support of removing the taxation incentives are outlined below.

Greater efficiency

Efficiency, or the inefficiency created through incentives, produced a strong argument for the changes witnessed at this time. Mr J R Sutton (MP for Waitaki) said during the first reading of the Taxation Reform Bill (No 5) 1988, which was to implement the changes, *"the market is the market. Though some people do not like it, it has to be recognised that market forces play a role in everybody's economic decisions"* (NZPD, 1988).

It was believed that the 'level playing-field' that would be created by removing tax incentives would force institutions to be competitive. Mr Sutton claimed that this increased competition would

encourage saving – as the reforms would make lower tax rates possible, and therefore make it easier for people to save (NZPD, 1988). Mr Sutton further claimed that:

> "*the superannuation funds will have to compete and sell their product on performance, instead of hocking off perceived tax advantages. They will have to convince people that investing money in superannuation funds will bring a better return than saving by themselves"* (NZPD, 1989).

It was claimed that removal of tax incentives would improve efficiency through decreasing government expenditure, which would allow for lower income tax rates – estimated by the Treasury (1987) to be a decrease of about 2.5 cents per dollar for all taxpayers. This, in turn, would increase an individual's ability and incentive to save.

Expense

In 1987 the Treasury announced that the existing tax privileges provided to superannuation and life insurance cost considerable sums of money in tax revenue foregone, claiming they contributed to a tax system that had incurred a high economic cost. The Treasury forecast that if the tax privileges continued into 1988/89, the privileged tax position of superannuation funds and life offices would (at the existing tax rates) cost the government $800 million in tax revenue forgone (in 1988/89 dollars).

Equity: who pays versus who benefits

When implementing the changes to the scheme the New Zealand Treasury (1987) acknowledged that:

> *"the tax expenditure resulting from the privileges afforded superannuation and life insurance is, to a large extent, captured by a section of society which is predominantly made up of male middle-aged professionals belonging to high-income socio-economic groups"*, (New Zealand Government Economic Statement, 17 December 1987).

In general, higher-income earners saved more than lower-income earners and so were in a better position to take advantage of the tax concessions.

Mr J R Sutton MP concurred that the new regime would remove the redistributive effects of the old regime. Mr Sutton claimed that:

> "*it is quite clear that the old regime was one of the principal mechanisms for keeping the rich rich at the expense of everybody else. The $900 million of tax subsidies*[18] *devoted every year to subsidising the retirement savings of a privileged group of New Zealanders came out of the hides of ordinary wage and salary earners. Other people could accumulate earnings tax-free, but the poor old wage and salary earners had to pay up-front every time*" (NZPD, 1989).

Ms P E Tennet (MP for Island Bay) claimed that when superannuation was offered as part of a remuneration package, it should not be paid for through the taxation system. Ms Tennet further noted that many people were not fortunate enough to be members of superannuation schemes:

> *"women who work at home and do not receive any income are not members of superannuation schemes, and most women who are in the paid workforce are not in superannuation schemes, because such schemes are usually not offered to people in lower-paid occupations; nor are they offered to ordinary office workers, or shop employees. Yet these people, through the tax system, have to subsidise those who are lucky enough to be in superannuation schemes"* (NZPD, 1989).

Arguments against removal of incentives

The arguments that were raised for retaining the taxation incentives relating to retirement income savings frequently involved the quoting of figures and statistics that differed greatly depending on the political persuasion from which the arguments were introduced. The primary arguments mentioned for retaining the incentives are outlined below.

Incentives increase national savings

The Treasury (1987) stated that the argument that superannuation taxation privileges are required to encourage savings did not stand up, claiming there was no rationale for encouraging savings through one particular institutional form. There was evidence that much of the savings that was put through superannuation schemes was withdrawn and spent before retirement. The Treasury claimed that the effect of the extant incentives was more likely to influence the form of savings, rather than the overall

level of savings. Moreover, the cut in income tax rates that was promised as a result of the removal of the incentives would allow for more effective saving than the incentives themselves.

In support of the reforms, Mr C D Matthewson (MP for Dunedin West) claimed that levels of savings in New Zealand were not low – indeed they were higher than the average level of all the OECD countries (NZPD 1989). Mr Matthewson stated that Japan had the highest savings as a percentage of gross domestic product at 17.5%, while New Zealand had 12.7%. The OECD average was 8.2% and Australia was 3.7%.

Mr Matthewson stated that the changes would not inhibit savings, providing two sources of evidence*:*

> "*the first is the reaction to the removal of the tax exemption for superannuation contributions. Since that change was made the superannuation schemes that have been cancelled represent 0.6% of the superannuation funds. The other example for that would be the figures for life insurance that has been taken out. Since the tax exemption was removed life insurance premiums paid by New Zealanders have reached a record level*" (NZPD 1989).

Mr Matthewson claimed that the reason for this is because New Zealanders know that if they put their money into funds that are professionally managed they would probably get a better return than they could achieve for themselves.

Ruth Richardson, MP adopted a different approach, claiming at the beginning of the 1980s New Zealanders were saving 16.6% as a percentage of gross domestic product, which had reduced to 11% (NZPD, 1988).[19] Interestingly, both Ms Richardson and Mr Matthewson provided data that supported the case of their respective political stance. If savings were indeed at a good level, as Mr Matthewson suggested, then this provided support for the success, and perhaps for retention, of the status quo. Similarly, if savings levels were low, as Ms Richardson suggested, then this indicated the incumbent incentives were not proving to be successful, thus strengthening the case for their removal.

Perhaps the more rational argument was provided by Mr J R Sutton MP who claimed that people would be better able to save because taxpayers *"will have an extra $900 million left in their pay-*

packets from which to save, or if they prefer, to build up their businesses or farm businesses" (NZPD, 1989).

Decrease State dependency

During the first reading of the Taxation Reform Bill (No 5) 1988 (the Bill) Mr D L Kidd, (MP for Marlborough) claimed that the Opposition believe that:

> *"it is a proper, legitimate, function of the State for it to encourage long-term retirement savings with a view to ensuring the dignity and independence of people in their retirement, thereby reducing the burden on the State and all the while encouraging savings, capital formation, investment, and ... jobs"* (NZPD, 1988).

Mr Kidd claimed that the Bill sent out signals that if people invested their funds in buying annuities or pensions they will diminish their rights to superannuation. Mr Kidd claimed that the *"signal is to spend up and join the dependence on the State"* (NZPD, 1988).

During the first reading of the Bill, Mr D A M Graham, (MP for Remuera) noted that New Zealand had provided an incentive for people to save for their retirement for decades so that they could be independent and *"did not have to go along on bended knees to ask for State assistance"*. Mr Graham claimed that:

> "*Governments, over the years have seen the value of giving those people that ability to stand on their own feet. The condition precedent to such a scheme was that it was not available as an emergency fund but was locked up until those people reached 60 years of age*" (NZPD, 1988).

Ms Richardson (MP for Selwyn) agreed saying that:

> "*the Bill is fraught with fraud upon low-paid New Zealanders who, until now, have been prepared to make some savings for their retirement. They know, as well as does any responsible member, that if they are to have security of income in retirement there must be private savings*" (NZPD, 1989).

Ms Richardson claimed that since the announcement of the reforms on 17 December 1987 of the 4400 superannuation schemes about 900 superannuation schemes had been closed at a loss of about $87

million.[20] Ms Richardson further claimed that she had been advised by the Association of Superannuation Funds that 40 per cent of the remaining schemes were not admitting new members: *"therefore we are witnessing a collapse of the private superannuation industry"* (NZPD, 1989).

Change behaviour

In defence of the reforms the Hon Peter Neilson (MP for Miramar) claimed that because of the ageing population National Superannuation, as it was currently funded, would not be sustainable by 2031. Accordingly, he claimed:

> "*people aged 20 or 30 today will have to save if they want an income more than the present income provided by national superannuation. The Government is saying to New Zealanders that it will tell them what the environment will be*" (NZPD, 1988).

Mr Kidd suggested that the reforms lacked equity. Because of the withholding tax that would, in the future, be paid by an employer at 33%, this would disadvantage lower-earning individuals who were paying tax at 24%. Mr Kidd claimed that this provided no incentive for people to provide for their own retirement and independence in old age and *"it sends out the wrong signals to people. It discourages saving and that is one of the fundamental flaws in the Bill"* (NZPD, 1988).

During the second reading of the Bill the Hon J B Bolger (Leader of the Opposition) claimed *"every other OECD nation has the wisdom to encourage its people to save. New Zealand stands alone, with not another country on its side, and the Government says that there will be no encouragement"* (NZPD, 1989).

In summary, unlike the policy changes made nearly 80 years earlier, there was considerable disagreement and debate around the context of the 1988 reforms. As would be expected there was a greater alignment between the two periods with the economic arguments raised above as the government's aim of improving the standard of living through economic growth has remained throughout this time. Macroeconomic benefits were strengthened by reference to the cost of the incumbent scheme and the economic benefits of competition between funds were raised in support of

the changes. This period had a greater recognition of the potential inequity inherent in the extant scheme. Overall, the focus was less on changing behaviour and more on increasing economic efficiency.

2000 – 2005: an emerging Neo-Welfare State

To consider whether this paper can assist with future policy, it is necessary to look at how well it explains the present situation. One might consider that the ruling political party would provide some indication of the likely future policy direction that taxation incentives for retirement income savings might take, but history has shown this not to be the case. A socialist oriented Liberal Government was responsible for the introduction of incentives in 1910, which remained supported by a number of political parties with varying degrees of political persuasions over the next 78 years. A neo-liberal Labour Government then removed the incentives, although this Labour Government had to a large extent been forced into taking a 'turn to the right' to resolve the volatile economic situation they found themselves faced with upon election.

With this background, consideration was given to the political environment of the time to investigate how well this might explain the policy decisions made. In the Liberal / Welfare era of what appeared to be a strong focus on social policy, there were few robust arguments put forward against implementing taxation incentives to encourage individuals to save to support themselves in their retirement. In the neo-liberal era of economic efficiency the strong arguments were founded on removing the incumbent incentives. If we consider that the current New Zealand political environment has moved towards a neo-welfare ideology, where economic policy is tempered by social policy, it is suggested that this environment does explain the changes towards taxation incentives and retirement income savings that we are seeing at the present time. These changes are discussed below.

To test this suggestion, the current situation in New Zealand is considered. New Zealand's current superannuation policies are highly unusual. Almost all other OECD countries have contributory state

schemes that pay earnings-related pensions, and they all have extensive state involvement in private superannuation arrangements. It has only been in very recent times that in New Zealand the State has again encouraged private retirement savings. The first change introduced occurred in July 2004 with the implementation of the State Sector Retirement Savings Scheme (SSRSS), the Government-subsidised voluntary savings scheme for state employees.[21] The second change, with a significantly wider potential impact came with the 2005 announcement of the KiwiSaver initiative.

The *Tax Review 2001*,[22] in its Final Report, made recommendations to the government on principles and structures to build a sustainable long-term revenue base, from the perspective of whether the tax system was adequate to meet current needs. The Final Report identified problems within the extant tax system, and made recommendations regarding potential solutions. One of the topics considered in the review was savings. The Final Report concluded that it was not apparent that New Zealanders saved too little, and furthermore that there was little evidence that changes to the tax system were likely to induce higher saving. The Final Report also identified that the tax system would influence the absolute level of saving to the extent that it affects the level of national income, and accordingly it was viewed as important to avoid introducing tax distortions that may result in lower-quality savings and investment choices.

The changes that followed this report, such as the implementation of the SSRSS and the suggested introduction of the KiwiSaver account, indicate that the government has been prepared to introduce savings vehicles that are likely to distort decision-making. Whether or not these distortions will result in lower-quality savings and investment choices than would otherwise be made still remains to be seen.

A further recent development that may impact significantly on future initiatives, or the implementation of the proposed KiwiSaver account scheme, may evolve from the results of the most recently elected New Zealand Government in September 2005. Under the Mixed Member Proportional scheme operated in New Zealand, the conservative United Future and New Zealand First parties are now

placed to curb the influence of the Labour Party. The reshuffle of political influence has resulted in the government now signalling a change in direction in New Zealand, with a move away from the 'social engineering' that has been a trademark of the six years since 1999 and a move towards a stronger focus on economic initiatives.

Accordingly, the indication prior to the election that the government was no longer opposed to providing 'incentives' and mechanisms of encouraging retirement savings – both at the level of the individual and at governmental level – may now lose impetus. The overall suggestion is that in a political environment supporting a welfarist approach, there is a greater likelihood that incentives for retirement savings would be looked upon favourably. Conversely if the political environment was to move towards a stronger neo-liberal focus, then the likelihood of incentives being supported is reduced.

Conclusion

This paper considered the nature and role of taxation incentives for retirement income savings from a historical perspective. While the broad contexts of the arguments for and against the provision of incentives were similar in the periods considered, there were clearly different areas of focus that came through in the discussions. The period of liberal philosophy introduced incentives for retirement income savings, the welfare state period maintained these incentives, while the period of neo-liberal philosophy removed them.

The primary focus during the introduction of the incentives through the National Provident Fund in 1910 was on decreasing state dependency, while simultaneously providing state support to enable people to be more self-reliant. There was little discussion about the possible expense of the scheme, or the potential for the scheme to change the savings patterns of individuals. The equity-based arguments did not consider that all taxpayers were subsidising a scheme that not all taxpayers would have equal access to; rather the concern was that the wealthy might take advantage of the scheme.

Overall the implementation of the National Provident Fund had broad support from both sides of the House, whereas the reforms in the late 1980s provoked significantly opposing views.

During the 1988 reforms the arguments for removing the incentives were primarily focused on economic efficiency. This is not surprising as tax incentives were removed in the time when neo-classical economics was prevalent. It was clear that the government wanted to install a level-playing field to encourage competition between superannuation providers, with an aim of increasing efficiency within the sector. There was also a strong focus on improving equity as evidence indicated that those who gained most advantage from the presence of the incentives were those that needed the least assistance. The arguments for retaining incentives, at that time and since, were inconclusive. There was no supporting evidence for the claim that incentives increased national savings or economic growth, and their effectiveness in decreasing state dependency was debatable.

With recent initiatives such as the SSRSS and KiwiSaver, the Labour-led New Zealand Government had demonstrated the intent to again provide taxation incentives to encourage individuals to save for their retirement. However, the 2005 election results are likely to thwart further progress in this direction. The indication is that a welfarist political environment is likely to support taxation incentives for retirement income savings. Conversely a strong neo-liberal philosophy is likely to be less encouraging of this approach.

Notes

[1] The one exception is for a high-income (earning over NZ$60,000 per annum) work-based superannuation fund member. As employer contributions and fund earnings are taxed at 33%, but the highest marginal tax rate in New Zealand is 39% (for earnings over NZ$60,000), an individual paying the 39% marginal tax rate will potentially benefit from a 6% saving. This anomaly saw the introduction of tax avoidance schemes, such as 'salary sacrifice' where employees paying the highest marginal tax rate could negotiate an increase in their employer superannuation contributions, taxed at 33%, with a corresponding reduction in salary subject to tax at 39%. The contributions could then be withdrawn from the fund soon afterwards, avoiding the 39% top marginal tax rate. Some attempt has been made to address this anomaly through the introduction of a five per cent withdrawal tax when funds are withdrawn, other than in specific circumstances, such as when an employee leaves the job or can demonstrate significant hardship.

[2] Projections suggest that the population aged 65 and over will grow by about 100,000 during the next decade. After this time the increase will accelerate, growing by 215,000 and 250,000 respectively in the following two decades. The cost of publicly providing retirement income at the current level (of 65 per cent of the average wage for a married couple) is projected to exceed 8% of Gross Domestic Product over the next fifty years (doubling from 4% in 2001) as the demographic profile changes (Stephenson and Scobie, 2002).

[3] The classification used is based on research by Wilkes (1993) and Thorns and Sedgwick (1997).

[4] A universal pension is available (with some constraints) to the population.

[5] The level of benefit provided is dependent on the government departments. Many government departments have an upper limit of three per cent as the employer contribution.

[6] Research has shown that automatic enrolment in occupational schemes may be effective in using inertia effects to promote pension saving, as around only 10 – 20% of employees opt-out of these schemes (PricewaterhouseCoopers, 2005).

[7] This scheme is also intended to help first home buyers. Savings may be removed from the scheme after a minimum of three years to contribute toward a deposit on a first home. After three years of saving the government will offer a first home deposit subsidy of $1000 per year of membership in the scheme, up to a maximum of $5000 for five years.

[8] The New Zealand Treasury (2001) identify this as impacting on half of the population. Currently approximately the top 20% of households by income undertake 70% of savings.

[9] For example, through enhancing incentives to perform when holding a direct stake in risky financial assets (Jappelli and Pistaferri, 2002).

[10] For example, Sinfield (2002) writes that tax relief in the United Kingdom saw the top 10% of taxpayers receiving over 50% of the benefit, with a quarter going to the top 2.5%. The bottom 10% of earners received just 1% of the tax benefit. Similar research under taken in the United States of America (e.g. Burman, Gale and Orszag, 2004) finds that about 70% of tax benefits from new contributions to defined plans accrue to the highest-income 20% of tax filing units, with more than half going to the top 10%.

[11] It is argued that this type of effect meant that pre-1988 investors in tax-preferred life and superannuation products in New Zealand did not enjoy superior after-tax rates of return compared to investors in non-tax preferred products (Goss and Duncan, 1999).

[12] *Reagonomics Effect on Savings,* Business Week, March 8 1982, cited in Swanstrom (1989).

[13] Other benefits existed, such as payments on the birth of a child, for incapacity to work, and weekly payments to remaining family members on the death of the contributor.

[14] Friendly Societies were mutual aid associations formed by working men as a means of sharing the risk and costs brought about primarily by ill-health (Thomson, 1998).

[15] Actuarial examination of the National Provident Fund for the Triennium ending 31 December 1914, AJHR, H-17B, 1916, p1, cited in Thomson (1998).

[16] Source: New Zealand Yearbooks 1970 – 1984.

[17] For comparison purposes the treatment of savings, such as funds in a bank account, would have contributions made from pre-tax income, the fund earnings would be taxed, and the benefits would be tax-exempt when paid out. This is the system that is in place in New Zealand today for all savings vehicles.

[18] Various figures were quoted at the time regarding the financial cost of the tax incentives. The Treasury (1987) claimed the cost to be $800 million – but during the debates this figure ranged from $800 million to $1.1 billion.

[19] No reference was made as to the source of the figures. The discrepancy with the figures quoted two paragraphs earlier is noted.

[20] It is noted that this would mean that each scheme held (on average) less than $100,000. The discrepancy with the comments of Mr Matthewson in the previous section is noted.

[21] Refer to www.superscheme.govt.nz for more detail on the State Sector Retirement Savings Scheme..
[22] The Final Report of the Tax Review 2001, www.treasury.govt.nz/taxreview2001/

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