NEW ZEALAND BUSINESS ROUNDTABLE

Submission on the Report of the Savings Product Working Group

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OCTOBER 2004

Executive Summary

- This submission on the report of the Savings Product Working Group (the SPWG) is made by the New Zealand Business Roundtable, an organisation comprising primarily chief executives of major New Zealand business firms.

- The SPWG's report suffers from poor problem identification and analysis.

- There is no compelling evidence that people, on average and over time, make irrational savings decisions. The best New Zealand evidence on the adequacy of savings for retirement suggests that there is no widespread under-saving. It was ignored by the SPWG.

- The SPWG's statements that people "lack confidence about how [to save]", and "put off difficult decisions and fall back on non-saving habits" are unsubstantiated and do not justify the introduction of compulsory workplace superannuation. Too much weight is given to contentious claims by theorists in behavioural economics and generalisations drawn from stylised 'laboratory' experiments. Insufficient attention is paid to the costs and benefits of government action. It is paternalistic to suggest that better judgments about savings will be made by politicians than by individual savers who are the same people that vote them into office.

- The current broad approach to the provision of income in retirement, comprising New Zealand Superannuation (NZS) and benefit support funded from general taxation, together with voluntary provision, has been extensively examined and endorsed, for instance by the 1992 Task Force on Private Provision for Retirement and the 1997 and 2003 Periodic Report Groups, and commands wide public support. Some of the parameters of NZS need to be changed over time, as advocated by the Organisation for Economic Cooperation (OECD) and other organisations.

- A principled argument for abandoning a voluntary approach to private savings for retirement, including workplace superannuation, has not been made by the SPWG or the government, and we do not believe that such an argument could be sustained.

- Employers and employees should continue to be permitted to agree voluntarily on pay and conditions of work, including whether to provide workplace superannuation.

- Most of the potential members of the proposed compulsory scheme would be in debt. In such cases, a strategy of paying off debt would almost certainly yield a higher return than putting money into a superannuation scheme, and it would be less risky.

- The SPWG's compulsory scheme, if implemented, is likely to put at risk existing workplace superannuation schemes, be excessively costly and impose higher compliance costs on employers than the SPWG acknowledged.

- Voluntary arrangements provide the only effective means of ensuring that any generic workplace superannuation scheme that is developed is efficient.

- Steps should be taken to reduce impediments to the provision of workplace and other superannuation and saving schemes. Step 2 on the SPWG's pathway, streamlining regulation, would be consistent with this objective. The thrust of that step and step 1 (education programmes) is endorsed.

1. Overview

1.1. This submission on the report of the Savings Product Working Group (the SPWG) is made by the New Zealand Business Roundtable, an organisation comprising primarily chief executives of major New Zealand business firms.[1] The purpose of the Business Roundtable is to contribute to the development of sound public policies that reflect overall New Zealand interests.

1.2. The Business Roundtable has taken a close interest in superannuation issues and has contributed to all government reviews undertaken since the mid-1980s. Government policy on superannuation is a significant issue for superannuitants, people of working age and the wider community.

1.3. The Business Roundtable supports the thrust of the SPWG's options relating to education and the streamlining of regulation of workplace superannuation (steps 1 and 2 on the SPWG's pathway). However, employers and employees should continue to be permitted to agree voluntarily on pay and conditions of work, including whether to provide workplace superannuation. We therefore oppose mandatory arrangements requiring employers to offer workplace superannuation or compelling employees to participate in, or contribute to, such a scheme, even for a limited period. If a generic workplace superannuation scheme is to be developed, it should only be

1 Harris, Peter *et al* (2004a), *A Future for Work-based Savings in New Zealand: Final Report of the Savings Product Working Group*, Office of the Minister of Finance, Wellington.

implemented where an employer elects to offer it and individual employees choose to participate.

1.4. Government policy on superannuation has broadly moved in the right direction over the two decades to the mid-1990s but has since gone backward. Further policy changes will be required. More specifically:

- There is greater understanding now that living standards in retirement are ultimately dependent on the productivity of the economy – not on financial arrangements such as New Zealand Superannuation (NZS), the New Zealand Superannuation Fund or workplace superannuation.

  New Zealand has a much better structured, efficient and flexible economy, largely as a result of the economic stabilisation and liberalisation efforts of governments in the 1980s and early 1990s. These improvements have led to higher productivity and stronger economic growth. However, the country is still falling well short of its potential.

  Higher rates of economic growth require the adoption of institutions and policies that protect private property through the rule of law, keep levels of taxation and regulation low, pursue stable prices and fiscal discipline, promote open markets and competition, and emphasise rigorous education and the avoidance of welfare.

  New Zealand cannot achieve fast growth with overall government spending (central plus local) at around 40 percent of the economy. High levels of government spending hamper growth through wasteful and poorly targeted programmes and the deadweight costs of taxation. Compulsory superannuation contributions have many of the characteristics of a tax and would increase deadweight costs. Unless the economy grows faster, the goods and services needed by the increasing proportion of the population that is elderly will not be available.

- There is broader acceptance today that the provision of retirement income should be a personal rather than a taxpayer responsibility for the majority of people.

- NZS is the dominant superannuation policy. The cost of NZS has been reduced by increasing the age of eligibility and reducing its level relative to wages.

  There is not much scope to reduce the level of NZS further without creating hardship, but the ratio of NZS to average earnings could be allowed to decline over time as incomes grow. The 1988 Royal Commission on Social Policy recommended that NZS should be aligned with the Invalids' Benefit, and the age pension is aligned with the disability pension in Australia.

  The level of NZS directly affects the incentive to save privately for retirement. Since many people regard the present level of NZS as adequate relative to living standards in their working years, it is no surprise that they do not save more themselves – the government is committed to doing the job for them. The level of NZS in relation to average earnings is an issue that must be addressed if greater self-responsibility is to be achieved.

  NZS is now paid on a universal basis rather than according to need. The long-run tradition in New Zealand since old-age assistance was introduced in the 1890s has been for retirement income benefits to be subject to income and (sometimes) asset tests. There are no good grounds for requiring the general taxpayer to subsidise people with high incomes or substantial assets, as the 2003 Periodic Report Group (PRG) observed.

  General economic growth has brought higher incomes and longer life expectancy. It has allowed many people the choice of ending their working lives and retiring on their own savings. People should be free to retire when they choose, but societies with ageing populations are not going to be able to underwrite their living standards on the present basis.

  It would make sense to decide well in advance to raise the qualifying age for NZS further, and perhaps to index it to increases in life expectancy. Those unable to continue working should be supported by benefits (such as the Invalids' Benefit).

- Flawed proposals like the 1997 compulsory retirement savings scheme (RSS) did not withstand intense scrutiny and debate. It was overwhelmingly rejected in a referendum.

- The tax treatment of superannuation funds and savings schemes has been placed on a more neutral basis, although scheme earnings are often not taxed at the contributor's effective marginal rate of tax. Lower and more uniform rates of tax, as recommended by the Tax Review 2001, are the key to addressing this problem. Over the last couple of decades official reviews of superannuation and taxation arrangements have consistently recommended against tax concessions for savings. Other subsidies have not been proposed. Significant subsidies for workplace savings, which are included among the SPWG's pathways, are euphemistically called "sweeteners".

- Excessive regulatory burdens discourage workplace and other superannuation and savings schemes. Policy-induced impediments to private saving, especially a high overall tax burden, should be reduced to give people more scope to save from after-tax income. Improvements in employment law to promote high levels of employment, more restrictive welfare policies and reduced regulatory burdens – including on the savings industry – also have a role to play in promoting private saving.

  The SPWG's suggested pathways include a review of regulatory arrangements with the aim of developing a more simplified, flexible and consistent regulatory regime (step 2). We endorse that objective.

  There is, however, a high risk that heavy-handed regulation would be imposed on superannuation and saving schemes and, to a lesser extent, employers if they are compelled to offer a generic scheme. Schemes would need to be licensed and to satisfy various conditions. Existing workplace superannuation schemes could be put at risk.

1.5. The present level of NZS is at least adequate. Superannuitants may also qualify for supplementary support such as housing assistance. There is no significant problem of old-age poverty as was the case in earlier times. There is little pressure to increase NZS beyond the current '65 (percent of average net weekly earnings) at 65' level.

1.6. The introduction of compulsory workplace superannuation would be equivalent to an increase in NZS assuming NZS was not changed. On the

other hand, if workplace superannuation were to replace NZS, employees' savings (at least up to some specified level) would effectively be 'confiscated' as in the RSS proposal.

1.7. The risk that a future government may confiscate workplace savings would discourage savings through a generic scheme. This risk is arguably greater if any generic scheme is compulsory, integrated with the tax and welfare systems, and subject to scheme-specific legislation rather than an enforceable contract between the contributor and the scheme provider.

1.8. Employers and employees have incentives to enter into efficient remuneration arrangements. Around half of large employers deduct employee contributions to workplace or retail superannuation or other savings schemes from their wages. Employees who value such arrangements are likely to be attracted to firms that offer them. If other firms believe that their ability to recruit and retain staff is adversely affected by the absence of workplace superannuation or deduction facilities they would be encouraged to put them in place. Thus, given the regulatory environment, the absence of workplace superannuation can be assumed to reflect the preferences of employers and employees. People's preferences on many matters differ, as a casual survey of the range of vehicles in workplace carparks would illustrate.

1.9. Employees who cannot have superannuation contributions deducted from their pay can arrange automatic transfers from the bank account into which their income is paid. Thus even where workplace superannuation and the deduction of contributions to retail superannuation schemes are not available, employees can arrange so-called 'painless' ways of contributing to superannuation schemes if they wish. In fact, 420,000 New Zealanders belong to retail superannuation schemes.[2]

1.10. Superannuation arrangements, other than the safety net provided by NZS and the benefit system (for those who do not qualify for NZS), should be a matter of personal responsibility and should therefore be voluntary for employers, employees and other people. Every official review of superannuation arrangements conducted in the last 25 years has rejected the introduction of compulsory superannuation. (The RSS proposal arose from the 1996 coalition agreement between National and New Zealand

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[2] Report of the Government Actuary for the year ended 30 June 2003.

First.) Compelling employers to provide workplace superannuation, employees to contribute (even for a limited period), or both, would involve an unjustified intrusion into people's lives.

1.11. Voluntary arrangements provide the only effective means of ensuring that any generic workplace superannuation scheme that is developed is efficient. A compulsory scheme designed by a committee, officials or both would reflect political interference, lobbying by interested parties, information problems and weak incentives. The excessively costly multi-layer collection process option developed by the SPWG illustrates the danger. As in other areas, competition is vital to promote efficiency, including cost containment and innovation over time.

1.12. The compulsory scheme outlined in the SPWG report, if implemented, may well prove to be a Trojan horse for a compulsory scheme along the lines of the RSS. The risk is that an opt-out provision may turn out to be unduly costly and administratively complex, and is later removed or significantly tightened in the interests of simplification and lower compliance costs. The RSS had an opt-out provision but it was set at an aggregate level of savings broadly equivalent to the present value of NZS at age 65 (perhaps $120,000 to $130,000 today).

1.13. The balance of this report is presented in four sections. The next section (section 2) summarises the SPWG report. The policy context, focusing on whether there is a saving problem and the SPWG's emphasis on findings from behavioural economics, are examined in section 3. Comments on the SPWG report are presented in section 4. We have not examined the detail of the scheme outlined in the report because it is based on a faulty analysis and unsound foundations. Our conclusions and recommendations are contained in section 5.

2. Summary of the SPWG report

2.1. The SPWG was asked to do the following:

> [P]rovide advice to the government on the detailed design and implementation issues to be resolved in delivering widely adopted generic work-based savings products.[3]

2.2. The report introduces the concept of a 'pathway', which provides for escalating levels of government action. The pathway has five steps:

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[3] *Ibid* p 77.

- The establishment of an education and information programme.

- The streamlining of the regulatory environment and the removal of tax disincentives for pooled savings vehicles. (Tax issues were excluded from the SPWG's mandate, as the report noted.)

- The development of generic processes for work-based savings.

- Design features of a common template for workplace superannuation.

- The provision of specific subsidies for work-based savings.[4]

2.3. The SPWG did not examine how far along the pathway the government should proceed:

> At each step on the pathway, we offer advice on the design and implementation issues, but do not presume to make the policy decision about how far along the pathway the government wishes to progress.[5]

2.4. Much of the report and the minister of finance's press statement accompanying its release focus on the design of the generic savings scheme. The proposals relating to the generic scheme include the following:

- Under the first option, certain employers would be compelled to provide access to a scheme and to arrange for the payment of employees' contributions to the scheme. Employee participation would be voluntary. The employer would enter into a commercial relationship with an approved scheme provider.

- The second option is the same as the first except contributions are collected through the PAYE system using a special tax code. The IRD passes the contributions to a clearing house or to the provider selected by the employer. This option is intended to reduce administrative costs for employers.

- Under the third option, employee participation would initially be compulsory but employees could opt out, probably after a short period of "reflection". The clearing house would hold contributions during that period. Other features are the same as in the second option.

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4 *Ibid* p 5.
5 *Ibid* p 3.

3. Policy context

Is there a saving problem?

3.1. The press release that accompanied the SPWG report stated:

> It [the SPWG] has come up with some practical options for one of the country's most serious long-term economic problems – our poor level of savings.[6]

3.2. Is there a saving problem? There are two key aspects to this question. First, it is sometimes argued that New Zealand has a shortfall of aggregate savings which constrains investment and hence the growth of output. Secondly, it is claimed that individuals are saving too little for their retirement. The SPWG, for instance, states that "younger generations will enter retirement in a significantly worse financial position that their predecessors".[7]

3.3. The proposition that national savings are inadequate and therefore the government should take steps to increase savings for retirement is doubtful for the following reasons:

- There is no compelling evidence that aggregate savings are too low. The most exhaustive attempt to assemble evidence on New Zealand's savings level and trends is contained in a 2002 paper by Iris Claus and Grant Scobie.[8] They highlight problems with the measurement of savings and the difficulty of drawing clear implications for policy. Claus and Scobie made the following points:

  – Saving is difficult to measure (in New Zealand and elsewhere) because of factors such as hidden economy activities, depreciation (which is an unobserved variable), and the difficult distinction between households and businesses.

  – In New Zealand, national saving is calculated from two sources of data: (i) from the national income and outlay account as the difference between disposable income and total consumption expenditure, and (ii) from the flows of investment and net lending in the capital finance account. Definitional changes can

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[6] Cullen, Michael (2004), 'Public Submissions Invited on Workplace Savings', www.beehive.govt.nz

[7] Harris, Peter *et al* (2004b), 'Questions and Answers Prepared by the Savings Products Working Group', Office of the Minister of Finance, 15 September, p 1.

[8] Claus, Iris and Scobie Grant (2002), *Saving in New Zealand: Measurement and Trends*, Working Paper 02/02, The Treasury, Wellington.

have large effects, as illustrated by the revisions to national savings from SNA68 to SNA93.

- In the national accounts, household saving is obtained from the income and outlay accounts only, and does not have the same degree of accuracy as the national saving rate. (Household savings are also derived from the household economic survey.)

- Saving as measured in the national accounts does not correspond very closely to theoretical concepts of saving. This measure also counts as current consumption many items such as education, some health expenditures and consumer durables, which are arguably investment goods. Adjusting for such treatment substantially raises the national saving rate.

- The flow measure also ignores changes in household wealth such as those arising from changes in the value of homes and financial assets. The alternative stock measure of household wealth is more relevant for assessing the adequacy of retirement saving, but little information is available on the assets and liabilities of individual New Zealand households. The wealth survey initiated by the Office of the Retirement Commissioner (see below) is helping to fill this gap. (Estimates for the United States suggest that if realised and unrealised capital gains were included in savings, the saving rate would actually have increased during the 1990s.)

- Unanticipated inflation also distorts the flow measure of private saving, as it transfers resources from lenders to borrowers. When adjustments for inflation are made, there has been no apparent downward trend in the level of private savings in New Zealand and, more importantly from an economic perspective, national saving rates could be much higher than suggested by the conventional measures.

- Provided sound fiscal and monetary policies are pursued, the level of national savings will generally reflect people's preferences for current and future consumption (that is, their discount rates). The level of investment will reflect judgments by individuals and private firms on the number of profitable investment opportunities in New Zealand relative to that of the rest of the world. The welfare of savers and investors would be diminished

if their preferences were interfered with other than for valid public policy reasons.

- Government policy aimed at changing the level of savings via superannuation arrangements is more likely to alter the form of savings than the aggregate amount of savings. If, for instance, compulsory workplace superannuation were introduced, affected employees could be expected to divert savings that would otherwise be made, such as the repayment of debt and contributions to retail superannuation schemes, to the compulsory scheme. The increase in net savings is likely to be substantially less than the gross level of compulsory savings.

- The government should focus on all savings rather than savings for a single purpose if it wishes to raise the aggregate level of savings. It is plausible to suggest that the savings ratio is being depressed by (i) the income tax, (ii) the form of the welfare safety net, and (iii) NZS. One efficient way of encouraging savings would be to reduce income tax relative to GST. Unlike GST, income tax tends to discourage saving relative to current consumption. Lower government spending and hence lower taxes would help to promote saving. Excessive welfare programmes also discourage saving by reducing the need for private savings in the event of unemployment, ill health or accident, and by requiring higher marginal tax rates than otherwise. While the SPWG may not be "aware of any evidence that suggests New Zealand Superannuation is a disincentive to other forms of saving", standard economic analysis indicates that the level of private saving by those on modest incomes is likely to be lower than otherwise.[9] High saving rates recorded by some Asian countries may well be explained by low taxes, limited welfare support, a young population and fast economic growth.

- There are no valid grounds to favour long-term savings relative to other savings. Financial markets enable savings of different durations to be matched with the lending terms desired by borrowers. This is illustrated by an investment in a company. Although the ownership of a share may change many times within a year, the company retains the capital initially

[9] Harris *et al* (2004a), p 11. For a discussion of the research in a New Zealand context, see Scobie, Grant M and Gibson, John K (2003), *Household Saving Behaviour in New Zealand: Why do Cohorts Behave Differently?*, Working Paper 03/32, The Treasury, Wellington, pp 22-25.

subscribed. This allows long-term capital spending to be financed by short-term investors.

- Higher domestic savings do not automatically translate into increased output. Savings must be invested. Higher investment will only increase output in the future if it yields an appropriate return. Some centrally planned countries like Albania, Russia and China recorded high saving rates for certain periods, essentially by constraining the supply of goods and services, but abysmal growth in output. On the other hand, the United States and South Korea are countries that achieved high growth with relatively low savings. New Zealand has undertaken considerable investment but it has not always obtained commensurate increments to its output. Some of the most poorly directed investment arose from inefficient government policies and investment programmes. Moreover, higher levels of investment, if sustained, imply larger provisions for depreciation or the consumption of capital. They may lead to an increase in the level of output but not to an equivalent increase in the rate of growth.

- Funding for investment is not limited to domestic saving. Firms, banks and other borrowers have access to world capital markets. There is no evidence of a lack of capital to fund profitable investment projects.

3.4. The second proposition, that individuals are saving too little for their retirement, is also doubtful for the following reasons:

- The Taxation Review 2001 reported:

> [W]hen looking at the impact of savings on the current and future well-being of New Zealanders, the most relevant measure is national savings; that is, the sum of private and government savings. On examining the available evidence and the reasons why people save, it was not clear to us that New Zealanders save too little ... [10]

Although a number of submissions disputed this conclusion:

> None … cited any supporting evidence other than a claimed consensus among relevant experts that there is a problem.[11]

- The Taxation Review's finding is consistent with recent research by Scobie, John Gibson and Le Trinh, which drew on the results of a new household

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[10] McLeod, Robert *et al* (2001), Tax Review 2001: Final Paper, Office of the Minister of Finance, Wellington, p 93.

[11] *Ibid* p 93.

savings survey.[12] They examined whether people were on average saving sufficiently to be able to maintain their real pre-retirement level of consumption in retirement. The researchers assumed (among other things) that NZS is retained in its present form, people retire at age 65, their current equity in their principal residence is not realised to fund consumption and life expectancies are known with certainty.

Scobie, Gibson and Le report:

> If among the many possible definitions of adequacy, one were to agree that saving at a rate which would allow consumption smoothing represents a plausible definition, then based on the limited information we have available, we find no significant evidence of gross under-saving for retirement by New Zealanders.
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> A significant proportion of individuals has little or no accumulation and will rely exclusively on NZS … Those relying on NZS are from the lower income quintiles, and for them the preferred strategy is not necessarily to try and save more; that would reduce their current consumption levels, which are already low. *If their retirement incomes are felt to be too low, higher pre-retirement earnings must eventually be the route to greater savings and higher retirement incomes.* Across the entire population 24% would make no further savings for retirement if their preferred strategy were to achieve consumption smoothing. Of these over half come from the lowest two income quintiles …
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> The case for arguing that this group is saving "inadequately" for retirement may better be viewed as a statement about the absolute level of their pre-retirement incomes, rather than their saving behaviour. *Given their level of income together with the expectation of NZS, we find that their behaviour is rational when assessed against a model based on smoothing lifetime consumption*.[13]

In a recent comment reported on National Radio, Peter Harris appeared to dismiss the Scobie, Gibson and Le paper as just one study. This is too glib: it is the most robust study available that assesses the adequacy of savings for retirement in New Zealand. As far as we are aware, none of the criticisms that have been raised undermines the broad thrust of the Scobie, Gibson and Le study. It is based on a statistical survey that was established so that retirement issues could be subject to better empirical analysis. Scobie, Gibson and Le's assumptions are conservative – for instance, the level of consumption in retirement is often lower than in work. Their conclusions are consistent with the life cycle model, which is a widely accepted analytical basis for examining such questions. They are

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[12] Scobie, Grant M, Gibson, John and Le, Trinh (2004), 'Saving for Retirement: New Evidence for New Zealand', Working Paper 04/12, The Treasury, Wellington.

[13] *Ibid* pp 22-24 (emphasis added).

also consistent with the view, dating back at least to Adam Smith, that ordinary people normally understand their own interests better than politicians or other third parties.

More recently, Harris suggested that even if Scobie, Gibson and Le are right in concluding that New Zealanders are saving enough for retirement, the government should still seek to increase the rate of savings on the grounds that it would be better to err on the high side and for people to end up richer rather than poorer in retirement. This argument is false because it ignores the cost of doing so, in particular the required reduction in current consumption by present employees and their dependants. These include those on low or modest incomes who have difficulties in making ends meet and face other immediate priorities for spending. It also ignores the potential cost to the country of a possible misallocation of resources. A similar conceit – that 'the government knows best' – underlay the Think Big programmes.

- A study by Claus and Scobie showed that the ratio of household savings to disposable income, using household economic survey data, has increased quite strongly since the mid-1980s. This is broadly consistent with a Reserve Bank study which showed that the ratio of household net wealth to disposable income increased from 249 percent to 431 percent between 1979 and 2003.[14] However, national income and outlay data suggest that the rate of household savings has declined. However, until the data are reconciled, uncertainty about savings trends will remain.[15]

- Scobie and Gibson examined the saving behaviour of different age cohorts. They found that lifetime saving rates were the lowest among today's superannuitants (that is, those born in the 1930s). The mean saving rate increases monotonically across the more recent age cohorts until it peaks with those households headed by someone from the 1970-1974 birth cohort, where it is 28 percentage points above the reference group (1910-1914). Thus people who are yet to retire and who are still at the peak age for saving had higher lifetime saving rates than their parents and grandparents.[16]

[14] Reserve Bank of New Zealand, 'Household Financial Assets and Liabilities to December 2003', Table 4, www.rbnz.govt.nz/statistics/monfin/household.html.

[15] Claus and Scobie (2002), *op cit*, pp 9-10.

[16] Scobie and Gibson (2003), *op cit*, p 11.

- The SPWG's assertion that future generations will retire with even less net wealth than present retirees is doubtful. No research was cited by SPWG to support its claim. The claim is made in questions and answers attributed to the SPWG and released with its report but it was not included in its report. It assumes a reversal of the experience of successive age cohorts from the 1930s. With growth in real income per capita, each generation has a higher lifetime income (wealth) than the previous generation. There is no compelling reason why successive generations would choose not to use some of their additional wealth to enjoy a higher level of consumption in retirement. Over the past 100 years, increases in productivity and life expectancy have been accompanied by a marked reduction in aggregate working hours and a longer average period in retirement. Retirement other than for health reasons was rare just two or three generations ago. This suggests that people have not allocated their higher lifetime income entirely to increased consumption and leisure during their working years.

3.5. The research referred to above is far more rigorous than the discussion contained in the 2003 speech by Dr Alan Bollard, governor of the Reserve Bank, and other sources cited by the SPWG. Bollard's concern about the level of external borrowing, for instance, cannot be addressed by increasing workplace superannuation alone because such savings may to a large extent replace other forms of savings. The report on wealth ownership by David Skilling and Arati Waldegrave of the New Zealand Institute makes a number of assertions but is weak on rigorous public policy analysis.[17] The goal should be to increase the overall welfare of New Zealanders. An increase in national income may be consistent with that goal but measures that make it harder for people to service their mortgages or fund their businesses may reduce welfare. Some people, especially those on low incomes, may well prefer higher current consumption to saving. Neither study warrants the following conclusion drawn by the SPWG:

> There is sufficient evidence and opinion to lead us to conclude that there are public policy, personal and commercial benefits to justify a reasonably concerted programme of mutually reinforcing measures to lift work-based savings.[18]

3.6. The government is seeking better data on saving and the survey of family income and employment (SoFIE) being conducted by Statistics New

[17] Skilling, David, and Waldegrave, Arati M (2004), *The Wealth of a Nation: The Level and Distribution of Wealth in New Zealand*, Discussion Paper 2004/1, New Zealand Institute, Auckland.

[18] Harris, Peter *et al* (2004a), *op cit*, p 23.

Zealand is currently in the early stages of gathering its first tranche of data. This will be the best New Zealand survey of its kind and will track an initial 22,000 New Zealanders over an eight-year period. SoFIE can reasonably be expected to provide us with a wealth of data on which to better assess the extent of any savings problem.

3.7. In summary, although there are uncertainties about the level of saving, the best information is that New Zealanders seem to be behaving rationally. At worst, therefore, the SPWG's options address a problem that we do not have. At best, they address a problem whose extent and character is undefined and unexamined. The rational approach of asking what adverse effects existing government policies – eg on taxes and welfare – might have on people's savings and retirement decisions was not followed.

Is the SPWG's emphasis on behavioural economics warranted?

3.8. The SPWG appears to have relied heavily on the "lessons from psychology", or where "psychology meets economics", to endorse the following findings that are attributed by the SPWG to a literature survey by Olivia Mitchell:

> People tend to save less than they objectively calculate they need to save …
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> Restrictions on withdrawals can be an effective counter to lapses in willpower …
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> While choice in theory is good, there is a risk of "choice overload", particularly with investment options, where many people lack confidence to make decisions and workers taking a "can't decide, therefore don't join the plan" attitude …[19]

Mitchell is reported to have observed that:

> [I]t is because retirement savings decisions are at least an order of magnitude more complex than other economic decisions, that people need help.[20]

3.9. These views are paternalistic and do not constitute an argument that people cannot find help from private sources without coercion or encouragement. The idea that findings from behavioural economics warrant a move away from voluntary arrangements, which underpins the SPWG's compulsory scheme, is also doubtful for the following reasons:

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19 *Ibid* pp 16-18.

20 *Ibid* p 18.

- Colin Camerer *et al*, who advocate certain regulation designed to address individual biases reported in behavioural research, note that such regulation may be harmful:

> Recent research in behavioural economics has identified a variety of decision-making errors that may expand the scope of paternalistic regulation. To the extent that the errors identified by behavioural research lead people not to behave in their own best interests, paternalism may prove useful. *But, to the extent that paternalism prevents people from behaving in their own best interests, paternalism may prove costly*.[21]

All forms of compulsion run this risk. The SPWG did not consider whether their compulsory options, if adopted, would prevent people from behaving in their best interests.

- Consistent with the risk identified by Camerer and his colleagues, Cass Sunstein and Richard Thaler, leading behavioural economists, make the case for reflecting the findings from behavioural research without restricting freedom of choice:

> Often people's preferences are ill-formed, and their choices will inevitably be influenced by default rules, framing effects, and starting points. In these circumstances, a form of paternalism cannot be avoided. Equipped with an understanding of behavioral findings of bounded rationality and bounded self-control, libertarian paternalists should attempt to steer people's choices in welfare-promoting directions without eliminating freedom of choice.[22]

- Shlomo Benartzi and Thaler advocate a savings scheme, 'save more tomorrow', which is based entirely on voluntary arrangements.[23] Their conclusion that employee savings schemes advance the welfare of employees, like much behavioural research on retirement savings in the United States, is influenced by employer contributions and tax concessions. These factors may encourage some researchers to conclude that they know what is in the best interests of employees. Benartzi, who visited New Zealand earlier this year, said that his message should be changed for New Zealand from 'save more tomorrow' to 'pay off more [debt] tomorrow'

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21 Camerer, Colin, Issacharoff, Samuel, Loewenstein, George, O'Donoghue, Ted and Rabin, Matthew (2003), 'Regulation for Conservatives: Behavioural Economics and the Case for "Asymmetric Paternalism", www.law.columbia.edu/center_program/law_economics/wp_listing_1/ wp_listing/221-230#7313 (emphasis added).

22 Sunstein, Cass R and Thaler, Richard H (2003), 'Libertarian Paternalism Is Not an Oxymoron', John M Olin program in law and economics working paper series, University of Chicago, http://www.law.uchicago.edu/Lawecon/index.html.

23 Thaler, Richard H and Benartzi, Shlomo (2004), 'Save More Tomorrow: Using Behavioural Economics to Increase Employee Saving', *Journal of Political Economy*, vol 112, no 1, part 2, pp S164-187.

because this is a more profitable strategy in New Zealand given the absence of tax inducements for saving (see below).

- Jennifer Arlen, writing on the future of behavioural economics and the law in the *Vanderbilt Law Review*, questions the efficacy of policy prescriptions arising from behavioural economics:

> Proposals designed to address biases generally entail the intervention of judges, legislators, or bureaucrats who are [themselves] subject to various biases. The very power of the behaviouralist critique – that even educated people exhibit certain biases – thus undercuts efforts to redress such biases. In addition, the decisions of government actors also may be adversely influenced by political concerns – specifically interest group politics. Thus interventions to "cure" bias-induced inefficiency may ultimately produce outcomes that are worse than the problem itself.[24]

- Tyler Cowen explored the diversity of rationality assumptions made in economics. He is sceptical of the criticisms of traditional economic analysis by behavioural economists:

> Economists, who tend to accept efficiency as a relevant standard, … believe that this competitive process yields an approximation of good science, and this of course involves the rationality postulate in its diverse forms … [A]ny effective criticism of economics must start with the institutions that produce (and evaluate) economics. Methodological criticisms alone, especially if they focus on rationality, are unlikely to be very persuasive.[25]

- Richard Epstein, a leading legal scholar, is also critical of research findings similar to those cited with approval by the SPWG:

> I regard that [behavioral economics] as highly dubious in terms of the inferences that it draws. The problem here is that there are more biases than one knows what to do with. People are often risk averse, so they buy insurance, and they are risk preferrers so they gamble. And it is the same people who do both in different degrees. So too there are some individuals who buy too little insurance for their old age, and some who buy too much. So long as there is no systematic bias in what goes on, it is difficult to figure out what form of regulation would help. Rather what happens is that any form of regulation is sure to do harm to those who know what they are doing even if it might (or might not) help those who do not quite understand. The point here is not that people are perfect. It is that they slowly learn from their mistakes. And there are powerful forces that help correct them [such as banks and life insurance companies].
>
> Thaler makes the point that people do badly with their pension decisions, because these happen only once. But what regulation helps them? Sometimes people get too many choices; but what of

[24] Cited by Bainbridge, George (2004), 'Are We All Behaviorists Now?', http://techcentralstation.com/102004D.html.

[25] Cowen, Tyler (2003), 'How Do Economists Think About Rationality?', http://www.gmu.edu/jbc/Tyler/.

> it if they can hire a broker or a financial representative to sort through the mess, which is what is done in countless different ways. The biases of which they speak are not unknowns. Employers have some interest in correcting them. They have other conflicts of interest (eg investment in the stock of the firm) which are not behavioral but involve old fashioned greed etc.[26]

- Epstein summed up the general relevance of behavioural economics to public policy in the following terms:

> One critical issue with behavioral economics is a matter of perspective and proportion. The current fascination with behavioral insights has powerful things to say about the glitches in personal behavior, conduct that is hard to regulate in any case. But it has far less to say about sensible regulation of public markets …
>
> The second great problem of the social order is that of monopoly power, either public or private, and the difficulty of adopting some sensible social response to that issue. Nothing in behavioural economics requires us to jettison the strong results of traditional economic theory. No behavioural phenomenon justifies rent controls, price controls, or wage controls. None should cause us to ignore the destruction of common pool resources, to cast a kind eye to monopoly behavior, to overlook the temptations of faction and self-interest in public life. *On issues that really matter, the traditional accounts of human behavior deserve our continued allegiance*.[27]

Saving for retirement is one such issue. Mitchell's paternalistic 'findings' are inconsistent with the equally paternalistic view that New Zealanders' 'love affair' with home ownership induces them to commit themselves to overly large mortgages (and therefore to too much forced saving). There is no explanation of why people who are worried about their self-discipline cannot have their needs met by the private supply of contractual saving schemes – there are plenty of incentives on providers to offer 'lock-in' products. The notion that they will behave differently from their 'objective' preferences simply begs the question of whether their 'objective' preferences are genuine.

4. Comment on SPWG report

Identification and analysis of the problem

4.1. The SPWG's report suffers from poor problem identification and analysis. The SPWG was largely told what to do. Its report stated:

> The Group identified its central mission as being:

[26] Personal communication, 27 October 2004.

[27] Epstein, Richard A (2003), *Skepticism and Freedom: A Modern Case for Classical Liberalism*, The University of Chicago Press, Chicago and London, p 258, emphasis added.

> [T]o provide advice to the government on the detailed design and implementation issues to be resolved in delivering widely adopted generic work-based savings products.

This statement, which comes from the SPWG's terms of reference, implies that there is something wrong with present workplace saving arrangements that warrants government action.

4.2. However, the government did not articulate any such shortcomings in the SPWG's terms of reference and the SPWG did not explain what was wrong other than stating that fewer employees belong to work-based schemes in New Zealand than in other developed countries and that fewer employees belong to such schemes than previously. What is it about these observations that justifies government intervention of the kind that the SPWG was directed to investigate?

4.3. If the government or the SPWG had carried out a proper analysis, the following questions (among others) might have been addressed:

- ***What do employers think about what they are presently doing in respect of workplace savings?***

  The 2003 PRG commissioned research that looked at the current environment for workplace superannuation.[28] The survey covered 78 of New Zealand's largest 100 employers (and other smaller employers) in the public and private sectors. About 306,000 employees worked for those employers when the survey was carried out in August 2003.

  Some of the relevant findings are listed below:

  - Only 39 percent of 157 employers favoured being obliged to administer payroll deductions for saving schemes.

  - An even lower 31 percent favoured being obliged to offer employees a low cost saving plan (not necessarily a subsidised plan).

[28] ESR Consortium Report (2003), 'Tier 2 Retirement Savings: Employers' and Employees' Attitudes and Practices', http://www.treasury.govt.nz/prg/background. asp.

- Employers were generally satisfied with their superannuation policy, scoring an average 3.54.[29]

- About 63 percent of the employers offered some help to employees on retirement saving issues (other than a direct saving subsidy).

- Employers that did not offer help scored only an average 1.93 when asked whether they might pay for that help.

In other words, most employers saw no need to change the current environment. Many had already put in place programmes that help employees to decide saving arrangements that might be appropriate.

The government must show why employers are wrong to have come to these conclusions if it is to justify the interventions contained in the SPWG's report.

- ***How receptive might employers be to change?***

The PRG-commissioned research also asked employers whether they thought they had a role in helping employees on a voluntary basis. The response was quite positive to the general idea and even to some specific steps but drew the line at added costs (fees and other subsidies). The details are listed below:

–	Generally in favour of helping	3.47
–	Would help with information	3.71
–	Employer-endorsed plan	3.23
–	Subsidised administration fees	2.77
–	Subsidised saving	2.72
–	Subsidised low level benefits	2.49

It seems clear that employers are receptive to offering help to their employees but want to decide for themselves how total remuneration (including superannuation saving) is set.

[29] All the opinions were scored on a 1-5 scale where 1 was extremely dissatisfied and 5 extremely satisfied. A score of 3 is neither overly positive nor overly negative. A score below 3 is generally negative.

Any government intervention that extends beyond helping employees to understand the issues would run the risk of dissuading employers to become involved at all.

- ***What is wrong with the workplace saving industry?***

Neither the government (in its brief to the SPWG) nor the SPWG stated what was actually wrong with the current workplace saving industry and why regulatory intervention might be needed. One government adviser has suggested that economies of scale that would arise from the introduction of a compulsory regime would benefit the workplace savings industry. The exploitation of economies of scale through compulsion is not a valid policy objective. If it were, governments might oblige everyone to buy the same model of motor vehicle.

The government should focus on correcting market failures where expected benefits exceed related costs. The government and the SPWG have not demonstrated that any failures warrant government action.

The fact that the number of workplace superannuation schemes is falling is not evidence of a problem. The withdrawal of tax incentives (which are now widely accepted as unjustifiable) over the 1987-90 period started that trend. Stand-alone schemes with fewer than 400-500 members are now uneconomic. On this basis, there is only a relatively small number of employers that might justify starting or maintaining a separate superannuation scheme. A decline in the number of stand-alone schemes should therefore lead to a reduction in average costs which would benefit savers.

There are other possible explanations for this trend. The main candidates are:

- More detailed and more expensive reporting requirements.
- The reduction in defined benefit superannuation promises.
- A move away from pay plus benefits remuneration practices (where the employer specified how the benefits part of the package is calculated and delivered) to a total remuneration approach (where employees are given that decision).

The reduction in the number of schemes has been accompanied by the development of new, competitive, more transparent and more flexible ways of delivering services. Public policy should allow that development to continue.

The growth of master trusts is the main change in workplace provision. These are single trusts that accommodate unrelated employers offering different employee benefit arrangements under the one legal 'roof'. Compliance issues (for example, approvals, prospectus, accounting) are handled on a group basis at a lower cost per member but employers are free to design arrangements that suit their circumstances. There are, effectively, no design constraints for employers in providing the employee benefits that suit their needs.

A small number (perhaps no more than 30-40) of large master trusts may in future provide many New Zealanders with work-based superannuation saving services. This development should be welcomed as long as scheme providers compete freely for the available business.

How far New Zealand's master trust industry has come can be illustrated with an anecdote. In the United Kingdom, stakeholder pensions were forced on employers in much the same way as the SPWG's compulsory opt-out scheme could be in New Zealand. The British government said that a stakeholder pension provider could charge no more than 1 percent of assets a year in fees.[30] That limitation is seen as a major constraint by the UK financial services industry and the industry offers it as a reason why stakeholder pensions have been so spectacularly unsuccessful. The industry does not promote them because they do not provide enough fee income.

However, in New Zealand, we know of a master trust that offers a diversified portfolio to members who join through a participating employer for a total management fee of a net 0.19 percent of assets plus a fixed fee of $60 a year – about one quarter of the United Kingdom's regulated and apparently uneconomic charge.

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[30] The SPWG does not propose controls on fees charged by approved providers. As an aside, only 18 percent of designated stakeholder pensions in the United Kingdom have any members – the other 82 percent are empty and are there only because their employers are obliged to provide them. Those that do have members have an average of only 20 members each. See Association of British Insurers (2003), 'Stakeholder Pensions: Time for Change', August.

This example illustrates that New Zealand's free market for this kind of financial service has the potential to lower costs for employees in a way that a highly regulated, yet heavily tax-subsidised, UK market cannot, despite the much larger numbers of potential members.

Forcing employers and employees to participate in workplace superannuation is likely to be detrimental for savers by increasing complexity, imposing higher costs and raising the barriers to entry into the market. Regulatory costs would also increase significantly for no improvement in service. Why would the government want to set workplace saving back in this way?

- ***What are the potential barriers to the provision of workplace superannuation by employers?***

As noted above, New Zealand employers support the idea of offering information on retirement savings to employees but they are opposed to the idea of imposed rules, especially if they direct employers to deliver compensation to workers in a particular way. This is a matter for employers and employees to agree amongst themselves.

New Zealand is unique amongst developed countries in leaving workplace superannuation for employers to resolve with their employees. There are no government rules on contribution levels, who pays, costs, investment options, style of benefits, or who gets what and how, that apply to work-based schemes. The absence of tax incentives is important in this regard but it is not the whole story. Another important factor is that the rules that govern the implementation of, particularly, master trust participation by individual employers are modest and relatively simple. Much of that is due to the regulatory regime adopted in 1989 with the passing of the current Superannuation Schemes Act. The United Kingdom's Pensions Policy Unit illustrates that point as follows:

> A further advantage of the New Zealand system is the low administration costs of private pension savings (individual or employer-based). In the UK there are significant frictional costs because of regulation, largely directed at ensuring that individuals do not claim too much in tax relief. There are 1,300 pages of tax regulations and Inland Revenue Practice Notes relating to pensions.[31]

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31 *Citizen's pensions – Lessons from New Zealand*, February 2004.

There is scope to further reduce regulatory burdens affecting savings.

Although the SPWG apparently tried to make the compulsory arrangements it describes as simple as possible, enforcing a set of behaviours where there is no natural wish to comply will inevitably be complex.

- ***How might the costs to employers of decision-making change?***

Under the current regime, an employer can agree with a master trust provider on the terms of participation at virtually no cost, other than the time involved. Some providers may charge the employer a set-up fee of $1,000-$2,000 but others make no initial charge.

That would change under the SPWG's compulsory regime. Every employer with more than five employees would be forced to choose a provider from a list of potential providers that has been approved by the central agency or a regulator. The employer would then have to choose a default fund and provide all employees with mandated information.

In addition, every employer would be required to change its payroll system to comply with the rules, dealing with new employees' opt-outs, collecting contributions, remitting those, advising employees on the choice of fund, advising them on collecting "reflection period' contributions at the end of that period, dealing with employees who move in and out of the compulsory contribution zone and coping with the continual regulatory changes that would inevitably follow such an intrusive intervention. Employers' costs would increase and they would seek to recover those costs from their customers, suppliers and employees. Financial service providers' costs would also increase and they would want to recover those from their customers.

How much might all this increase the number of employees who belong to workplace superannuation schemes? No one knows. The SPWG did not make a prediction. One industry expert thinks that, based on recent experience, the number of employees who choose to opt out could be up to 95 percent of the potential number. In the first year, the 5 percent who participate could represent as few as 10,000

new members. The cost per member of adding those members to superannuation schemes' rolls would be enormous.[32]

- ***Is a workplace saving scheme necessarily the best option for the employee?***

Some employees may prefer current consumption to saving, as noted above. But there is also a trade-off between paying off debt and saving. Most of the potential members of the compulsory scheme would be in debt. Thus on the one hand the individual has debt while on the other there is the possibility of making a contribution to a superannuation scheme where investment income is taxed. Which is the better choice?

The investment equation is a simple one – the member will need to earn a guaranteed, long-term, after-tax, after-fees return from superannuation saving that is at least equal to the interest charged on the loan.

Currently, a five year fixed interest mortgage costs about 8 percent. For the member to be better off by saving, they will need to earn 11.9 percent a year (8 percent/0.67 assuming that investment income is taxed at 33 percent) plus the fees involved, say a gross 1 percent. So, in the superannuation scheme proposition, the financial bargain would only be balanced if the scheme returned 12.9 percent a year (every year) before tax. That return would need to be guaranteed before the member would be better off by saving. The numbers are even more compelling for higher-priced consumer debt. (Even if the government were to make capital gains on New Zealand investments in superannuation schemes tax-free, the numbers would not change much.)

No such guaranteed investment is possible. And it needs to be guaranteed because the member can benefit from a guaranteed reduction in the cost of debt through reduced interest payments on the amount that the member would owe after repayment.

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32 The 95 percent who do opt out will probably generate more than 175,000 refunds of contributions initially paid during the proposed 30 day "reflection period". With the average amount of those refunds being probably less than $100 (the month's contributions), the cost to employers, providers and/or the central administrator of dealing with this torrent of paper would be large.

The member also lowers risk by reducing debt. The financial risk if the member became ill or was made redundant is lower in the presence of reduced debt rather than higher debt. By contrast, the member might actually increase exposure to risk by saving in the presence of debt.

A quick look at the returns from international shares over the long run will demonstrate that the case for reducing debt on the above analysis is virtually unanswerable. We find it quite extraordinary that this point was not made or even referred to in the SPWG's report.

- ***Is this the best use of taxpayers' resources?***

  The final question we might have expected the government to ask the SPWG to address is whether, given the competing pressures on public funds, the set-up and ongoing administrative costs entailed in compelling employers to provide workplace saving schemes would constitute a good use of taxpayers' resources.

  We think that the SPWG's compulsory scheme fails this test. There is no analysis of the problem that the regime is supposed to address; no analysis of the regime's chances of success; and no analysis of the likely costs to the government or of the likely returns to either taxpayers or savers of doing what the SPWG suggests.

  The SPWG report contains no detailed cost/benefit analysis. Furthermore, if the options in steps 3-5 were implemented, there would be no means of measuring whether they had achieved their objectives.

Other issues relating to compulsory scheme

4.4. There are some issues of principle worth emphasising with respect to the underpinning public policy justification for the compulsory scheme. These are:

- Risks: There are several actual and potential hazards for employees in participating in any compulsory scheme. First, the government would require employees to join the scheme and then remain in it when it may be an inappropriate option. The approved list of providers would give more

potential room for inappropriate signals, as would the default investment option that each employer and provider must identify.

- Confiscation: Next, the SPWG proposes that the Inland Revenue Department should be the collector of contributions. It assumes that the IRD is a low cost administrator. However, the contributions may be deducted from wages but not paid to IRD for between 2-7 weeks. Even then, it would take further time for the contributions to reach their ultimate destination and be invested. All this means lost investment income for members. Moreover, what if the member owes some back tax or child support payments? Will the contributions be protected from deduction in those regards? Will the collection and payment of the contributions be subject to the same penalty regime that applies to tax? If so, who will get the benefit of those penalties?

- Politicisation of private provision: Private provision of saving for retirement has been largely depoliticised over the last 20 years (the referendum on the RSS aside). New Zealanders understand the damaging effect of politicising superannuation issues – a brief look at the history of public provision (now New Zealand Superannuation) provides graphic evidence of that.

  The compulsory regime would change that for private provision. Without political consensus, we can see alternative policy positions being adopted by parties that wish to differentiate themselves from the government in order to win votes. That will be disruptive for the financial services industry, for employers, but worst of all, for employees.

  We see this as a potential threat to New Zealanders continuing their current rational behaviour in financial preparation for retirement.

- Threat to other savings: The SPWG recognised the potential threat the generic scheme might have to current workplace superannuation schemes. It stated:

  > [W]e note that it is vital that work-based saving does not deteriorate further …
  >
  > Any new generic scheme would build contribution numbers and member balances slowly, and those gains would be rapidly and materially counter-acted if design features gave either incentive or excuse to close existing schemes and distribute fund balances.

> Our first building block in any solution is therefore to protect the base of the pathway.

The position is more complex than the SPWG suggested. Its focus on workplace provision means that it neglected the impact of the compulsory scheme on other savings. The gains to the economy (and to savers themselves) of those other savings would equally "be materially counter-acted" if savers decided that what the compulsory scheme offered was all they needed, especially if they then chose to opt-out until they had money to spare.

4.5. If the government develops a generic scheme it should be voluntary. If such arrangements meet the preferences of the interested parties and are efficient, employers will offer superannuation schemes and employees will elect to join them.

4.6. We think the government and the SPWG is straying into dangerous territory when it recommends policies that prefer one form of saving over another (eg workplace superannuation over reducing debt) especially when the financial case is unanswerably against that particular preference. The absence of any comment in the SPWG's report on this issue is, in our view, telling.

Steps 1 and 2

4.7. In our view any information, education and promotion programme should have clearly identified, measurable objectives and it should be followed by an audit process to see if those objectives have been attained. It would also be useful to know how the SPWG's programmes would differ from that of the Office of the Retirement Commissioner.

4.8. The SPWG's report was sparing in its examination of what might be relevant in the successful implementation of step 1. We suspect that the SPWG saw this as part of the compulsory structure rather than as a separate option as implied by its pathway approach.

4.9. The report presented only an opening case for the streamlined regulation at step 2 on the pathway. Much more work needs to be done to establish precisely what is wrong with the regulatory environment affecting superannuation and saving schemes and what might be done about it.

4.10. We favour more efficient regulation of superannuation and other saving schemes and products. The Business Roundtable opposed the investment product and adviser regulation, which has subsequently been much

criticised, and it warned that those proposals could be detrimental to employer-provided superannuation.

4.11. We support a review of the Superannuation Schemes Act and, in particular, the suggested removal of the requirement that schemes be established "principally for the purpose" of retirement saving. The same rules should apply to superannuation and life insurance products that are close substitutes. This is not necessarily the case now because, for example, superannuation schemes and life offices are subject to separate legislation. We also support a first principles review of the Securities Act's disclosure requirements. We think the case for the detailed prescription of information to be contained in investment statements and prospectuses, particularly as they apply to workplace saving schemes, needs a complete re-examination and justification.

5. Conclusion

5.1. Our main conclusions are as follows:

- Policy on superannuation should focus on lifting the rate of economic growth, reducing the cost of New Zealand Superannuation over time below the levels projected on current parameters, and reducing regulatory burdens for all superannuation and saving schemes.

- A focus on compulsory workplace superannuation, which would entail substantial additional regulatory burdens, is misdirected.

- The thrust of the SPWG's education and regulatory review (steps 1 and 2 on its pathway) is potentially supportable but requires significant refinement.

- Employers and employees should continue to be permitted to agree voluntarily on pay and conditions of work, including whether to provide workplace superannuation.

- Voluntary arrangements provide the only effective means of ensuring that any generic workplace superannuation scheme that is developed is efficient.