NEW ZEALAND

New Zealand: pension system in 2006

The public pension is flat rate based on a residency test. Occupational schemes exist but have decreased in coverage since 1990 from 22.6% of the employed workforce to 14.7% for the year ended 30 June 2006.

### Key indicators

<table>
<thead>
<tr>
<th></th>
<th>New Zealand</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average earnings</td>
<td>NZD 43 000</td>
<td>USD 27 900</td>
</tr>
<tr>
<td>Public pension spending</td>
<td>4.4%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Life expectancy at birth</td>
<td>80.2</td>
<td>78.9</td>
</tr>
<tr>
<td>Life expectancy at age 65</td>
<td>84.4</td>
<td>83.4</td>
</tr>
<tr>
<td>Population over age 65</td>
<td>20.7%</td>
<td>23.8%</td>
</tr>
</tbody>
</table>

**Qualifying conditions**

Ten years’ residency since the age of 20 (including five years after age 50) entitles people to the public pension at 65 years of age.

**Benefit calculation**

**Basic**

The pension for a single person living alone was NZD 336.65 gross per week from 1 April 2007. For 2006/07, the rate was NZD 320.13. The increase is due in part to the normal adjustment process, outlined below, and in part to the government’s confidence and supply agreement, also outlined below. This gives a total pension for the tax year 2007 of NZD 17 506, equivalent to around 41% of average earnings.

State pension entitlements from other countries are taken into account in calculating the total payable.

The rate of public pension is indexed to prices, but is subject to a floor and ceiling linked to movement in wages. For a couple, the governing legislation requires that the net-of-tax rate at each 1st April must be not less than 65% and not more than 72.5% of a net-of-tax surveyed weekly earnings measure. The net-of-tax rates for single people are set at 65% (living alone) and 60% (sharing accommodation) of the net-of-tax couple rate. If movements in prices remain consistently below movements in the net-of-tax surveyed weekly earnings, effectively the latter becomes the index.

As the result of a confidence and supply agreement entered into between the government and the NZ First political party after the 2005 election, the net-of-tax rate at each 1 April is to be 66% rather than 65% of the net-of-tax earnings measure for the duration of the agreement.

**Voluntary private pensions**

Coverage of occupational pension plans has been falling for some time, and is currently around 13% with around 5% of people of working age contributing to personal pensions. The new KiwiSaver
scheme, however, achieved coverage of 44% within its first year of operation (from July 2007). The default contribution rate for this scheme is 4% of earnings, divided equally between employees and employers.

**Variant careers**

**Early retirement**

It is not possible to claim the pension before the normal eligibility age of 65.

**Late retirement**

Receipt of the public pension is not dependent on retirement. It is therefore possible to combine pension and employment.

While people are not obliged to claim the public pension on reaching the qualifying age, there is no advantage in deferring a claim.

**Childcare**

Eventual public pension entitlement is not affected by periods out of paid work for caring purposes.

**Unemployment**

Eventual public pension entitlement is not affected by periods of unemployment.

**Personal income tax and social security contributions**

**Taxation of pensioners**

New Zealand does not provide any tax concessions specifically for older people.

**Taxation of pension income**

The public pension is subject to personal income tax (in the same manner as any other personal income). Note that the calculations for the worker tax differ slightly from those reported in the OECD’s *Taxing Wages*. For workers, these include the Accident Compensation Corporation levy, set at 1.3% from 1 April 2006, which is not paid by pensioners. Thus, people of working age pay a slightly higher average effective tax rate than pensioners do.

**Social security contributions paid by pensioners**

The New Zealand system is funded through general taxation and there are no specific social security contributions.
Pension modelling results: New Zealand

Gross relative pension level

Gross replacement rate

Net and gross relative pension levels

Net and gross replacement rates

Sources of net replacement rate

Taxes paid by pensioners and workers

www.oecd.org/els/social/pensions/PAG
<table>
<thead>
<tr>
<th>Men</th>
<th>Women (where different)</th>
<th>Median earner</th>
<th>Individual earnings, multiple of average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.5</td>
</tr>
<tr>
<td>Gross relative pension level (% average gross earnings)</td>
<td>38.7</td>
<td>38.7</td>
<td>38.7</td>
</tr>
<tr>
<td>Net relative pension level (% net average earnings)</td>
<td>41.1</td>
<td>41.1</td>
<td>41.1</td>
</tr>
<tr>
<td>Gross replacement rate (% individual gross earnings)</td>
<td>45.6</td>
<td>77.5</td>
<td>51.6</td>
</tr>
<tr>
<td>Net replacement rate (% individual net earnings)</td>
<td>47.3</td>
<td>79.3</td>
<td>53.5</td>
</tr>
<tr>
<td>Gross pension wealth (multiple of average gross earnings)</td>
<td>8.4</td>
<td>14.3</td>
<td>9.6</td>
</tr>
<tr>
<td>Net pension wealth (multiple of average net earnings)</td>
<td>9.9</td>
<td>16.6</td>
<td>11.2</td>
</tr>
<tr>
<td>(multiple of average net earnings)</td>
<td>6.9</td>
<td>11.8</td>
<td>7.9</td>
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</tbody>
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