

## QUESTIONS TO CONSIDER

1. Do you tend to give money to most charities that ask you for money? Does this depend on how you are asked? For example, are you more likely to donate if asked by a street collector than if you receive a letter, email or text?
2. Do you agree that in order to do the most good possible would require giving money to international charities rather than New Zealand ones?

## USEFUL WEBSITES

For more information on the effective altruism movement: [thelifeyoucansave.org](http://thelifeyoucansave.org) and [effectivealtruism.com](http://effectivealtruism.com).

For information on the two charities discussed in the article: [worldvision.org.nz](http://worldvision.org.nz) and [salvationarmy.org.nz](http://salvationarmy.org.nz).

For research on charitable giving, the Science of Philanthropy Initiative site: [spihub.org](http://spihub.org).

## REFERENCES

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# What do New Zealanders want from their retirement income scheme?

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*"Send me a postcard, drop me a line. Stating point of view. Indicate precisely what you mean to say. Yours sincerely, wasting away. Give me your answer, fill in a form. Mine for evermore. Will you still need me, will you still feed me. When I'm sixty-four? Ho!"*

(Lennon and McCartney, 1967)

It is not just the Beatles who have been wondering what people want to do when they are 64.<sup>4</sup> Last year the New Zealand Treasury, in conjunction with the Commission for Financial Literacy and researchers from the University of Otago, published the results of a survey about what New Zealanders want from the government's retirement income scheme.<sup>5</sup>



## IMPROVING ON THE HUMBLE POSTCARD

Traditionally, it has been difficult to get accurate answers from surveys about what people want from retirement income schemes, because such schemes have many different features and it's tricky for people to figure out what they really want. How much should the pension be? At what age should people get it? Should everyone get the same amount? Should poor people get more because they don't have any other income? Who should pay the taxes to fund it all?

Thanks to an online survey tool called *1000Minds*,<sup>6</sup> developed by University of Otago researchers Paul Hansen and Franz Omler, it is possible to help people work out which features they want from a retirement package, and then to tell the Government. But first, some background.

## SUPER-DUPER!

New Zealand's primary government retirement income scheme is New Zealand Superannuation, which is paid to all New Zealanders when they reach 65 provided they meet residency requirements. Everyone is entitled to the same amount, which in 2014 was \$367 per week for a single person (after standard tax deductions) or \$282 each for a married couple. The pension is paid from general tax revenues, and is increased each year in line with average wages.

In the year to June 2015 a total of \$11.6 billion was paid in pensions, or 5.7% of New Zealand's taxable income.<sup>7</sup> This proportion is relatively small by OECD standards, but it is set to increase as the number of people receiving a pension increases due to population ageing. If New Zealand Superannuation is not changed, payments and taxes will need to increase by 4.6% of taxable income (i.e. almost doubling) by 2050. This large increase will mean that the next generation of taxpayers has to pay much more than the current generation.

<sup>4</sup> In fact, as explained below, New Zealand Superannuation kicks in at 65.

<sup>5</sup> See Au et al. (2015).

<sup>6</sup> [1000minds.com](http://1000minds.com)

<sup>7</sup> The government also offers a small subsidy to people who put money into KiwiSaver, which is a voluntary saving fund that can be accessed when a person turns 65.

## WHAT SHOULD WE HAVE?

There is no doubt that we could keep New Zealand Superannuation in its current form until 2050 and beyond – so long as we don't mind future generations paying a larger proportion of their income in taxes. But if we don't want to place this burden on future generations there are some other options available.

We could change the amount of the pension, or we could raise the age of eligibility. We could make New Zealand Superannuation means-tested, so that wealthy New Zealanders get less than everyone else. We could increase taxes now and save the additional amount in a government fund and use the interest and dividends generated to prevent taxes increasing by so much in the future. As a practical matter, all of these options would be easy to implement. But discovering which of these options New Zealanders would prefer is a more challenging task.

This is where the *1000Minds* software proves useful. Most people find it difficult to make decisions that involve a lot of complicated options that involve thinking about multiple criteria, such as the age of eligibility or the amount of the pension, etc. So rather than asking people to make choices between policy options that differ in all sorts of ways, *1000Minds* reveals people's preferences by getting them to make comparisons that only involve two policy criteria at a time.

## LIFE'S FULL OF TRADE-OFFS

The survey examined respondents' preferences over seven retirement income criteria by asking them a series of questions that each contain a trade-off in which an improvement in one criterion came at the expense of a worsening of another criterion. For example, a respondent might have been asked whether they would prefer a pension that paid \$360 per week from age 65, or a pension that paid \$390 per week from age 67. Figure 1 shows a screenshot from *1000Minds* for this question.

Each respondent was asked about a dozen such pairwise-ranking questions. The software used the responses to calculate each respondent's preferences over the seven criteria included in the survey. These criteria are: the amount of New Zealand Superannuation, the age of eligibility, the size of current and future taxes needed to pay for the scheme, whether or not the scheme should be universal or means-tested, and whether there should be a compulsory saving scheme or people should be allowed to save when and how they like.

## UNIVERSALITY RULES!

Based on a representative sample of slightly more than 1000 people, the survey was undertaken in 2014.<sup>8</sup> The results suggest that the aspect of retirement income policy that is most important to the largest number of people is that everyone receives the same amount of money from the scheme when they retire – commonly referred to as "universality".

More precisely, most people disliked the idea of means-testing, which in this survey was an option to reduce the retirement income payment of people who have more than \$200,000 in financial assets by \$60 per week. Figure 2 shows how respondents' opinions about the importance of universality were distributed: 43% of the respondents indicated that universality was the most important aspect of any retirement income package, and only 15% indicated that it was the least important.

After universality, the second most important criterion concerned future tax rates, with most respondents thinking that it was important not to impose large tax increases on future generations. Sixty-five percent of respondents indicated they would be willing to increase current tax rates by two percentage points if that meant tax rates on future generations would increase by three rather than five percentage points.

Figure 1: Example of a pairwise-ranking question from the survey

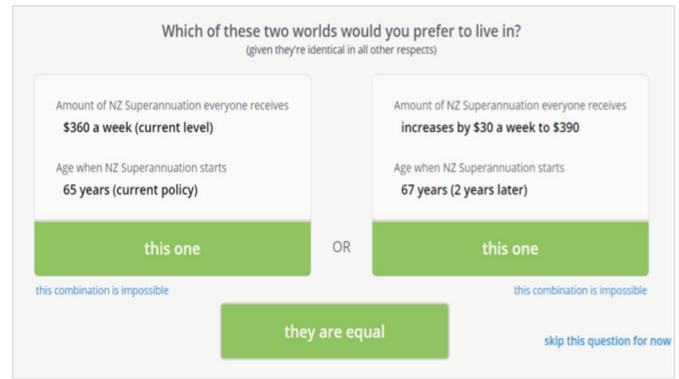


Figure 2. The distribution of respondents by their ranking of universality as a criterion

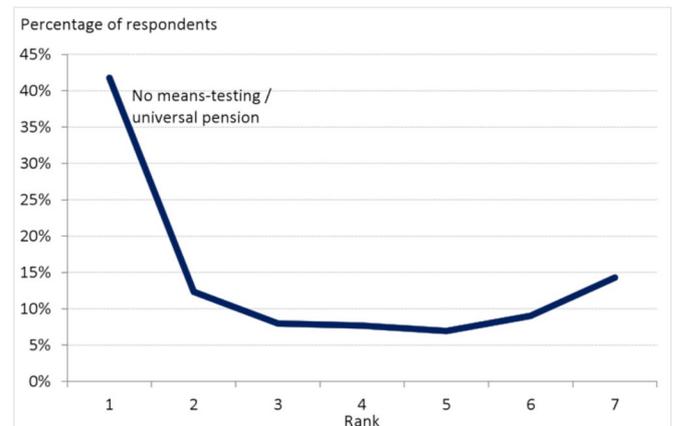


Figure 3. The distribution of respondents by their ranking of savings flexibility as a criterion

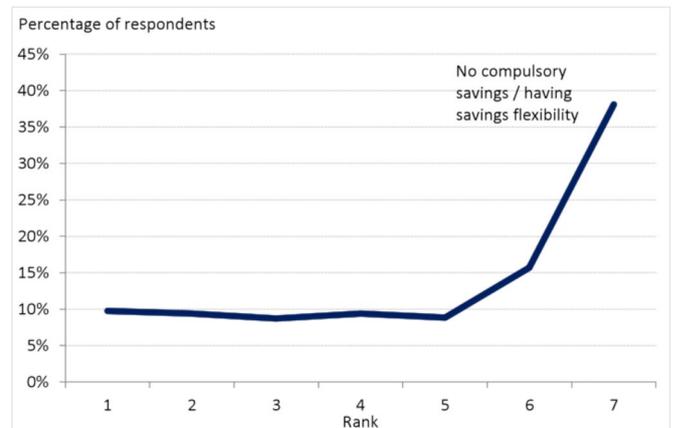
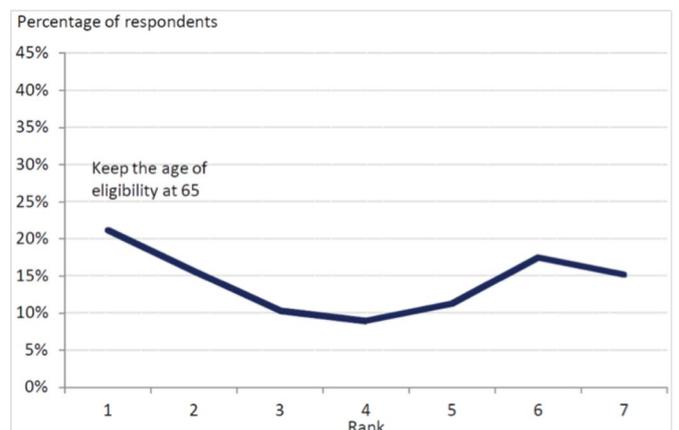


Figure 4. The distribution of respondents by their ranking of retirement age as a criterion



<sup>8</sup> The survey included a simple test to make sure people understood the process and were answering consistently. As more than 80% passed the test, we have confidence in the results.

The least important criterion concerned saving flexibility, with more than 50% of respondents indicating that they were not opposed to a small compulsory saving scheme (see Figure 3). The criterion about which there was the most disagreement was the age of eligibility: 35% of respondents indicated it was very important to keep the age of eligibility at 65 rather than raise it to 67, while a similar proportion indicated it was not important and that they would be willing to raise the age to achieve other objectives (see Figure 4).

## CELEBRATING DIVERSITY

Notwithstanding these overall findings, individual responses were rather diverse – which may explain why retirement income policy has been debated in New Zealand for nearly four decades! The software allows this diversity to be measured on a 0-1 scale: 0 means that people are equally likely to hold any of the seven criteria to be the most or the least important, and 1 means that everyone thinks in exactly the same way. In the survey the diversity measure is 0.08, which indicates substantial disagreement about priorities.

Perhaps surprisingly, respondents' preferences did not vary very much with their characteristics such as age, gender, education, ethnicity and household income. However, people can be sorted into five quite distinct preference groups reflecting different priorities. These groups, in essence, reflect different attitudes, and can be labelled accordingly; for example, there is a group that favours as little government intervention in retirement income policy as possible, and another group that favours interventions that promote income redistribution.

## WHAT POLICY DO MOST OF US WANT?

Given the wide diversity of preferences, can we identify particular policies that would be preferred by a large number of New Zealanders? We used each respondent's answers to the survey questions to infer how they would rank three possible future versions of New Zealand Superannuation: (1) the current policy, (2) a variant in which the age of eligibility is raised by two years and taxes on future generations are reduced, and (3) a variant in which the age of eligibility is unchanged but current taxes are increased by 2% of taxable income to reduce the tax increases facing future generations.

The results of this exercise are very clear: the most preferred policy for more than half of the population is policy (3) whereby current taxes are increased to prevent larger tax increases on future generations; and this also is the least preferred policy for only a sixth of the population. In contrast, policy (2) that raises the age of eligibility is the least preferred policy for more than half of the population, and the most preferred policy for only a sixth. In other words, a policy to more aggressively prefund New Zealand Superannuation would be viewed favourably by most New Zealanders, whereas a policy to increase the age of eligibility by two years would not.

## CONCLUSION

Decisions about retirement policy will ultimately be made by politicians. Nonetheless, the research discussed in this article shows that modern surveying techniques can substantially enhance the information available to politicians when they face these decisions. It is possible to reveal in a rigorous manner the diversity of opinion New Zealanders have about the relative importance of different aspects of retirement income policy. It is also possible to show that, notwithstanding this diversity, there are particular policies that are liked or disliked by large numbers of people.

Overall, it appears that current generations strongly prefer retirement policies that will not require their children or grandchildren to pay too much in taxes – perhaps redolent of Paul McCartney when he also sang: *“Every summer we can rent a cottage in the Isle of Wight, if it's not too dear. We shall scrimp and save. Grandchildren on your knee. Vera, Chuck and Dave.”* (Lennon and McCartney, 1967)

## QUESTIONS TO CONSIDER

1. Would it be feasible to have a referendum on what the New Zealand Superannuation Scheme should look like? What questions should the referendum ask?
2. The survey described in this article was based on seven criteria. Are there any other criteria that should have been included?

## REFERENCES

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