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When is a Policy Past its Use-by Date? Differential superannuation payment rates: a case for ongoing monitoring of long-term policies

Introduction

In 2011 the prime minister's science advisor, Sir Peter Gluckman, drew attention to the need for clear monitoring and evaluation of key policies and programmes in New Zealand, stating: 'The importance of well evaluated interventions both at the pilot stage and after scale-up is critical, as the costs and implications of inferior science or wrong data leading to policy decisions are immense', and that 'excellent social science, if done well, can be immensely valuable. That said, this is an area more than any other where inept science or a scientific vacuum can lead to policy decisions based on dogma and ideology rather than on the knowledge needed to lead to better outcomes' (Gluckman, 2011, p.15).[1] He also expressed concern about a lack of capability in the state sector to achieve good science or formal evaluation of policy, saying that the deficits in how government gets and uses evidence must affect the quality of policy formation. Cumming and Forbes (2012) also commented on the role

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monitoring and evaluation plays in improving government services, and the *Better Public Services Advisory Group Report* noted the importance of public service performance to the overall performance of the New Zealand economy and the need to 'do the right things in the right ways at the right time' (Better Public Services Advisory Group, 2011, p.13).

Given the focus on improved outcomes, all long-term government policies should be regularly reviewed to determine their current applicability. This is particularly the case in a small country like New Zealand, with rapidly changing demographics and a volatile economy. One example of a long-term policy is New Zealand Superannuation (NZS). There has been considerable debate about the overall income provision policy for superannuitants and whether or not it should be applied universally, but there has been less about the policy of having different rates for married and single recipients, or for those living alone. This article does not debate the need for, or value of, universal superannuation but looks at the long-term policy of having differential payment rates, and suggests that it should be reviewed regularly to ensure that it is still achieving the desired outcomes and that scientific evidence should be produced to determine whether or not this policy is past its use-by date.

Table 1: New Zealand Superannuation maximum weekly payment rates (1 April 2017).

Type of superannuitant	Weekly payment rate		Annual Rate
	Before tax	Taxed at 'M' (no other income)	Taxed at 'M' (no other income)
Single, living alone	$450.10	$390.20	$20,290.00
Single, sharing	$413.60	$360.18	$18,729.36
Married, civil union or de facto couple (both partners qualify)	$340.80 each	$300.15 each	$15,607.80 each
Married, civil union or de facto couple* (one partner qualifies, other included)	$322.78 each	$285.28 each	$14,834.56 each

Sources: Ministry of Social Development, 2017; Commission for Financial Capability, 2017

Brief overview of New Zealand Superannuation

Universal (i.e. not means-tested) National Superannuation was introduced in 1977 to replace a contributory scheme set up in 1974 by the Labour government. Since then there have been a number of task forces (e.g. in 1986 and 1992) and reviews of state provision of superannuation. In 1993 a political accord between the National, Labour and Alliance parties led to the appointment of a Retirement Commission, a programme of regular reports on retirement income policies and a change of name from National Superannuation to New Zealand Superannuation. The changes made to NZS and wider retirement policy include:

- a change to the way annual NZS payments are adjusted (by price or wage movements);
- the removal and restoration of a minimum value for the proportion of the average weekly wage that is the payment rate for married couples;
- the introduction and abolition of a taxation surcharge;
- progressive rises, from 1992 to 2001, in the age of eligibility from 60 to 65 years;
- a referendum (in 1997) which rejected a compulsory retirement savings scheme;
- introduction of a Super Gold discount and concessions card in 2007;
- the introduction of KiwiSaver, a long-term voluntary savings scheme, in 2007. (Preston, 2008; Todd, 2008)

Key policy changes relating to having different rates for different living arrangements were:

- 1977 – gross rate for married couples fixed at '70 percent of the average ordinary weekly wage (to be increased to 80 percent from August 1978) and the gross rate for a single person fixed at 60 percent of the gross married rate';
- 1990 – 'A living alone allowance of $20 gross per week was introduced for single people, which brought the after-tax payment for those who qualified up to 65 percent of the combined married rate.' (Ministry of Social Development, 2003, p.3)

NZS today is a universal entitlement payable to New Zealand citizens or permanent residents who normally live in New Zealand and are aged over 65. Its purpose is to help senior New Zealanders maintain their 'social participation and independence' (New Zealand Treasury, 2016, p.130). The amount paid depends on a number of criteria, such as whether there is a state pension from overseas, whether or not the superannuitant has a partner (married, civil union or de facto), and, if single, whether they are sharing accommodation or living alone. Weekly rates of payment (given in Table 1) to individual superannuitants with different marital or living arrangements are set out in the Superannuation and Retirement Income Act 2001, section 16, as follows:

(a) the rate payable to married couples is between 66% and 72.5% of the average ordinary-time weekly earnings as determined by Statistics New Zealand's quarterly employment survey;
(b) the rate for a single person living alone is 65% of the married rate; and
(c) the rate for a single person not living alone is 60% of the married rate.

NZS recipients can also receive supplementary payments, with 18.5% currently receiving a disability allowance, 5.8% accommodation assistance and 0.7% other additional assistance (Ministry of Social Development, 2016).

The cost of New Zealand Superannuation

Just over $12.9 billion was budgeted for NZS in the 2016/17 financial year. It is the most expensive of the Ministry of Social Development's benefits or related expenses, accounting for over half of all benefit expenditure. It is also the most rapidly increasing, with spending on NZS as a proportion of the total expected to rise from 55% in 2011/12 to 67% by 2019/20 (New Zealand Treasury, 2016).

Table 2: Increased cost, above the married rate, of different NZ Superannuation payments in 2015/16

Payment type	Number of recipients*	%	Before tax rate[1]	Increase above 'married/partnered' rate		
				Weekly	Annual	Total
'Married/ partnered'	386,623	57%	$326.30	–	–	–
Single, sharing	86,909	13%	$396.17	$ 69.87	$3633.24	$315,761,255
Single, living alone	172,410	25%	$431.10	$104.8	$5449.60	$939,565,536
Other (e.g. non-eligible partner)	31,993	5%				
TOTAL	677,935	100%				$1,255,326,791

Source: Ministry of Social Development, 2015

The major sources of the annual increase in government spending on NZS are the annual adjustments (accounting for about half the increase) and the growth in the number of people receiving NZS. According to Treasury, 'New Zealand Superannuation recipients grew by 18% (or about 105,600 recipients) between 2011/12 and 2015/16. … The number of recipients is expected to continue to grow at a declining rate to reach an average of 794,200 recipients by 2019/20' (ibid., p.70).

The ministry has supplied the numbers receiving married/partnered, single sharing, single living alone and other categories of superannuation as at 30 June 2015 (Table 2). Over a third (38%) of current NZS recipients receive an additional weekly payment over the rate paid to each person in a partnered relationship. Multiplying the number of single recipients by the difference between their payment rate and that for married/partnered persons gives a rough estimate of the cost of the different payment rates of $1.26 billion. This may not be unnecessary expenditure, but it is a significant sum of money and hard data needs to be provided to show that it is being spent in the most appropriate way.

New Zealand is the only country in the OECD to have universal superannuation as its only government-supported scheme. The fiscal costs to taxpayers of this scheme are high, but New Zealand is at the low end of expenditure on superannuation as a percentage of GDP: 6.5% compared to an OECD range of 4.6%-15% (Parliamentary Library, 2001). Some other countries (the United Kingdom, Australia, Canada) also have different payment rates for single people and couples living together, with a similar ratio of single to married rates as New Zealand's.

Different rates for different living arrangements arise from the widespread belief that 'it is not true that "two can live as cheaply as one", but two living together are likely to spend less than if they live separately in order to attain the same standard of living' (Easton, 2002), by making savings on rent, insurance, power, etc. This concept of household equivalence is used to derive equivalence scales, such as the 1978 and 1988 Jensen scales used by the then Department of Social Welfare. These scales gave a weighting of 1.55 for a two-adult household to reach the same standard of living/well-being as a one-adult household (Perry, 1995). Inverting this gives the weighting of 65% for the single person living alone, as seen above.

The 'living alone' allowance

The living alone allowance introduced in 1990 was based on the application of the Jensen household equivalence scale, but this scale has been widely criticised (Perry, 1995; Easton, 2002), with Easton stating that the 'use of a non-empirically derived scale such as the Jensen ones ... is clearly unsatisfactory' (Easton, 1997, p.6). There are problems with equivalence scales, including:

- that different scales give different values (for example, the Michelini scale would give a single person a weighting of 57%, compared to the 65% of the Jensen scale);
- that they rely on an understanding of the income/expenditure patterns of different household types;
- that equivalent standard of living needs validating (usually by specific surveys) and it is likely to be culturally and regionally specific (Stephenson, 2015) as well as change over time; and
- that they are usually generated for the entire population, not specific age groups.

Easton (2002) suggested a number of strategies when using equivalence scales, including using them all or trying to avoid their use altogether, and stated that they 'should be used with caution wherever age has some relevance to the problem being investigated'.

Recent work on equivalence scales by Michelini (discussed in Easton, 2002) and Stephenson (2015) used a publicly available aggregated Household Economic Survey (HES) data set confidentialised by Statistics New Zealand taking means of three sample points. While this retains most of the distributional properties of the underlying data, it would be preferable to use the original data set. The confidence intervals below were calculated (by Statistics New Zealand staff) using the full sample of households containing at least one member aged 65 or over in the 2013 HES, and can be considered as a per capita equivalence scale where a two-person household is assumed to have twice the costs of a one-person household. As with all surveys there are caveats on the HES data: such as that it has a relatively small sample size, is taken over a full one-year period and includes some recall questions.

The 95% confidence interval for the estimated difference in weekly expenditure between one-person households and each person (assumed to have equal expenditure) in two-person households is –$77.20, $41.66. This confidence interval contains zero, so the hypothesis that there is no difference in expenditure between one person and each person in a two-person household cannot be rejected at the 5% level of significance. That is, there does not appear to be any current expenditure basis for the difference in

NZS rates for persons living alone and those living with others.

Different payment rates for married and single persons

We have now had 40 years of different rates for married and single superannuitants, but equivalence scales are based on the number of people in a household, not the relationship between those people. The Ministry of Social Development claims that there are economies of scale when two people are a couple rather than single and sharing accommodation, regardless of any familial relationship, such as being siblings (Ministry of Social Development, 2016). Table 3 gives 95% confidence intervals for average weekly expenditure for single (one-person) households and for couple-only households using the 2013 HES, and these (rounded) give the estimated weekly expenditure for each person in a couple-only household as between $417 and $549 (each person assumed to have equal expenditure) and that for a one-person household as between $410 and $574. These are substantially overlapping confidence intervals, showing that there was no statistically significant difference (at the 5% level of significance) in expenditure between individual partners in a relationship and single over 65-year-olds living alone. If there is no difference in weekly expenditure between single superannuitants living alone and each person in a couple, and there is also no difference between one- and two-person households, then there would also be no statistically significant difference between the weekly expenditure for each single person in a two-person household and each person in a couple.

Table 3: Weekly household expenditure (one or more persons aged 65 years or over) by household composition.

Household composition	Average weekly expenditure	95% Lower Confidence Interval	95% Upper Confidence Interval
One-person household	$491.94	$409.95	$573.93
Couple only	$965.94	$833.98	$1,097.90
Couple with one dependent child	$1,032.92	$468.17	$1,597.67
Other 'One parent with child(ren) only' households	$716.52	$580.91	$852.12
Other one-family households	$952.31	$728.30	$1,176.31
All other households	$1,372.07	$1,111.35	$1,632.78

Reasons for reviewing the current policy

In 2016 the Ministry of Social Development reiterated that 'the rate a married couple is paid is based on the assumption that couples will financially support each other as a single economic unit' and 'have the economic benefit of sharing each other's income, assets, living costs, insurance, food and vehicles'. It states that a single person receives more as they don't have this economic benefit, which puts them at a disadvantage. The increased rate for single persons reflects 'the additional costs single people have' (personal communication, 15 March 2016). However, the evidence above does not support this view and the ministry has not produced alternative evidence which does. In addition, even if it was true for the whole adult population, it may not be for the 65 and over population, and if it was true for the superannuitant population at some time in the past it may not be now. The 65 and over cohort of 40 years ago is very different from that of today.

Each cohort of superannuitants has been larger than previous cohorts; the amount of time spent aged over 65 and the proportion of men among the over 65s has increased (although the older age groups are still dominated by non-partnered women); fewer than 4% of current 65-year-olds have never been married or in a civil union; and recent over 65-year-olds are healthier and more likely to be in employment than those of 25 years ago (Khawaja and Boddington, 2009; O'Connell, 2014; Statistics New Zealand, 2013). The flood of retirement villages appearing in both urban and rural New Zealand is evidence of a move to new types of housing for the elderly. The wider household composition of married/partnered superannuitants is also changing, with, in 2013, 6.9% being couples living with children and 5% living in multiple family households. Superannuitants today are likely to have very different lifestyles and expectations to those of our parents' and grandparents' generations.

In the 1970s probably the dominant form of family was based on marriage, but social change over the last few decades has made being married a poor indicator of social connection. There have been changes to the form of legal marriage (the 2004 Civil Union Act) and to the concept of de facto or social marriage, now classified simply as a partnered relationship. Statistics New Zealand data suggests a growing unwillingness to answer questions on marital status, with increasing non-response rates to census questions about both legal and partnered relationships (rising from 6.6% in 2001 to 8.7% in 2013 for legal relationships) (Statistics New Zealand, 2016).

St John et al. (2014) discuss the issues arising from differing use of marital status across social policies, including NZS, in New Zealand, stating that relationships legalised by formal marriage or civil union are easy to identify (using government's own data-matching protocols), but other relationship arrangements are difficult to assess. The determination of a 'de facto' relationship given in the Property (Relationships) Act 1976 includes nine relevant matters, a number of which (such as care and support of children and existence of a sexual relationship) might be more difficult to evaluate for the over 65-year-olds compared to the rest of the population. Prosecutions of the elderly for 'benefit' fraud are almost unheard of. As St John et al. state, 'there is no targeted advertising campaign, no harassment of older people and no considerable effort at governmental level to represent superannuitants as acting unlawfully, or to enforce tougher penalties on this part of the population. No peering into their bedrooms!' (p.10). There are substantial administrative and privacy costs involved in attempts to establish that a relationship exists, including the cost of prosecution.

The different rates for married and single superannuitants may also create perverse incentives. If a single superannuitant marries or enters a relationship, their NZS payment reduces regardless of whether or not the partners live together. The chief executive of the Ministry of Social Development does have discretion to treat a married person as single if they are deemed to be living alone (New Zealand Superannuation and Retirement Income Act 2001), but this has been interpreted as only applying when there is a clear intention to end the marriage or relationship.[2] Current law also enables married couples to have relationship agreements that enable them to opt out of the Matrimonial Property Act (and thereby the economic part of their relationship), but there appears to be no provision for this within NZS.

As with all blanket policies, universal NZS creates inequities at an individual level, but these are exacerbated by having different payment rates (for example, a wealthy single over 65-year-old still earning a high income and living alone will receive a higher weekly payment than that given to each of two single unemployed superannuitants who live in the same house). As St John et al. (2014) say, there are a variety of relationships among older people: siblings who live together, own property together and who might leave assets to each other in their will, for example. Existence of a sexual relationship may be the only difference between their living arrangements and those of a couple in a declared same-sex relationship, but each sibling would receive a higher NZS payment than each person in the couple.

Without providing good scientific evidence to justify it, differentiation on the basis of marital status may be in violation of the 1993 Human Rights Act. The Bill of Rights Act requires the attorney general to report to Parliament on bills that appear to be inconsistent with this act and the New Zealand Superannuation and Retirement Income (Pro Rata Entitlement) Amendment Bill 2015 was reported as possibly discriminating (on the basis of national origin and age), but it does not appear that the original New Zealand Superannuation and Retirement Income Act 2001 was (Ministry of Justice, 2015).

Conclusion

Investigation of the current applicability of a policy to the population of the day should be a routine part of policy evaluation and monitoring. Continuation of the different New Zealand Superannuation rates seems inappropriate because of the lack of quantitative evidence to support it, because the population it affects has changed, as have social attitudes, forms of relationship and living arrangements, and it creates perverse incentives and inequities. Expenditure differences for different sized households may exist in the total adult population, but there is no justification for assuming this applies to the 65 and over age group, as the lack of statistically significant differences in average weekly expenditure between married and single superannuitants or between superannuitants in one- or two-person households in the HES indicates. Superannuitants may be very different from the rest of the population, possibly changing their living arrangements, and so on, according to their means. In particular, the process of decumulation among the 'aged' (Dale, 2012) needs to be better understood and integrated into retirement provision policy.

As early as 1997 the Todd report recommended a standard per-person rate (Todd and Periodic Report Group, 1997). Recently, St John (2015) has also suggested that there is a case for paying the same rate to all superannuitants, with additional means-tested payments (such as accommodation supplements) where need is demonstrated, and that savings in the overall NZS bill could be made without a major impact on the living standards of those for whom New Zealand Superannuation was their only income. She suggested that one common rate could be introduced by holding the single payments at their current rates and gradually lifting the married rate until it was equal. She stated that, 'the different rates are historical and they are unsuited to a modern world of flexible living arrangements and relationships' (p.6), and that previous retirement commissioners and periodic report groups have noted that they are difficult to justify.

The onus is on the Ministry of Social Development to produce factual data to support the continuation of such a high-cost policy. The government and the public need assurance that this is $1.3 billion well spent, not just a policy past its use-by date.

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2 Director General of Social Welfare v W (1997) 2 NZLR 104, Wellington: High Court (Judgment of McGechan J); King v Chief Executive of the Ministry of Social Development (2009), High Court Wellington registry, CIV-2009-485-000705 (Judgment of Williams J); Fong v Secretary for War Pensioners (2012), High Court Wellington Registry, CIV-2012-485-67 [2010] NZHC 1618 (Judgment of Williams J).

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