THE UNIVERSITY OF AUCKLAND
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BUSINESS SCHOOL
Retirement Policy and Research Centre

New Zealand Superannuation policy and overseas state pensions

2016 is the year of the Retirement Commissioner's review. On overseas pensions the *Retirement Policy and Research centre* RPRC supports the strong stance taken by the Commissioner on the need to act immediately to remove the Spousal Provision in section 70 of the Direct Deduction Policy.

The Direct Deduction Policy (DDP) allows for deduction of state pensions analogous to NZS from the NZS entitlement. When the overseas pension is greater than NZS, the spousal provision allows a deduction of the excess to be applied to the spouse's NZS entitlement.

"Some spouses find to their horror they get less or even no NZ Super, even though they may have lived all their lives in New Zealand. For some, it may be a second or third marriage to someone who just happens to have a overseas pension" says Director RPRC, Hon Associate Professor Susan St John.

Most usually those affected have a spouse from US, Canada, Germany, the Netherlands, Norway, and Italy.

The rationale for the spousal provision is the outmoded assumption that one spouse's income is available and should be used to support the other. In the 1970s, Muldoon's National Superannuation treated men and women independently. Each married person was entitled in their own right and paid tax on their pension along with their other individual income. Even when an indirect income test called the surcharge operated between 1985 and 1998, it was based on each individual's income. Today,

while married superannuitants still get a lower rate than singles, super for those not affected by the spousal provision remains as an individual entitlement.

One of the more egregious aspects is when a spouse may have the full amount of the partner's overseas pension deducted from their NZSuper even when the partner is not a NZS recipient.

The best estimate by MSD for 2016 is that there are 500 couples affected by the spousal provision and that the average amount deducted is $4,000 per year (i.e. the total amount deducted is approximately $2 million per year). "Thus it is hardly a fiscal risk to remove it, yet the social costs of failing to address a clear injustice are enormous." Says St John

The wider issues of how people are treated when they have a state pension from overseas is found here:

Dale, M and St John, S (2016) New Zealand Superannuation policy and overseas state pensions. Paper prepared for the Retirement Commissioner's three-yearly review 2016.