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Super strain on Generation X will become too much   NZ Herald 8th May 2014

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Viewed through the lens of population change, the future looks alarming for those born in the baby-bust years following the post-war baby-boom.

This X-generation, now aged 28-48, are not all 'whizz kid' executives on high salary packages. Many have student loans and mind-boggling mortgage debt, and many face the high costs of parenthood and the growing needs of their older relatives.

As retirement looms, they see the baby-boomers take an ever increasing share of the economic pie, not just in the form of New Zealand Superannuation but in healthcare too.

Treasury figures show that spending on NZ Super in 2010 of about 4% of GDP will rise to around 8% by 2060.   This overstates the true cost, as some flows back to the government in tax, but ageing pushes up healthcare costs too, adding another 3% of GDP by mid-century.

If the baby-boomers take more of what is produced, how will the younger generations fare?

Superannuitants with 10 years' residency get the same taxable pension. NZ Super has been a very equalising factor, because it is paid to the individual and gives recognition to the value of all work on which society depends, including the unpaid caregiving largely done by women.

While our universal superannuation policy appears well supported, there are signs of tension. Let's take a simple comparison between the State support for a couple on NZ Super, and an X-generation couple who can't get work, perhaps due to sickness or a natural disaster, and need a welfare benefit.

Back in 1998, the net weekly NZ Super for a couple was $324, and a couple on a benefit got $246. Today a couple on NZ Super gets $565, while a couple on a benefit gets only $348, leaving them trailing behind by $216 a week. High income over-65 year-olds get less after tax, but the value of NZ Super for those who may still be in well-paid, full-time work is actually more than the net unemployment benefit.

How long can growing differences like these be sustained? How long will tax-free capital gains enjoyed by the old and their descendants be tolerated by those of the young who don't inherit and pay ever more for housing? No-one pretends the issues are easy, but some system could (and should) be found to shift resources from wealthy baby-boomers to provide more for others.

Raising the qualifying age for NZ Super is seen by some as a silver bullet. But even if it was done as aggressively as in the 1990s when it rose from 60 to 65 years with very little warning and over the space of only a decade, there would be other costs. Of real concern are those who can't support themselves and yet are expected to be 'work ready' in a demeaning and inadequate welfare system.

But we are not raising the age at all, or even talking about it, so any future increase may be a very long way down the track, and any savings a long way off.

So what about reducing the level of NZ Super? Some would link it only to prices. However the lesson from welfare benefits is that a wage link is critical if living standards are not to fall to disastrously low levels over time. There is no evidence that NZ Super at current rates provides a lavish lifestyle to those without other resources…far from it. We don't want to reinvent poverty for the old.

There is only one other major lever to reduce costs, and that is the no-go issue of means testing. New Zealand has had some nasty experiences such as the 1991 budget attempt to make NZ Super just a welfare benefit, and very few New Zealanders would like the kind of means test applied in Australia.

When Prime Minister Rob Muldoon introduced National Superannuation in 1977 many said it was too expensive. But the top earners had a very high tax rate and might have retained only a third of the payment after tax. Then, a surcharge was imposed from 1985 for 13 years. The irony is that today, the top earners, often still working full-time, retain 67% of NZ Super after tax or even more if they have a clever financial adviser.

Yes, we should be raising the age, and yes, we need to redesign the welfare system, but we can also take the pressure off the X-generation by designing the tax system to claw back NZ Super from the top 10% of superannuitants without too much pain for them or anyone else. At the very least, we should be talking about it.

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