

Regulatory Impact Statement: Fair Residency Bill

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Coversheet

Purpose

Decision Sought:	Agreement to transitional approach and accommodations for limited groups for inclusion in the New Zealand Superannuation and Retirement Income (Fair Residency) Amendment Bill.
Advising Agencies:	Ministry of Social Development
Proposing Ministers:	Minister for Social Development and Employment
Date:	3 March 2021

Problem Definition

- 1 There is an opportunity to review the reasonableness of the 10 years residence requirement for New Zealand Superannuation (NZS) in the context of the ageing population and changes in migration patterns and to contribute to the sustainability of NZS. While the Fair Residency Bill aims to achieve this, as drafted it would have significant negative impacts on individuals and various population groups and should be amended to minimise differences in the treatment of people impacted by the change.

Executive Summary

- 2 The Fair Residency Bill is a Member's Bill that amends the New Zealand Superannuation and Retirement Income Act 2001 ('the NZSRI Act'). It would increase the minimum length of New Zealand residence, after age 20, required to receive NZS or Veteran's Pension (VP) from 10 years to 20 years.
- 3 How long a residence requirement should apply for NZS and VP is principally a question of fairness, with consideration given to the point at which someone's connection with or contribution to New Zealand is strong enough or substantial enough that they should be entitled to receive NZS or VP. As demographics change, the balance of fairness between short-term and long-term residents can change also. High levels of migration in and out of New Zealand may have changed the balance of what a fair level of contribution for NZS is considered to be, particularly as an

increasing number of older people have been resident in New Zealand for more than 10 years but less than 20.¹

- 4 As New Zealand is experiencing structural population ageing, there is also frequent attention to the sustainability of NZS. This is often accompanied by calls to increase the age of entitlement and/or introduce means-testing. Increasing the residence requirement may appear a fairer way to reduce costs compared to those options (especially to those unaffected by a residence increase), although it would have a lesser impact on long-term NZS costs.
- 5 Officials have identified a number of issues with the bill as currently drafted which could be addressed by the Finance and Expenditure Committee. These issues include:
 - the current drafting not protecting the entitlements of current superannuitants, severely impacting the financial stability of affected recipients
 - the bill coming into effect the day after Royal assent and therefore providing no lead in time to allow affected people to prepare for the change
 - the subsequent implementation challenges of not knowing when the bill would receive Royal assent severely limiting MSD's ability to make changes to systems, processes and information for staff at the time of the legislative change
 - the bill's incompatibility with the intention of recent changes to improve portability of NZS and VP to the Realm of New Zealand
 - the lack of accommodation for refugees who arrive in New Zealand later in life and have much less control over where and when they migrate to New Zealand compared to non-refugees.
- 6 In considering approaches to mitigating the above issues, we considered a number of options:
 - **The degree of change in residence requirements**

Our preferred approach is to increase the residence requirement to 20 years after the age of 20 (coupled with the preferred transitional approach outlined below).

Other options considered were maintaining the status quo position of a 10 years residence requirement, or a 15 years residence after the age of 20.
 - **Potential transitional approaches**

Our preferred approach is to pursue a phased increase by birthdate in which for every two complete years a person was born after 1955, that person would require one additional year of residence up to a maximum of 20 years in total (for people born on or after 1 July 1975). This approach also allows

¹ The number of overseas born over-65s with 10-19 years residence increased from only 7,700 at the 2006 Census (6.1 percent of overseas born over 65s) to 25,900 at the 2018 Census (13.5 percent of overseas born over 65s).

Parliament the option to pause the increase at any point should a lesser change be deemed sufficient.

We also considered:

- the counterfactual of enactment which would see the new residence requirement apply immediately upon enactment
- a delayed jump to 20 years to come into effect for new applicants in 2031, and
- a jump to 15 years for new applicants from 2026 followed by a jump to 20 years for new applicants from 2036.

- **Accommodations for the Realm of New Zealand**

Our preferred approach is that residence in the Realm would count as residence toward the additional 10 years to avoid undermining recent changes to improve portability to the Realm.

This option was considered against the counterfactual of requiring increased residence and presence in New Zealand to qualify for NZS or VP.

- **Accommodations for refugees**

Our preferred option is that the 10-year residence and presence requirement is retained for a person granted refugee or protected person status in New Zealand at age 55 or higher. For those who are granted refugee or protected status aged 45-54, we propose that the total residence and presence requirement be no more than the difference between the date that person was granted that status, and the date on which that person turns 65.

This was considered against the counterfactual of requiring refugees and protected persons to meet the same residency requirements as other migrants.

- 7 The preferred options outlined above provide the optimum balance between achieving the policy intent of increasing residence requirements for NZS/VP, whilst simultaneously protecting the entitlements of existing and soon to be NZS/VP holders who would face significant hardship should immediate changes to residency requirements be made.
- 8 The short to medium term savings created by the increased residence requirement would be determined by the transitional approach. In the long term it is expected that the increased residence requirement would save around 0.3 percent of the cost of NZS once increase take up of main benefits are taken into account. Implementation costs are relatively minimal compared to the savings.
- 9 MSD advice on superannuation policy is guided by an existing framework of desired outcomes. This framework was most recently utilised by MSD, and the analysis considered by Cabinet and Parliament, through the New Zealand Superannuation Modernisation Programme (New Zealand Superannuation and Veteran's Pension

Legislation Amendment Bill, Royal assent 24/07/20). The elements of this framework are:

- Fairness
- Income adequacy
- Simplicity
- Sustainability
- International mobility
- Policy stability.

Limitations or Constraints on Analysis

- 10 The key constraint through this process so far has been the short timeframes and the lack of agency that officials have had over the process for the bill.
- 11 The bill is a Member's bill, meaning that officials were not involved in its drafting. Instead, officials' first opportunity to influence the bill is by acting as advisers to the Finance and Expenditure Committee (the Committee). Due to the timing of the election, officials were authorised to act as advisers to the Committee in December 2020, with the Committee due to report back on 4 May 2021 (recently extended from 23 March 2021).
- 12 These time constraints have limited MSD's ability to consult on the bill beyond considering public submissions to the Committee. They have also meant that officials' focus has been on providing advice and options that mitigate the substantive issues with the bill as drafted. In particular, while officials consider there is a clear rationale for increasing the length of the residence, less time has been spent considering the extent of the increase. MSD has drawn on previous work to for its analysis of the degree to which the residence requirements should be raised.
- 13 Another constraint is the difficulty of assessing the long-term impacts of the change, and particularly its behavioural effects. MSD has made rough assumptions about what people will do once the change is put in place.²
- 14 MSD collects data about NZS applicants' residence. However, the quality of this data is highly variable, and is challenging to apply in analysing the effects of increasing the residence requirements. Additionally, because this data is associated with current superannuitants, it has limited applicability to future cohorts of potential superannuitants.

² That some affected people will come earlier and be eligible (35%), some will go onto Job Seeker Support until they are eligible (17.5%), some will go onto Supported Living Payment until they are eligible (17.5%), and some will not access NZS/VP or a main benefit at all (30%).

Responsible Manager(s) (completed by relevant manager)

Lynne Cousins
Policy Manager, Seniors and International Policy
Ministry of Social Development

Quality Assurance (completed by QA panel)

Reviewing Agency/Agencies:	Ministry of Social Development
Panel Assessment & Comment:	<p>The Panel considers that the RIA meets Cabinet's quality assurance criteria.</p> <p>As described in the RIS, the context of this work – development of departmental comments and recommendations on a Private Members Bill – has constrained the scope and conduct of the analysis. Although consultation on the substantive proposals has been limited, the proposals have been developed in response to public submissions on the original bill and in consultation with relevant government agencies. On balance, we consider that the RIA adequately meets the criteria.</p>

Section 1: Outlining the problem

Context/Background Information

New Zealand Superannuation and Veteran's Pension are the principal government income support for older people

- 15 New Zealand Superannuation (NZS) and Veteran's Pension (VP) are New Zealand's principal government-administered income source for older people. In the interpretation of an expert group that recently considered the purpose of the retirement income system for the Retirement Commissioner, NZS (and VP) are intended to "ensure an adequate standard of living for New Zealanders of eligible age".
- 16 NZS are paid to any New Zealand citizen or resident:
- who is aged 65 and over, and
 - who at the time he or she applies is ordinarily resident in New Zealand, and
 - who has been resident and present in New Zealand for 10 years after the age of 20 and also for five years after the age of 50 (there are certain circumstances under which residence overseas may count towards these requirements).
- 17 VP is the equivalent to NZS for veterans with qualifying operational service and for their spouses or partners. Qualification for VP is dependent on meeting the age and residence criteria in the NZSRIA, and the requirements of the Veterans' Support Act 2014. The core VP policy settings match those of NZS, but there are some additional benefits associated with it, such as a lump sum payment on the death of a VP recipient.
- 18 NZS and VP have three main rates, which are not income-tested. These are for:
- a married/partnered person
 - a single person sharing accommodation
 - a single person living alone.
- 19 NZS and VP rates are adjusted for inflation each year, and must also maintain a relationship with the net average wage. Annual adjustments are currently based on price inflation but with the net amount of NZS/VP for a couple required to be between 66 percent and 72.5 percent of the average wage.
- 20 Under section 189 of the Social Security Act 2018, any overseas benefit or pension administered by or on behalf of a government ('overseas pension') that a person receives is deducted from their New Zealand benefit or pension (usually NZS or VP). Under the 'direct deduction' policy, as this is known, around 100,500 overseas pensions are deducted from NZS and VP recipients' New Zealand entitlements, with an annualised value of around \$465 million.
- 21 The direct deduction policy means that people with both an overseas pension and a New Zealand benefit or pension do not receive a combined amount of government-

provided retirement income that is more than the amount received by someone who lived in New Zealand throughout their life. Essentially, a person's overseas pension amount is topped up with NZS/VP payments so that they receive the equivalent of the full rate of NZS/VP. Private pensions and savings plans like KiwiSaver are not included.

New Zealand's population is ageing rapidly and diversifying

- 22 Like most countries around the world, declining fertility rates and increased life expectancy mean New Zealand is experiencing structural population ageing. Statistics NZ estimate that there were 792,500 New Zealanders aged 65 as of June 2020, making up 15.6 percent of the population. By 2040 there are projected to be 1,336,800 people aged 65+, or 22.5 percent of the population.³
- 23 The increased number of older people will see the NZS/VP population (and hence expenditure) increase significantly. More than 90 percent of older people in New Zealand receive NZS or VP, but there is also a large group of people who receive NZS or VP in another country under a portability provision or social security agreement. Net expenditure on NZS is expected to grow from \$13.9 billion in the 2020/21 financial year (4.3 percent of GDP) to \$41.1 billion in the 2040/41 financial year (5.3 percent of GDP).
- 24 At the same time, population ageing will also likely result in increases in other expenditure – particularly in the health system. Health costs tend to be higher for the oldest New Zealanders, and the population aged 85+ is expected to nearly triple from 88,500 in 2020 to 216,700 in 2040.
- 25 Population ageing also acts to decrease the labour force whose taxes on earnings are required to pay for the increasing costs of NZS, healthcare and other government services. New Zealand's labour force participation rates will only remain steady if the current trend of increasing labour force participation by people aged 55+ continues.
- 26 The ageing population is also increasingly diverse. The proportion of people aged 65+ of Māori ethnicity is expected to increase from 5.8 percent in 2013 to 9.7 percent in 2038, while the proportion of Asian ethnicity is expected to increase from 5.1 percent in 2013 to 15.6 percent in 2038. The older Pacific population is also expected to increase from 2.6 percent of older people in 2013 to 4.2 percent in 2038.⁴
- 27 The proportion of older people born overseas has increased in recent years, but not dramatically so. In 2006, around 25.5 percent of people aged 65+ were born overseas. By 2018, that had increased, but to only 26.8 percent. However, a higher proportion of the overseas-born older population have been in New Zealand for less than 20 years. The number of over-65s with 10-19 years residence increased from

³ National population projections, by age and sex, 2020(base)-2073.

⁴ National ethnic population projections, by age and sex, 2013(base)-2038 update Information on table. These projections have not been updated since the 2018 Census.

only 7,700 at the 2006 Census (6.1 percent of overseas born over 65s) to 25,900 at the 2018 Census (13.5 percent of overseas born over 65s).⁵

The residence requirements for NZS and VP have a 120 year history

- 28 The level of New Zealand residence required to receive a standard public pension has varied over time, but over most of that time there has been some access to the pension system after 10 years residence.
- 29 When the Old Age Pension was introduced in 1898, an applicant was required to have resided continuously in New Zealand for 25 years immediately preceding the date of application (though during that time they could have been absent for periods totalling up to two years).⁶ This Act was premised on the idea that “it [was] equitable that deserving persons who during the prime of life have helped to bear the public burdens of the colony by the payment of taxes, and to open up its resources by their labour and skill, should receive from the colony a pension in their old age”.
- 30 As New Zealand’s social security system expanded to cover more categories of beneficiaries, and to expand eligibility to existing categories, the residence requirements were reduced. In 1936, the residence requirement for the Old Age Pension was reduced to 20 years (still a continuous period of residence immediately preceding the date of application).⁷ Very shortly after this, the continuous residential requirement for people who were resident in New Zealand on 15 March 1938 was lowered to 10 years (with up to one year in absences). Anyone not resident on that date still had to meet the 20 year requirement.⁸
- 31 The introduction of this 10 year requirement was intended to provide for working people who had immigrated to New Zealand following World War One, and who, having suffered in the Great Depression, were now unable to provide for themselves. The fallback to a default 20 year residence requirement, meanwhile, was intended to “prevent [New Zealand] from becoming a dumping ground”.^{9 10}
- 32 Following these developments, the dual system of the means-tested Age Benefit and non means-tested Superannuation Benefit was introduced. These shared the same qualification – 10 years continuous residence for those resident on 15 March 1938,

⁵ Birthplace (broad geographic areas) by highest qualification by age and sex, for the census usually resident population count aged 15 years and over, 2006, 2013, and 2018 Censuses

Unfortunately, the fact that a higher proportion of the overseas born older population have been born in places other than the United Kingdom and Ireland has also very likely affected perceptions of overseas born superannuitants.

⁶ Old Age Pensions Act 1898, s 8

⁷ Pensions Amendment Act 1936, s 2

⁸ Pensions Amendment Act 1937, s 2

⁹ NZPD 250, pp 233-234

¹⁰ In 1938 New Zealand had little in the way of restrictions on immigration. Policy was more oriented toward incentivising immigration. Today’s immigration points system favours younger migrants, and access to the ‘parent category’ is highly restricted.

and 20 years continuous residence otherwise. In 1972, the qualification for Superannuation Benefit was fixed at 20 years, and that for Age Benefit at 10 years.

- 33 When National Superannuation was introduced in 1977, replacing Superannuation Benefit and Age Benefit, the residence requirement was set at 10 years, with seven years required to be in the 10 years immediately preceding application.¹¹ There is minimal attention in the Parliamentary record to the 10 year requirement, but the focus of the government of the day was on emphasising “total equality” in contrast to the previous government’s short-lived contributory scheme,¹² and a 10 year requirement ensured that the removal of Age Benefit would not create losers.
- 34 In 1987, the language was reframed around residence and presence— to clarify that people had to be actually present as well as legally resident.
- 35 In 1990, the residence requirements were amended to what is – broadly – their current form, 10 years residence and presence in New Zealand since age 20 with 5 years since age 50. The 5 years after the age of 50 requirement and the requirement to be ordinarily resident in New Zealand when applying ensured that the new requirements retained the principle that people should have a recent connection with New Zealand in order to qualify for a pension.
- 36 No change was made to the 5 years after age 50 requirement when the age requirement was increased. This arguably weakened the extent to which NZS applicants must have a recent connection to New Zealand, although applicants must still generally be ordinarily resident when they apply.
- 37 Recent years have seen reforms intended to improve the portability of NZS to the Realm of New Zealand – the Cook Islands, Niue and Tokelau. The Social Assistance (Portability to Cook Islands, Niue, and Tokelau) Act 2015 introduced the ability for people who met the other residence requirements to apply for NZS or VP while ordinarily resident in the Cook Islands, Niue or Tokelau. The Social Assistance (Residency Qualification) Legislation Act 2018 allowed residence in the Realm to count toward the five years over 50 requirement.

Other relevant government work programmes with linkages to this area

- 38 The COVID-19 New Zealanders Stranded Overseas Support Programme (the Programme) commenced on 20 April 2020, enabling continued or resumed payments of New Zealand Superannuation, Veteran’s Pension, main benefits and supplementary assistance to clients who cannot receive their standard payment because they are stranded overseas as a result of COVID-19.
- 39 As at 20 January 2020, there were 1,815 clients receiving support under the Programme. One hundred of these clients are working age, with the remainder (1,715

¹¹ The seven years requirement could be reduced by one year for every ten years the person had lived in New Zealand.

¹² NZPD 406, p 2924

clients) receiving NZS or VP. The Programme is currently due to expire on 27 April 2021.

- 40 Clients currently receiving support under the Programme should not be impacted by the Fair Residency Bill if MSD's proposed approach is adopted, because under MSD's proposed approach the proposed changes will not apply retrospectively. However, if the bill is implemented as currently drafted, clients currently receiving support through this programme may lose their entitlements if their total residency in New Zealand does not meet the new requirements.

What is the policy problem or opportunity?

The reasonableness of the 10 year residence requirement should be reassessed in light of the ageing population and changes in migration patterns

- 41 Unlike many countries' pension systems, NZS and VP prioritise income adequacy and equality of outcomes between recipients, rather than directly reflecting recipients' contributions. NZS is also unique in that eligibility is based on residence in New Zealand, rather than on tax contributions (although tax contributions can be counted as residence in New Zealand in some limited circumstances).
- 42 Contributions are still relevant to NZS and VP, however, when assessing the sustainability of NZS¹³ and the distribution of fairness in terms of contributions made compared with the benefits received from NZS. The residence requirement is a proxy for the minimum level of contribution and connection with New Zealand considered to establish eligibility for NZS or VP.
- 43 At present, very few people make a financial contribution to New Zealand within the minimum residence requirement that equals or exceeds the expected financial benefit to them of being entitled to NZS or VP, especially when the other benefits they receive from New Zealand are taken into account.
- 44 On the grounds of fairness and sustainability it is reasonable to re-evaluate whether the balance has been struck in the right place given that:
- the 10-year provision was initially introduced as a temporary protection for people disadvantaged by a particular crisis in the 1930s
 - as NZS and VP costs increase New Zealand must prioritise expenditure on NZS and VP against other expenditure
 - alternative approaches to improving the sustainability of NZS and VP, such as increasing the age of entitlement or introducing income- or asset-testing would impact people who have been very long term contributors to New Zealand (and increasing the age of entitlement would particularly reduce the value of NZS and VP for Māori who have lower life expectancy on average)
 - an increase in the number of people aged 65+ who have less than 20 years residence in New Zealand has likely increased the cost of maintaining the minimum residence requirement.
- 45 In this instance, the need to consider the requirement is precipitated by the progress of the Fair Residency Bill which was supported at first reading by a majority of Parliament.

¹³ NZS is the largest single item of government expenditure and is the second most commonly received social security benefit (following Winter Energy Payment).

There are problems with the Fair Residency Bill as drafted

- 46 The most immediate reason why MSD is providing advice on the Fair Residency Bill is that there are significant problems with how the bill itself is drafted.

The bill does not protect the entitlements of current superannuitants:

- 47 The NZSRI Act states that no person is entitled to NZS (or by extension, VP) unless the person meets all the residential requirements in section 8. The requirements for residence after age 20 and after age 50 always apply – they do not only apply at the point of application.
- 48 This means that despite the apparent intent that current recipients would not have their entitlement affected, they would actually lose entitlement.
- 49 Not protecting the entitlements of current superannuitants would have a number of detrimental effects:
- It would severely impact the financial stability of affected recipients, with no option for them to mitigate the impact.
 - Superannuitants currently receiving a payment under general portability or special portability, and possibly also in Australia,¹⁴ would need to return to New Zealand to re-establish entitlement.
 - It would require MSD to review the situations of tens of thousands of superannuitants to determine whether or not they qualify under the new requirement.

The bill has no lead in time to allow affected people to prepare:

- 50 As drafted, the bill would come into effect on the day after that date on which it receives the Royal assent.
- 51 Even if current superannuitants' entitlements were protected, this would mean that people who are close to receiving NZS but could not meet the new requirement prior to the change would have no reasonable opportunity to adapt to it.
- 52 People who have come to New Zealand on the basis that they could be entitled to NZS or VP after 10 years residence, and have structured their finances accordingly, may not be able to accommodate the change.
- 53 While some would be able to continue or commence working to support themselves, it is unlikely that they would be able to do so for (up to) an additional 10 years. There would consequently be a significant increase in the number of people reliant on 'working age' benefits that are not designed for older people into their 70s and beyond. The other impact of a sudden change (while protecting current superannuitants' entitlements) would be a dramatic and avoidable difference in the

¹⁴ Because residence in Australia after age 65 does not count toward the residence requirement under the social security agreement between New Zealand and Australia.

treatment of people in similar circumstances immediately before and after the enactment.

- 54 There is a chance that people will make poor decisions in a hurry due to misunderstandings. In some cases a person might make a decision (for example, returning to New Zealand) on the assumption that they could qualify to receive NZS or VP before the change to a twenty year residence requirement, only to find that they do not actually qualify. That might occur if they do not meet the five years over 50 qualification, or if MSD determines that during some of the time they thought would qualify they were not actually both resident and present.

This would also make implementing the bill highly challenging:

- 55 This style of commencement, based only on when the bill receives Royal assent, means that MSD has no certainty over the date on which it would need to implement the bill. This would make it impractical to make changes to systems, processes and information for staff at the time of the legislative change. MSD has assessed this change as requiring a 12 month lead in period.
- 56 MSD could also not communicate effectively with clients or potential clients about the change, as we would not be able to tell them when it would take effect.

The bill is inconsistent with recent changes to improve portability of NZS and VP to the Realm of New Zealand

- 57 The Social Assistance (Residency Qualification) Legislation Act 2018 (the 2018 Legislation Act) made it possible for people to meet the requirement for 5 years residence after the age of 50 using residence in the Realm of New Zealand – the Cook Islands, Niue or Tokelau.
- 58 The purpose of the Act was to recognise the special relationship New Zealand has with the Realm, and to avoid incentivising its depopulation, by allowing people to return there and ultimately receive NZS or VP without having lived for 5 years after age 50 in New Zealand. People must still have met the 10 years after age 20 requirement to receive NZS – and receive full NZS only after 20 years New Zealand residence.
- 59 The Fair Residency Bill as drafted would mean that intended future superannuitants who are now residing in the Realm, or intend to reside there, would need to return to New Zealand and become resident, or remain in New Zealand, for up to an additional 10 years. This could undermine the intent of the 2018 Legislation Act, and could be detrimental to New Zealand's relationship with the Realm.

Impacted population groups

- 60 Please refer to the 'Population group impacts' table under "Describe and analyse the option" section for details. That table considers impacts on:
- expatriate New Zealanders
 - people currently unable to return to New Zealand
 - Māori
 - Pacific people
 - disabled people
 - migrants:
 - from countries with which New Zealand has a social security agreement
 - from non-agreement countries with well-developed pension systems
 - from non-agreement countries without well-developed pension systems (generally low and middle income countries eg China, India and South Africa)
 - refugees.
- 61 Generally speaking, migrants from low and middle income countries will be most likely to be affected – this will include affecting some older Pacific people. While we expect that few Māori seniors will be impacted, those who are impacted – along with impact Pacific seniors and disabled seniors – may be affected to a greater extent than others who face the same delay.

Public submissions on the Fair Residency Bill

- 62 The Finance and Expenditure Committee opened submissions on the bill and provided a request for departmental advisers to be available to help the committee in its consideration of the bill. Public submissions on the bill were shared with officials in their capacity as departmental advisers. We have analysed these submissions and have included our findings in our overall analysis of potential options, though acknowledging this will represent only a fraction of the public's views.
- 63 Submissions to the Committee closed on 16 December 2020. To date, we have received 362 written submissions which covered a number of topics. The Committee is due to report their findings on 4 May 2021.

Interpreting the contents of submissions

- 64 Many submitters did not state directly whether they were opposed to the bill or the 20 year residence requirement.
- 65 When submitters stated that the bill should not affect those who are already receiving NZS or close to being entitled to receiving NZS under the 10 year residence requirement or that there should be a transition period (or changing it to 15 years residence requirement), we have classified this as submitters being against the bill in

its current form, but not necessarily opposed to the 20 years residence requirement if changes are made to lessen the effect of the changes made to people in this situation.

- 66 When submitters stated that they were against increasing the residence requirements regardless of whether it affects them or future generations, we have interpreted this as being the submitter is against the bill in its current form and against to increasing the residence requirement to 20 years.

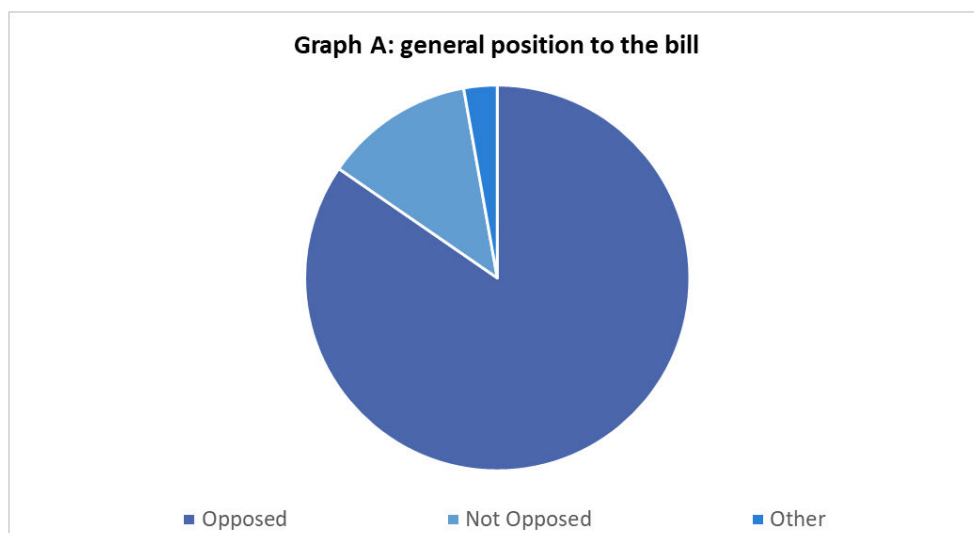
Submission analysis

- 67 The majority of responses were opposed to the bill in its current form stating that it was unfair that they could lose their entitlement or be faced with a significant extension until they became eligible for NZS. A number of submitters had made specific financial plans based on current residence requirements and emphasised they would face significant financial hardship should the bill progress without transition arrangements. These themes are further detailed below:

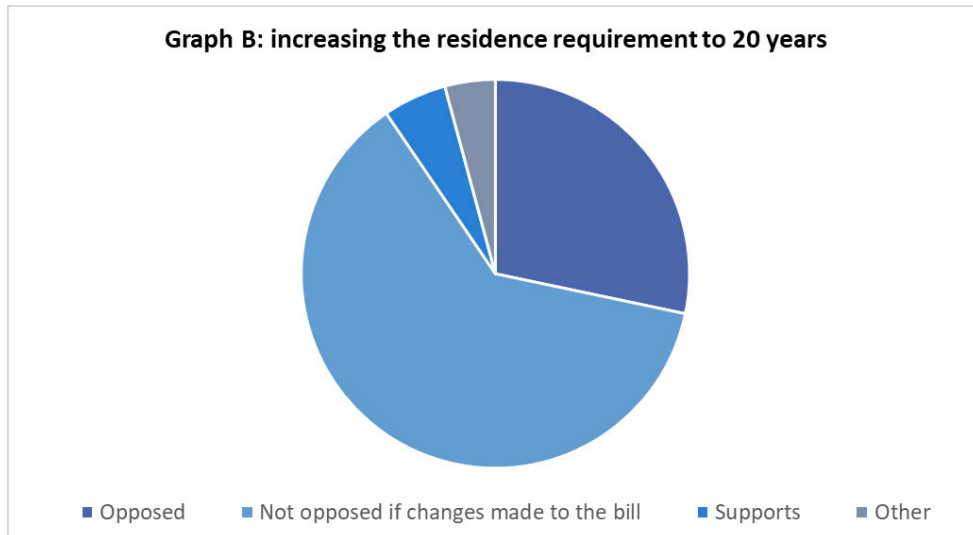
- A vast majority of the submissions opposed the bill as it is drafted, with submitters noting that they would lose their entitlement or be faced with a significant extension until they were eligible for NZS
- A transition period that protected the eligible of existing and near-future recipients was favoured amongst many submitters
- A number of submitters had made specific financial plans based on current residence requirements and emphasised they would face significant financial hardship should the bill progress without transition arrangements.

- 68 Some submissions also raised suggestions around other policy settings around NZS such as the removal/change of the direct deduction policy, making NZS proportional, and entering into more Social Security Agreements/increasing the portability of NZS.

- 69 Graph A illustrates submitters' general position on the bill. 302 submitters were opposed to the bill in its current form and 45 submitters did not oppose the bill in its current form, with 10 submitters who did not state their opinion, or no information was provided.



70 Graph B illustrates submitters' positions on increasing the residence requirement to 20 years. 222 submitters did not directly oppose the 20 year residence requirement if changes were made to the bill, 101 were opposed to the 20 year residence requirement, 19 supported the 20 year residence requirement and 15 submitters did not state their opinion or no information was provided.



What objectives are you seeking in relation to this policy problem or opportunity?

- 71 MSD advice on superannuation policy is guided by an existing framework of desired outcomes. This framework was most recently utilised by MSD, and the analysis considered by Cabinet and Parliament, through the New Zealand Superannuation Modernisation Programme. The elements of this framework are summarised below.

Fairness

- 72 NZS should respect human rights, be fair both to those who receive it and those who pay for it, now and through time, and reflect a fair distribution of fiscal costs and risks within and across generations. There can of course be different views about what is fair in any particular circumstance, and views about what is fair can change over time. Nevertheless, our society's desire to be fair has been the central guiding principle since the public pension was first developed.
- 73 NZS policy should also give assurance to younger New Zealanders, who bear most of the fiscal cost, that they in their turn will be fairly protected against hardship in their retirement.

Income adequacy

- 74 NZS, supported where necessary by other social policies, should adequately protect the wellbeing of superannuitants against hardship caused by insufficient financial resources. Income adequacy extends beyond merely preventing hardship; adequate income supports superannuitants' ability to participate in the community, the economy and society, contributing to a sense of reciprocity and hence to social cohesion.

Simplicity

- 75 NZS should be as simple as possible to understand, administer, and comply with.

Sustainability

- 76 NZS should be fiscally and economically sustainable. NZS therefore should do the least possible harm to incentives to work, save and invest, as these activities are the bases of New Zealanders' future material wellbeing.
- 77 NZS should also continue to enjoy sufficient ongoing public support to be politically sustainable, though not necessarily in its exact present form. The corollary of sustainability is that everyone can continue to have confidence in the protection that NZS provides now and will provide in the future.

International mobility

- 78 NZS and VP policy should present neither a strong incentive or disincentive to migrate to or return to New Zealand.
- 79 Where it does create incentives, those should avoid creating sudden inflows or outflows that may have broader social and fiscal impacts.

Policy stability

- 80 NZS policy should be stable. Policy stability does not mean immutability but does mean that the burden of proof rests with the case for change. The more fundamental the change being proposed, the stronger the case for change must be.
- 81 In practice, policy stability means that policy is not changed suddenly or arbitrarily, but is changed only by due process, only after due consideration, only for good reasons, only in accordance with those reasons, and only after due notice, so as to allow those who will be affected to adapt as far as possible to the effects of the change.

Trade-offs

- 82 These criteria, while complementing and contributing to one another, are also in a state of tension with one another. Having more of one usually means having less of the others. Trade-offs among them are sometimes necessary, raising the question of their relative importance.
- 83 Ideal NZS policy has two aims:
- it aims to achieve the fair distribution of wellbeing across the members of the community and through time
 - and it also aims to maintain a socially acceptable overall level of wellbeing of New Zealanders, both those who are older and those who are yet to become older, and their community.
- 84 These point to fairness as the central ideal policy objective for NZS, and therefore as a “meta-criterion” to use when considering trade-offs among the various policy objectives.

Analysis of this issue is unique to New Zealand, and the use of international comparisons has limitations

- 85 MSD has not placed particular emphasis on international comparisons in coming to a view on the appropriate residence requirement and has focused on utilising existing policy analysis frameworks. Although the minimum residence requirement for NZS is indeed significantly below the length of residence or contributions history required for a full pension in other countries, such comparisons are problematic because so few other countries pay a flat rate pension regardless of residence or contribution history.
- 86 Although the minimum periods required to establish entitlement to some pension from other countries are generally similar to the NZS requirement (and indeed are lower in some countries than the NZS requirement), New Zealand in some sense actually relies on the low residence requirements in other countries, as people migrating from countries with these pension systems will usually be able to take a partial payment to New Zealand that is deductible from NZS.

Section 2: Option identification and impact analysis

What criteria will be used to evaluate options against the status quo?

- 87 In this Regulatory Impact Analysis, options were assessed by the framework discussed in paragraphs 59 - 71.
- 88 We also assess the expected operational implications, and legal and regulatory implications of options. The operational implications can include what it will take to implement the change, including feasibility, cost and timeframes – but may also include ongoing implications such as changes in staffing levels or distribution (if relevant). Legal and regulatory implications can similarly include a variety of things – most obviously the extent and complexity of legislative or regulatory change required to implement an option, but also human rights implications (though these are also covered directly by the policy framework), and the potential for decisions made under the new law or regulations to affect the volume and complexity of litigation or complaints processes.
- 89 To the extent possible, we quantify the expected savings and numbers of impacted people. However, these are assessed principally to inform how well options perform against the policy framework (e.g. expected savings contribute to sustainability and, to a certain extent, to fairness).

What scope are you considering options within?

- 90 The general scope of options for consideration has been set by the Fair Residency Bill as introduced. The select committee process is the most meaningful opportunity that New Zealanders have to consider and comment on the bill. We believe that it would not be appropriate to consider options that significantly affect people who would not be affected by the policy proposed by the bill – for example, a proportional payment model under which people would receive $\frac{1}{45}$ ^h of the full rate of NZS or VP for each year they have lived in New Zealand between age 20 and 65.
- 91 We do not consider options for change to the direct deduction policy. This bill is not a suitable vehicle for such changes, and many people who would have wanted to comment on the direct deduction policy will not have had an opportunity to do so.
- 92 We also do not consider the adoption of alternative income support, such as a transitional retirement benefit or income-tested age benefit. While either might be appropriate under certain conditions, they cannot practically be considered within the timeframes for the Fair Residency Bill.
- 93 We only consider legislative options, and only within NZS and VP policy. Arguably some of the issues with the existing policy could be addressed through changes to immigration policy. However, this is not within MSD's scope or expertise, and would

fail to address situations where someone born in New Zealand has lived much of their life outside New Zealand and seeks to claim NZS or VP.

94 This means our options fall within four categories that vary the proposal in the bill:

- Options for the degree of change.
- Options for transitional approaches.
- Options for accommodations for the Realm of New Zealand.
- Options for accommodations for certain refugees.

95 Options within each category are mutually exclusive. The options we present for transitional approaches are based on a 20 year change, and would need (limited) adjustment to fit with a lesser change. The last two categories have only a counterfactual and one option. The counterfactuals would be influenced by a lesser change in the residence requirement.

96 We considered but excluded further variations for transitional approaches beyond those described in this Regulatory Impact Analysis:

- Near-immediate introduction of the full 20 year requirement, with grandparenting of existing recipients: ruled out because of its disproportionate and unjustifiable impacts on people who are close to qualifying for NZS or VP, and the potential for people to be particularly disadvantaged in the context of COVID-19.
- A phased implementation where the residence requirement increases by one year every two years (rather than by birthdates), with grandparenting of existing recipients: ruled out because it would be very difficult for people to understand its consequences for them and their decisions.

97 Submitters on the Fair Residency Bill have put forward a variety of other suggested transitional approaches. We believe that many of these suggestions will be adequately encompassed by the options we consider in this analysis even if they are not identical.

98 To give an example, a joint submission on behalf of a number of Auckland Chinese Organizations suggests an approach where people face a new requirement linked to how long they have already been resident and present in New Zealand at the time the Bill is enacted. While this is a reasonably logical approach it would very likely cause issues because how long people had been resident and present at that point would not be officially determined until they applied for NZS and VP. We think that our recommended approach will have a very similar function but provide greater certainty.

Describe and analyse the options

Options for the degree of change		
<i>Option</i>	<i>Description</i>	<i>Page</i>
Status quo	People must have 10 years residence after age 20 to qualify for NZS or VP.	25
Option One - 20 years residence after age 20	People must have 20 years residence after age 20 to qualify for NZS or VP.	28
Option Two – 15 years residence after age 20	People must have 15 years residence after age 20 to qualify for NZS or VP.	34

Options for transitional approaches		
<i>Option</i>	<i>Description</i>	<i>Page</i>
Counterfactual	The new residence requirement would apply immediately upon enactment, and would apply to both people not yet receiving NZS or VP, and those already receiving NZS or VP.	39
Option One – a phased increase by birth date	For every two complete years someone was born after 1 July 1955, they require one additional year of residence and presence after age 20, up to a maximum of 20 years in total for people born on or after 1 July 1975.	41
Option Two – a delayed jump to 20 years	New applicants generally require 20 years residence and presence in New Zealand from 1 July 2031. (Anybody who has reached age 65 and met the 10 years after age 20 requirement as of 30 June 2031 could qualify under the existing residence requirements.)	45
Option Three – a jump to 15 years followed by a jump to 20 years	New applicants generally require 15 years residence and presence in New Zealand from 1 July 2026, and 20 years residence and presence in New Zealand from 1 July 2036. (Anybody who has reached age 65 and completed 10 years residence and presence in New Zealand as of 30 June 2026 should be able to qualify under the 10 years after age 20 requirement. Anybody who has reached age 65 and completed 15 years residence and presence in New Zealand as of 30 June 2036 should be able to qualify under the 15 years after age 20 requirement.)	47

Options for accommodations for the Realm of New Zealand		
<i>Option</i>	<i>Description</i>	<i>Page</i>
Counterfactual	People need to meet the full requirement for residence and presence after age 20 using residence in New Zealand.	54
Option One – residence in the Realm counts as residence toward the additional 10 years	Once the 20 year requirement is fully introduced, it would consist of: 10 years residence and presence since age 20 in New Zealand and a further 10 years residence and presence since age 20 in one or more of New Zealand, the Cook Islands, Niue and/or Tokelau.	56

Options for accommodations for refugees		
<i>Option</i>	<i>Description</i>	<i>Page</i>
Counterfactual	The same requirements apply to refugees as to everyone else.	60
Option One – limits on the residence requirement for refugees who arrive after age 45	<p>The 10 year residence and presence requirement is retained for a person granted refugee or protected person status in New Zealand at age 55 or higher.</p> <p>The total residence and presence requirement for a person granted that status at age 45-54 is no more than the difference between the date they are granted that status and the date on which they turn 65.</p>	62

Options for the degree of change

Overall, our recommended approach is to increase the residence requirement to 20 years after the age of 20. When coupled with the preferred transitional arrangements, MSD considers this option better distributes fairness while mitigating some negative impacts of the change throughout the transition process. This increase could be stopped at 15 years if it was later found the impacts of the continual increase of the residency requirement were too great.

Status Quo

- 99 The status quo is for the 10 years residence requirement to be maintained. The requirement for residence and presence after age 50 would also be maintained.

Fairness

- 100 Ten years' residence over the age of 20 is a relatively short contribution to New Zealand. The majority of New Zealanders have a much longer connection by the time they reach age 65 – and so a longer history of contribution.
- 101 Fairness in this context is about more than the balance of contributions and benefits, and NZS policy prioritises income adequacy and equality of outcomes between recipients, rather than directly reflecting recipients' contributions. However, that does not make contributions irrelevant when assessing the distribution of fairness in terms of contributions and benefits received from NZS.
- 102 The current minimum requirement may not strike a fair balance between recipients and contributors. While the expected and actual value of NZS will vary between recipients, it is considerable in most cases:
- The net annualised value of NZS on current rates ranges from \$16,953 for a partnered person, and \$22,039 for a single person living alone
 - A woman born in 1955 (ie turning 65 in 2020) has a median life expectancy at age 65 of 24.2 years, and a man born the same year has a median life expectancy at age 65 of 21.7 years.¹⁵
- 103 Many people who receive NZS after fewer than 20 years residence are older than 65, so cannot expect to receive it for quite so long,¹⁶ and some have overseas pensions that reduce its weekly value due to the direct deduction policy. Even with those caveats, however, there will be very few situations where someone's tax contributions over 10 years would equal the value of the NZS they ultimately receive¹⁷ (and, in some circumstances, it may not equate to 10 years of tax contributions as NZS is residency based rather than tax based). While people make important contributions in

¹⁵ Stats NZ. New Zealand cohort life tables: March 2020 update.

¹⁶ In the year to the end of August 2020, about one in four people for whom MSD recorded 10-19 years residence when they were granted NZS was aged 70 or older at that time.

¹⁷ Especially as having been resident for ten years does not require having been in paid work for ten years.

many other ways both tangible and intangible, it must also be said that they receive other tangible and intangible benefits in return.

- 104 Census data also indicates that the number and proportion of older New Zealanders who have been resident for 10-19 years (meeting the 10 year requirement, but not the proposed 20 year requirement) has indeed increased markedly. The number of overseas-born over 65s with 10-19 years residence increased from 7,700 at the 2006 Census (6.1 percent of overseas born over 65s) to 25,900 at the 2018 Census (13.5 percent of overseas born over 65s). The overall proportion of older New Zealanders born overseas has increased only marginally.
- 105 Additionally, people turning 65 in 2020 have a median life expectancy three years higher than those turning 65 in 2000. As life expectancy after age 65 increases, so does the expected value of NZS – but the required contribution has not increased.
- 106 Given these factors, the current balance of fairness between short-term and long-term contributors seems more favourable to short-term contributors.

Income Adequacy

- 107 Maintaining the status quo allows consistency for people approaching later life to make plans and arrangements, which can contribute to ensuring their financial stability and income adequacy.

Sustainability

- 108 NZS is the largest single item of government expenditure (net expenditure is \$13.1 billion),¹⁸ and is the second most commonly received social security benefit (following Winter Energy Payment). Population ageing will increase the number of recipients and consequently the costs, to projected net expenditure of \$39.0 billion.¹⁹ As a proportion of GDP, net NZS expenditure is expected to grow from 4.3 percent to 5.6 percent over that time. This would still be at the low end of public pension expenditure in the OECD but will nevertheless present challenges for future governments given accompanying pressures on healthcare expenditure. Population ageing is also resulting in shifts in the age distribution of the workforce. NZS eligibility settings, in connection with other factors such as the wider social security system and immigration settings, can influence sustainability by affecting NZS costs, but also by affecting how people of or approaching NZS eligibility age participate in the workforce.

Simplicity

- 109 Maintaining the status quo would require no change. A 10 year requirement is simple to understand, and means that relatively few people need to depend on social

¹⁸ Year ended 30 June 2020, New Zealand Superannuation Fund Contribution Rate Model - 2020 Pre-Election Economic and Fiscal Update (PREFU 2020)

¹⁹ Ibid

security agreements to qualify, or on the provisions allowing certain absences to be counted as periods of residence and presence.

International mobility

- 110 The low residence requirement for NZS may have presented some incentive for people to migrate to or return to New Zealand. This may well have been true to a greater extent while the Parent Category was more readily available. However. We have no way to assess the magnitude of this effect.

Option One - 20 years residence after age 20

- 111 An option of 20 years has been the main focus of consideration as this is the proposal in the bill – for NZS and VP to be payable only to someone who has been resident and present in New Zealand for 20 years after age 20. The requirement for residence and presence after age 50 would be maintained.
- 112 The analysis below points to the importance of the transitional approach applied to increasing the residence requirement – transition options are discussed beginning on page 23.

Fairness

- 113 Fairness is central to the rationale for the Fair Residency Bill. The explanatory note for the bill highlights in particular:
- fairness between recent migrants (or recently returned expatriates) and superannuitants who have lived in New Zealand their entire lives
 - the low requirement for a full pension compared to other countries (we explained at page 20 why we consider that this is of limited relevance).
- 114 While the minimum acceptable years of residence for entitlement to NZS is primarily a judgment call about values, a 20 year requirement would likely provide a better balance between financial contributions and benefits. Over 20 years, a person is significantly more likely to make contributions that reflect the expected benefit from being entitled to NZS.
- 115 One obstacle to the fairness of a 20 year residence requirement is its impacts on people wishing to take a partial payment of NZS overseas. Portability is already restricted in that it is only available to people who fully qualify in their own right and are resident and present in New Zealand when they claim it – or who are resident in a social security agreement partner country. Increasing the residence requirement consequently makes it more difficult for people to claim a part-payment that is commensurate with their contribution to New Zealand.
- 116 New Zealand's social security agreements will mean that people who have spent considerable time in partner countries will generally be unaffected by the change. Those affected will largely be from low- and middle-income countries - particularly China, South Africa, India and Fiji – though some people from wealthier countries such as the United States will also be affected. Affected people from wealthier countries may be entitled to an overseas pension that would have otherwise replaced a significant proportion of their NZS through the direct deduction policy, but this will not be the case for most people from low- and middle-income countries if they are not in receipt of an overseas pension. While this means that people from these countries will be affected to a greater degree than those from wealthier countries and partner countries due to this lack of income, this less favourable outcome can be justified as fair because of the lower demand the uptake of NZS by people with overseas pensions will place on long-term contributors to NZS. Overseas pensions reduce the

amount of NZS the NZ Government contributes to a person due to the direct deduction policy.

- 117 How an increase to 20 years **happens** will be crucial to its fairness. Ideally, the process of change would minimise the differences in treatment of people who are close in age and interests. This is a key criterion for how we have assessed transition options.

Income adequacy

- 118 Increasing the residence requirements for NZS will inevitably increase income poverty and material hardship amongst some seniors.
- 119 The extent to which people are affected will be determined in large part by the opportunities they have to:
- support themselves independently - particularly through work or an overseas pension, as reliance on savings ahead of qualification will increase the likelihood of poverty in later old age
 - enter or re-enter New Zealand earlier than expected - in order to qualify more quickly
 - establish themselves elsewhere with no retirement income from New Zealand.
- 120 Based on the existing superannuitant population, we consider that the opportunities for most people in this group to support themselves independently are limited. Superannuitants with 10-19 years residence recorded, who were not born in an agreement country (and do not receive a pension from an agreement country) are granted NZS at higher ages (so are likely to have less capacity to work, alongside issues such as language difficulties). They have high take-up of supplementary assistance, especially Accommodation Supplement. Only around one in 20 have an overseas pension, and most of these would be too low for people to live on alone.
- 121 The issue of income adequacy will be most acute around the transition to the new requirement, as people may have a very limited opportunity to prepare to support themselves for up to 10 years longer than they had anticipated. This will have a long-lasting impact on their financial wellbeing. Depending on the approach taken to the transition, there could be a significant increase in the numbers of people aged in their 70s and even 80s receiving 'working age' social security benefits that are not designed for older people. This is discussed further in the "options for transitional approaches" section.

Sustainability

- 122 The near-term effects are heavily dependent on the transitional approach that is employed. The long-term savings are expected to be a modest proportion of overall

expenditure on NZS, currently assessed at around 0.3 percent of net NZS expenditure. These net savings account for expected increases in main benefit costs.

- 123 The change may improve the sustainability of NZS by encouraging people to contribute to the New Zealand economy for longer. However, this effect could be limited.

Simplicity

- 124 The change will bring many of the more complex and misunderstood aspects of NZS to the fore.
- 125 MSD will need to give applications from people claiming around 20 years residence considerably more scrutiny than is currently the case. Whether someone was truly both resident and present during their claimed period of residence will be relevant in more cases. This may cause problems because there is a certain element of subjectivity in the determination of residence, and people may have planned their lives around a misunderstanding of the requirements.
- 126 Additionally, people will be somewhat more likely to depend upon the provisions allowing an absence to be treated as a period of residence and presence - such as the ability to use periods in which they were working overseas but paid New Zealand PAYE tax. This may create issues where people believe they should be entitled due to one of these exceptions, and base their decisions on that belief, but are not actually able to use it.
- 127 New Zealand's social security agreements will also become more significant. More people will need to rely on them to qualify, which will make the wording of those agreements, how well people understand them (or are even aware of them), and how well their circumstances fit with the agreements more important. Some people may not qualify because they would need to totalise residence from more than one agreement country (which is not possible under existing agreements).
- 128 All of the issues above also have the potential to pose particular problems at the transitional stage. There is a risk under some approaches to the transition that misunderstandings about the residence requirements and the exceptions around them could result in people not qualifying under the existing provisions (and hence needing a further ten years to qualify for NZS).

Policy stability

- 129 A change to the residence requirements could be justified if Parliament considers that ensuring fairness between contributors and recipients of NZS should be the overriding objective, and that the effects of the change on income adequacy and the simplicity of NZS policy and administration and of lesser importance or can be effectively managed. This makes transitional arrangements critically important, but these arrangements cannot completely eliminate some of the outlined impacts of the policy.
- 130 Making a change of this kind to NZS will also inevitably raise questions about other aspects of NZS, in particular the direct deduction policy. The further that NZS shifts from social welfare to 'earned' entitlement, the less sustainable this policy becomes in its current form.

International mobility

- 131 Depending on the approach taken to the transition, the increase could lead to a sudden influx of people coming into New Zealand in order to qualify as soon as possible.
- 132 Increasing the residence requirement would affect migrants depending on when they arrive in New Zealand. For example, this could encourage people to migrate to New Zealand at a younger age in order to meet the new residence requirement at age 65. Some migrants would consider the longer residence period a disincentive to migrate to New Zealand.
- 133 People not already in New Zealand and who would otherwise have considered migration but whose entitlement would be delayed significantly would be less likely to come to New Zealand. This may result in a small number of late career high skilled migrants or returning New Zealanders not arriving.
- 134 Increasing the residence requirement could have an effect on international mobility at a time when New Zealand is competing with other Western countries for skilled labour (Australia, our closest competitor has a residence requirement of 10 years depending on the person's circumstances).
- 135 A significant problem regarding international mobility (and New Zealand's international relations) is the impact of an increase on the Realm of New Zealand – the Cook Islands, Niue and Tokelau. This is addressed in the upcoming section regarding accommodations for the Realm.
- 136 The increased residence requirement may also result in increased demand for social security agreements by people who have spent less than 20 years in New Zealand but have spent considerable time in a country that is not a current agreement partner.
- 137 However, the greater need for agreements also means that the 'cost-benefit' of these agreements to New Zealand could be negative. If someone has five years New Zealand residence, then an agreement may currently result in them receiving NZS for five years when they would otherwise not have been able to. With a 20 year requirement, they could receive NZS for 15 years more than they could without it.
- 138 Moreover, many of the people who are most likely to be affected by the increase in the residence requirements are from low to middle income countries with less developed pension systems. This means that agreements with these countries may be particularly difficult to justify on a 'cost-benefit' basis – but they could still be worthwhile from a more holistic perspective to protect the affected people and secure some additional overseas pension payments into New Zealand.
- 139 Additionally, many other countries could be happy with the terms that New Zealand would be prepared to offer for a social security agreement. A number of countries are unwilling to conclude an agreement without modification to the direct deduction policy, while New Zealand could not agree to modifications without offering the same terms to its other agreement partners.

Operational implications

- 140 The operational implications of increasing the residence requirements are heavily dependent on the transitional provisions adopted. However, the generic implications are as follows:
- MSD will need to make changes to its IT systems, business processes, training materials, and internal and external communications ahead of the introduction of the change.
 - NZS applications will decline, but a portion will become more complex to determine, which may have implications for the allocation and training of staff.
 - Applications for main benefits, supplementary assistance, and hardship assistance are all expected to increase, although this will have minimal implications for staff allocation as applicants would have otherwise been in contact with MSD to apply for NZS.

Legal implications

- 141 Increasing the residence requirements will increase the importance of grey areas where there is disagreement about whether someone was resident at a particular point, and of the exceptions to the residence criteria. Consequently, we would expect to see an increase in the number of appeals related to the residence requirements going to the Social Security Appeal Authority and, potentially, the courts.

Option Two – 15 years residence after age 20

- 142 Rather than the 20 years proposed by the bill, a 15 year requirement would be applied. The requirement for residence and presence after age 50 would be maintained.

Analysis

- 143 The impacts of the increase of residency requirement to 15 years after age 20 are similar to the impacts of the increase to 20 years after 20. Much of the above analysis of option one can also be applied to option two.
- 144 Making a judgement as to whether to increase to 15 years or 20 years should be done in the context of distributing fairness between those currently receiving NZS and those who will receive NZS through time, and to ensure income adequacy for people impacted by the change, on balance with other criteria in the existing framework.
- 145 While MSD considers an increase to either 15 years and 20 years viable options, MSD has concluded that increasing to 20 years, when coupled with a phased approach to increasing the residency requirement, better distributes fairness while mitigating some negative impacts of the change throughout the transition process (discussed further below in transition options). This is as a 20 year requirement would likely provide a better balance between financial contributions and benefits in terms of both the distribution of fairness of contributions compared with the benefit received from NZS. This aligns with the underlying core principle of fairness as the central ideal policy objective for NZS.
- 146 A matrix comparing these two options is included further below.
- 147 Although an increase to 20 years over 15 years is preferred, MSD's proposed transitional approach (discussed in the next section) means that if it is later found that the negative impacts of the increase are more than anticipated, the Government will have the option of stopping the increase at that point.

Multi-Criteria Analysis - Options for the degree of change

Key for qualitative judgements:

- ++ much better than doing nothing/the status quo/counterfactual
- + better than doing nothing/the status quo/counterfactual
- = about the same as doing nothing/the status quo/counterfactual
- worse than doing nothing/the status quo/counterfactual
- much worse than doing nothing/the status quo/counterfactual

	Status Quo	Option One - 20 years residence after age 20	Option Two – 15 years residence after age 20
Fairness	0	<p style="text-align: center;">+</p> <p>While the minimum acceptable years of residence for entitlement to NZS is in some senses a judgment call about values, a 20 year requirement would likely provide a better balance between financial contributions and benefits. How an increase to 20 years happens will also be crucial to its fairness.</p>	<p style="text-align: center;">+</p> <p>This option may appear to strike a balance between income adequacy for older people who are recent migrants or returnees to New Zealand, and fairness to longer term residents who have sustained and continue to sustain our society and economy.</p>
Income adequacy	0	<p style="text-align: center;">-</p> <p>Increasing the residence requirements for NZS will inevitably increase income poverty and material hardship amongst seniors. The extent to which people are affected will be determined in large part by the opportunities they have to:</p> <ul style="list-style-type: none"> • support themselves independently • enter or re-enter New Zealand earlier than expected • establish themselves elsewhere with no retirement income from New Zealand. 	<p style="text-align: center;">-</p> <p>This option may appear to strike a balance between income adequacy for older people who are recent migrants or returnees to New Zealand, and fairness to longer term residents who have sustained and continue to sustain our society and economy. However, it will still somewhat increase income poverty and material hardship amongst seniors.</p>

	Status Quo	Option One - 20 years residence after age 20	Option Two – 15 years residence after age 20
Simplicity	0	<p style="text-align: center;">=</p> <p>A change to the residence requirements should not affect the simplicity of NZS for the overwhelming majority of people who will well exceed the requirement. However, the change will bring many of the more complex and misunderstood aspects of NZS to the fore.</p>	<p style="text-align: center;">=</p> <p>A change to the residence requirements should not affect the simplicity of NZS for the overwhelming majority of people who will well exceed the requirement. However, the change will bring many of the more complex and misunderstood aspects of NZS to the fore.</p>
Sustainability	0	<p style="text-align: center;">++</p> <p>Near term effects are heavily dependent on the transitional approach that is employed. The long term savings are expected to be a modest proportion of overall expenditure on NZS, currently assessed at around 0.3 percent of net NZS expenditure.</p>	<p style="text-align: center;">+</p> <p>The near term effects are heavily dependent on the transitional approach that is employed. Long term savings will be minimal as a proportion of net NZS expenditure.</p>
International mobility	0	<p style="text-align: center;">=</p> <p>Depending on the approach taken to the transition, the increase could lead to a sudden influx of people coming into New Zealand in order to qualify as soon as possible.</p> <p>Increasing the residence requirement would affect migrants depending on when they arrive in New Zealand.</p> <p>A significant problem regarding international mobility (and New Zealand's international relations) is the impact of an increase on the Realm of New Zealand – the Cook Islands, Niue and Tokelau. There may also be an impact of the negotiation of future social security agreements.</p> <p>However, many of these points are dependent on the transitional approach that is adopted.</p>	<p style="text-align: center;">=</p> <p>Depending on the approach taken to the transition, the increase could lead to a sudden influx of people coming into New Zealand in order to qualify as soon as possible.</p> <p>Increasing the residence requirement would affect migrants depending on when they arrive in New Zealand.</p> <p>A significant problem regarding international mobility (and New Zealand's international relations) is the impact of an increase on the Realm of New Zealand – the Cook Islands, Niue and Tokelau. There may also be an impact of the negotiation of future social security agreements.</p> <p>However, many of these points are dependent on the transitional approach that is adopted.</p>

	Status Quo	Option One - 20 years residence after age 20	Option Two – 15 years residence after age 20
Policy stability	0	<p style="text-align: center;">+</p> <p>A change to the residence requirements could be justified if Parliament considers that ensuring fairness between contributors and recipients of NZS should be the overriding objective, and that the effects of the change on income adequacy and the simplicity of NZS policy and administration and of lesser importance or can be effectively managed. This makes transitional arrangements critically important, but these arrangements cannot completely eliminate some of the outlined impacts of the policy.</p> <p>Making a change of this kind to NZS will also inevitably raise questions about other aspects of NZS, in particular the direct deduction policy.</p>	<p style="text-align: center;">+</p> <p>A change to the residence requirements could be justified if Parliament considers that ensuring fairness between contributors and recipients of NZS should be the overriding objective, and that the effects of the change on income adequacy and the simplicity of NZS policy and administration and of lesser importance or can be effectively managed. This makes transitional arrangements critically important, but these arrangements cannot completely eliminate some of the outlined impacts of the policy.</p> <p>Making a change of this kind to NZS will also inevitably raise questions about other aspects of NZS, in particular the direct deduction policy.</p>
Operational implications	0	<p style="text-align: center;">=</p> <p>MSD will need to make changes to its IT systems, business processes, training materials, and internal and external communications ahead of the introduction of the change.</p> <p>NZS applications will decline, but a portion will become more complex to determine, which may have implications for the allocation and training of staff.</p> <p>Applications for main benefits, supplementary assistance, and hardship assistance are all expected to increase, although this will have minimal implications for staff allocation as they would have otherwise applied for NZS.</p>	<p style="text-align: center;">=</p> <p>MSD will need to make changes to its IT systems, business processes, training materials, and internal and external communications ahead of the introduction of the change.</p> <p>NZS applications will decline, but a portion will become more complex to determine, which may have implications for the allocation and training of staff.</p> <p>Applications for main benefits, supplementary assistance, and hardship assistance are all expected to increase, although this will have minimal implications for staff allocation as they would have otherwise applied for NZS.</p>
Legal implications	0	<p style="text-align: center;">-</p> <p>Increasing the residence requirements will increase the importance of grey areas where there is disagreement about whether someone was resident at a particular point, and of the exceptions to the residence criteria. Consequently, we would expect to see an increase in the number of appeals related to the residence requirements going to the Social Security Appeal Authority and, potentially, the courts.</p>	<p style="text-align: center;">-</p> <p>Increasing the residence requirements will increase the importance of grey areas where there is disagreement about whether someone was resident at a particular point, and of the exceptions to the residence criteria. Consequently, we would expect to see an increase in the number of appeals related to the residence requirements going to the Social Security Appeal Authority and, potentially, the courts.</p>

	Status Quo	Option One - 20 years residence after age 20	Option Two – 15 years residence after age 20
Overall assessment	0	+ (preferred with transition approach)	+

Options for transitional approaches (based on the Fair Residency Bill as drafted)

Our preferred approach is a phased increase by birthdate in which, for every two complete years a person was born after 1955, that person would require one additional year of residence up to a maximum of 20 years in total. This approach also allows the option to pause the increase at any point should a lesser change be deemed sufficient. MSD has calculated costings and savings for this option – with long-term full savings equalling a similar amount for each option.

Counterfactual

- 148 Under the bill as proposed, the new residence requirement would apply immediately upon enactment, and would apply to both people not yet receiving NZS or VP, and those already receiving NZS or VP.

Fairness

- 149 An immediate jump would mean that, commencing in the near future (e.g. 1 September 2021), anyone wishing to receive NZS would need to have 20 years residence.
- 150 This would be seen as unfair because it would result in a large number of people who have based their lives on the expectation that they would be able to receive NZS losing that entitlement with no opportunity to adjust their circumstances.

Income adequacy

- 151 The lack of opportunity for people to adjust is likely to result in greater increases in income poverty and inequality amongst older people than would occur under other options. There would be a significant number of people in their seventies and eighties dependent on benefits that are not designed for them, or on Emergency Benefits. A sudden increase in people needing to support themselves may have limited work options.
- 152 In the context of COVID-19, people are likely to experience particular difficulty adjusting. While the effects of this may be felt most strongly in the near term, they will have long term impacts on people who are at greater risk of being unemployed for a long time if they do become unemployed.

Simplicity

- 153 The jump itself should be relatively simple to administer and to understand, but we cannot assume that people will know how they might truly be affected.

Sustainability

- 154 This would result in the maximum near term savings. Many affected people would have no choice but to work if they are able. In the long term, they may be dependent on supplementary assistance to a greater degree.
- 155 The near to medium term impacts of COVID-19 will mean that it is less likely than normal that people in this position will be able to find employment, which would reduce both the expected savings, and any expected gain in labour force participation.

International mobility

- 156 There is also likely to be an impact on international mobility. There may be an immediate inflow from people who need to return to New Zealand to establish eligibility as soon as possible (though COVID-19 travel restrictions mean they will face significant delays). On the other hand, there would also likely be a group of people who would not come in at all.

Policy stability

- 157 It is difficult to see why there would need to be a sudden increase in the residence requirements, unless it is to ensure specifically that late life migrants who have arrived in New Zealand within the last several years on the understanding that they would be able to receive NZS (eg under the now much lower capacity parent category visa) do not qualify. There is a significant lack of opportunity for people to adjust.

Operational implications

- 158 Systems changes would need to be implemented quickly, and there would need to be extensive publicity around the impacts – including, if possible, to the New Zealand diaspora. As it would lead to a significant increase in the number of people needing a main benefit there would be an impact on MSD's operational capacity – and people would need to understand the (more complex) benefit system.

Legal implications

- 159 An immediate jump could potentially incentivise fraud in some limited circumstances.

Option One – a phased increase by birth date

- 160 For every two complete years someone was born after 1 July 1955, they require one additional year of residence and presence after age 20, up to a maximum of 20 years in total for people born on or after 1 July 1975.

Birth date	Age as at 30 June 2021	Residence requirement (after age 20)
On or before 30 June 1957	64 and over	10 years
Between 1 July 1957 and 30 June 1959 (inclusive)	62-63	11 years
Between 1 July 1959 and 30 June 1961 (inclusive)	60-61	12 years
Between 1 July 1961 and 30 June 1963 (inclusive)	58-59	13 years
Between 1 July 1963 and 30 June 1965 (inclusive)	56-57	14 years
Between 1 July 1965 and 30 June 1967 (inclusive)	54-55	15 years
Between 1 July 1967 and 30 June 1969 (inclusive)	52-53	16 years
Between 1 July 1969 and 30 June 1971 (inclusive)	50-51	17 years
Between 1 July 1971 and 30 June 1973 (inclusive)	48-49	18 years
Between 1 July 1973 and 30 June 1975 (inclusive)	46-47	19 years
On or after 1 July 1975	45 and under	20 years

Fairness

- 161 This would be significantly fairer than a jump from 10 to 20 years as it would minimize the size of cliff-edges, so people in similar circumstances are treated similarly. It would also more immediately begin to address the problem of the unfairness of a 10 year requirement to long-term New Zealand residents, because people would relatively quickly begin to need a somewhat higher residence requirement. People nearing the age of eligibility for NZS would have a fair opportunity to prepare for a delay or meet the new requirement.
- 162 One issue with this option is that an older person who enters New Zealand after the change might need to meet a lower residence requirement than a younger person who is already in New Zealand. There could be an exception to specify that the 20 year residence requirement applies to anyone who has not become a resident by the time of the change. However, this could cause difficulties:
- If based on an objective standard, such as whether a person is a New Zealand citizen or the holder of a residence class visa, people may be disadvantaged based on delays in visa processing times.
 - If based on a subjective standard that is only assessed at the point of application for NZS, such as whether someone had been ordinarily resident in New Zealand, then people may operate on mistaken assumptions about their eligibility.
- 163 It may consequently be preferable to accept that, for some time, people migrating to New Zealand late in life will have a lower residence requirement than younger people.

Income adequacy

- 164 The number of people ‘affected’ would grow steadily but relatively slowly. All people who turn 65 on or after 1 July 2022 would need to meet a residence requirement higher than 10 years – but only those who turn 65 on or after 1 July 2040 would need to meet the full 20 year requirement. In most cases, affected people would have options open to avoid having to be dependent on benefits in old age, limiting growth in income poverty amongst older people. To give a sense of the impact, there were around 840 people granted NZS in the year to the end of August 2020 who are recorded as having only 10 years residence.²⁰ However, most people granted NZS after 10 years residence are older than 65 so the *initial* impact would likely be smaller. In total, around 4,400 people who were granted NZS or VP in the year to the end of August 2020 had 10 to 19 years residence recorded.²¹
- 165 The amount of time that a person has to adjust to the increase in the residence requirement would also be proportional to the size of the adjustment that they have to make. The simplicity of this option (as further discussed below) will also contribute to people being able to plan in advance for the change.

Simplicity

- 166 By looking at a table of birth dates, people will be able to immediately identify how long they will need to be resident and present in order to qualify. This can be difficult under approaches based on a fixed date after which the requirement jumps because people need to be able to determine whether they will qualify before or after that date (which can have significant negative impacts if they miscalculate). This makes it significantly easier for them to plan, and reduces the consequences of planning poorly. It also means that any increased flow of people back to New Zealand is likely to be better staggered than with a simple jump.

Sustainability

- 167 This option would realise some savings relatively early but will take longer to realise the full long-term savings than other options.
- 168 Once fully implemented, the long-term savings would be very similar to those under other options. Savings in Vote: Social Development are expected to increase gradually from \$0.609 million in the 2022/23 financial year in 2041/42 to \$162.6

²⁰ None were granted VP after only 10 years residence and presence.

²¹ There are caveats to this data:

- the quality of MSD records on residence is uneven
- some applicants will have had residence in a country with which New Zealand has a social security agreement, so would still qualify on that basis
- there are also applicants who have less than 10 years residence recorded – who presumably have residence in a social security agreement partner country, but who might not have sufficient residence to qualify under a higher threshold.

million per year by the 2041/42 financial year (which is around 0.3 percent of NZS expenditure).²²

- 169 To calculate costs and savings, various assumptions were made as follows:
- Proportions have been assumed about what people will do once the policy change is in effect (some will change their plans and arrive earlier to become eligible (35%), some will go onto Jobseeker Support (JS) until eligible (17.50%), some will go onto Supported Living Payment (SLP) until eligible (17.50%), and some will not access NZS/VP or a main benefit at all (30%)).
 - The proportion of married/single clients is assumed to remain the same as current numbers.
 - Main benefit and NZS/VP rates are assumed to increase in line with long term trends.
 - The proportion of clients not meeting the residency requirement is **assumed** to remain in line with the current level.
 - Clients are assumed to get full main benefit rates if they access these.

International mobility

- 170 Because people who are overseas or considering leaving New Zealand will have to meet the same residence requirement regardless of when they return, pressure to return to New Zealand before they are ready will be minimised. This should help to avoid the increase in the residence requirement unintentionally creating pressure on the housing market, or people returning without a clear plan for employment.

Policy stability

- 171 This option also allows for the transition to 20 years to stop or pause at some point if a future Parliament decides that the impact of the change is too great. There is a reasonable opportunity for affected people to adjust.

Operational implications

- 172 Compared to a one-off jump in the residence requirements, it would have a significantly lower operational impact. It would not result in an immediate dramatic increase in main benefit caseloads, and nor would it require complex grandparenting arrangements and regular systems changes (indeed, grandparenting would not be required at all). However, systems changes would be needed in the near future, and there would be a modest increase in main benefit caseloads over time. Changes to systems and business processes would be required relatively quickly.
- 173 Implementation costs have been calculated at \$2.548 million in the 2021/22 financial year.

²² After accounting for reduced tax revenues from the reduction in NZS and VP payments, the savings are \$0.498 million in 2022/23 rising to \$132.7 million in 2041/42.

Legal implications

- 174 Amendments to the Bill are required through the select committee (or committee of the whole House).
- 175 The change to the residence criteria should be reasonably easy to draft in itself and does not require grandparenting provisions.

Option Two – a delayed jump to 20 years

- 176 This option would require 20 years residence and presence in New Zealand for new applicants from 1 July 2031.
- 177 Anybody who has reached age 65 and met the 10 years after age 20 requirement as of 30 June 2031 could qualify under the existing residence requirements. They would not need to be ordinarily resident or to have met the 5 years after age 50 requirement at that time. However, they would still need to meet the 5 years after age 50 requirement and to be ordinarily resident in order to begin receiving NZS.

Fairness

- 178 There is a stark difference in the treatment of people who reach age 65 before or after the jump in the residence requirement. The greatest impact would likely be on recent immigrants in their early to mid-fifties (who may be making a substantial contribution to New Zealand). Having a reasonable lead in to the jump would allow people to better prepare, particularly in comparison to the counterfactual – but it is still likely that there will be a significant increase in income poverty and inequality amongst the older population.
- 179 COVID-19 should not cause significant inequities or need a specific provision, as with very rare exceptions people stranded overseas would be able to meet the 10 year residence requirement before the cut-off.

Income adequacy

- 180 A delay and grandparenting provisions would reduce the number of people affected in the near term, supporting income adequacy, although it is still likely that there will be an increase in income poverty and inequality amongst the older population.
- 181 Affected people who are unable to qualify in the meantime would have an opportunity to adjust, but not all will be able to do so adequately. People returning to New Zealand may have limited work options.
- 182 COVID-19 should have a fairly limited effect. However, people in their fifties - who could be affected by the change to a large degree may have difficulty finding employment.

Simplicity

- 183 A delayed jump would be simple to understand and to administer. There may be some marginal issues (as with the immediate jump), but these should affect fewer people, and give those people an opportunity to adjust, and there would be adequate time to explain these.
- 184 A delayed jump does however create room for errors in people's individual assessment as to when they might be eligible for NZS – which can have significant negative impacts if these calculations are incorrect.

Sustainability

- 185 This would sacrifice near term savings entirely, although once the change does come into effect savings might accelerate more quickly than under the phased option. Those people affected would have little choice but to work if they are able - but may be able to manage this so they principally need to do so while aged under 65.

International mobility

- 186 If people are appropriately informed, a delayed jump could lead to an increased flow of mature New Zealanders back to New Zealand in the near to medium term – though perhaps with not so much urgency as an immediate jump. Other potential migrants may not arrive at all.

Policy stability

- 187 There is an opportunity for many affected people to adjust, and an opportunity for the increase to be cancelled or reduced in the time between legislation and implementation if it is later assessed that the increase is too great.

Operational implications

- 188 Changes to systems and business processes would be required (potentially including a transitional retirement benefit or similar changes, which would significantly increase the operational complexity), but not for some time, so these could be adequately planned for.

Legal implications

- 189 Amendments to the Bill are required through the select committee (or committee of the whole House). The change to the residence criteria should be reasonably easy to draft in itself, and the grandparenting provisions should not be too complex. This does not account for any additional transitional measures.

Option Three – a jump to 15 years followed by a jump to 20 years

- 190 This option would require 15 years residence and presence in New Zealand from 1 July 2026. 20 years residence and presence in New Zealand is generally required from 1 July 2036.
- 191 Anybody who has reached age 65 and completed 10 years residence and presence in New Zealand as of 30 June 2026 could qualify under the 10 years after age 20 requirement. Anybody who has reached age 65 and completed 15 years residence and presence in New Zealand as of 30 June 2036 could qualify under the 15 years after age 20 requirement. In each case the applicant would not need to be ordinarily resident at the time of the implementation, or to have met the 5 years after age 50 criterion (but they will ultimately still need to meet those requirements to receive NZS).

Fairness

- 192 This option reduces the differences between the treatment of people who are near in age and interests compared to the single jump. However, there would still be significant differences compared to the phased approach. It would begin to address the unfairness of the 10 year requirement earlier than the single jump approach.

Income adequacy

- 193 An initial delay and constraint on the size of the initial increase would reduce the number of people affected in the near term, supporting income adequacy through to 2035. Affected people who are unable to qualify over this relatively long timeframe would have an opportunity to adjust.
- 194 COVID-19 should have a limited impact on income adequacy under this option.

Simplicity

- 195 This approach would be reasonably simple to understand. There would still be marginal issues, but there would be adequate time to explain these and give people an opportunity to adjust, and they would have a lesser effect than with a 10 year jump in the requirements.
- 196 A delayed jump does however create room for errors in people's individual assessment as to when they might be eligible for NZS – which can have significant negative impacts if these calculations are incorrect.

Sustainability

- 197 There would be no savings for five years, and limited savings for another 10 years. Work, savings and investment would be encouraged – although largely only amongst people aged under 65.

International mobility

- 198 There would be an incentive for people to return to New Zealand within the initial five year window in particular. Beyond this point there should be relatively little effect on international mobility.

Policy stability

- 199 There is an opportunity for affected people to adjust. The second increase could be stopped or delayed if New Zealand becomes uncomfortable with the results.

Operational Implications

- 200 Two rounds of changes to systems and business processes would be required, but not for some time, so could be adequately planned for.
- 201 This does not account for any transitional measures, which would significantly increase the operational complexity.

Legal implications

- 202 Amendments to the Bill are required through the select committee (or committee of the whole House). The change to the residence criteria should be reasonable easy to draft in itself, and the grandparenting provisions should not be too complex. This does not account for any additional transitional measures.

Multi-Criteria Analysis - Options for transitional approaches (based on the Fair Residency Bill as drafted)

Key for qualitative judgements:

- ++ much better than doing nothing/the status quo/counterfactual
- + better than doing nothing/the status quo/counterfactual
- = about the same as doing nothing/the status quo/counterfactual
- worse than doing nothing/the status quo/counterfactual
- much worse than doing nothing/the status quo/counterfactual

	Counterfactual	Option One – a phased increase by birth date	Option Two – a delayed jump to 20 years	Option Three – a jump to 15 years followed by a jump to 20 years
Fairness	0	<p style="text-align: center;">+</p> <p>Minimises differences between the treatment of people who are near in age and interests. Unlike the other options, it would be linked explicitly to age. However, that can be justified by the need to provide security of entitlements.</p> <p>Equity issues may arise where people entering NZ in late life (especially following the legislative change) would face a lesser residence requirement than people who have already been in NZ and have a more justifiable expectation of receiving NZS.</p>	<p style="text-align: center;">-</p> <p>There would be significant differences in treatment between those who reach the current qualification criteria before and after the commencement date (up to a 10 year delay in receiving NZS though less in most cases).</p> <p>COVID-19 should not cause significant inequities or need a specific provision, as people stranded overseas should still be able to meet the 10 year residence requirement before the cut-off.</p>	<p style="text-align: center;">+</p> <p>Reduces the differences between the treatment of people who are near in age and interests compared to the single jump approach. However, there would still be significant differences – having lived in New Zealand for one day less or being one day younger than another person could result in needing to meet an additional 5 years in New Zealand.</p>

	Counterfactual	Option One – a phased increase by birth date	Option Two – a delayed jump to 20 years	Option Three – a jump to 15 years followed by a jump to 20 years
Income adequacy	0	<p>++</p> <p>The number of people affected would grow steadily but relatively slowly, limiting growth in income poverty and inequality amongst older people. There would not be a significant number of people in their seventies and eighties dependent on benefits for many years, and in most cases this group would have had options open to avoid this situation eventuating.</p> <p>In the context of COVID-19 it may be particularly difficult for some of the people affected to adjust. However, the length of time for which they have to adjust should not be extreme.</p>	<p>+</p> <p>A delay would reduce the number of people affected in the near term, supporting income adequacy. Affected people who are unable to qualify in the meantime would have an opportunity to adjust, but not all will be able to do so adequately. People returning to New Zealand may have limited work options.</p> <p>COVID-19 should have a fairly limited effect. However, people in their early fifties – who could be affected by the change to a large degree – may have difficulty finding employment.</p>	<p>+</p> <p>An initial delay and constraint on the size of the initial increase would reduce the number of people affected in the near term, supporting income adequacy through to 2035. Affected people who are unable to qualify over this relatively long timeframe would have an opportunity to adjust.</p> <p>COVID-19 should have a limited impact on income adequacy under this option.</p>
Simplicity	0	<p>++</p> <p>A phased increase by birthdate would be simple to understand, and to comply with. Looking at a table of birth dates, people would immediately be able to identify how long they will need to be in New Zealand before they can qualify.</p>	<p>+</p> <p>A delayed jump would be simple to understand and to administer. There may be some marginal issues, but these should affect a reasonably small group of people. There should be adequate time to explain marginal issues and give people an opportunity to adjust.</p>	<p>+</p> <p>The double jump approach would be reasonably simpler to understand and to administer. There would still be marginal issues, though they would have a lesser effect than with a 10 year jump in the requirements.</p>

	Counterfactual	Option One – a phased increase by birth date	Option Two – a delayed jump to 20 years	Option Three – a jump to 15 years followed by a jump to 20 years
Sustainability	0	<p>–</p> <p>Savings would begin in the near term at a relatively low level but would scale up over time (or else the contributing base would scale up over time). It would encourage work, savings and investment – but principally amongst people aged under 65 COVID-19 could reduce the expected savings and any expected gain in labour force participation.</p>	<p>–</p> <p>This would sacrifice near term savings entirely, although once the change does come into effect savings might accelerate more quickly than under the phasing options. Those people affected would have little choice but to work if they are able – but may be able to manage this so they principally need to do so while aged under 65.</p>	<p>–</p> <p>There would be no savings for five years, and limited savings for another 10 years. Work, savings and investment would be encouraged – though largely only amongst people aged under 65.</p>
International mobility	0	<p>++</p> <p>The incentive for people to return to New Zealand would be lower than with a jump, allowing people to return when they are ready, and in a better staggered pattern. Delaying return to New Zealand would still impact when people can return to New Zealand.</p>	<p>+</p> <p>There would be an incentive for people who have the opportunity to qualify under the 10 year provision to return to New Zealand in the near to medium term.</p>	<p>+</p> <p>There would be strong incentive for people to return to New Zealand within the initial five year window in particular. Beyond this point these should be little effect.</p>

	Counterfactual	Option One – a phased increase by birth date	Option Two – a delayed jump to 20 years	Option Three – a jump to 15 years followed by a jump to 20 years
Policy stability	0	<p>++</p> <p>There is an opportunity for affected people to adjust. A phased increase by birthdate could be stopped or slowed if New Zealand becomes uncomfortable with the results.</p>	<p>+</p> <p>There is some opportunity for affected people to adjust. There is an opportunity for the increase to be cancelled or reduced within the next 10 years if New Zealanders become uncomfortable with it, though this could not be based on an assessment of the actual impacts of an increase.</p>	<p>++</p> <p>There is an opportunity for affected people to adjust. The second increase could be stopped or delayed if New Zealand becomes uncomfortable with the results.</p>
Operational implications	0	<p>=</p> <p>Changes to systems, business processes, will be required relatively quickly, though this will be able to be implemented before people begin to be affected by the policy change in 2022</p>	<p>+</p> <p>Changes to systems and business processes would be required (potentially including a transitional retirement benefit or similar changes), but not for some time, so these could be adequately planned for.</p> <p>This does not account for any transitional retirement benefit, which would increase operational complexity.</p>	<p>+</p> <p>Two rounds of changes to systems and business processes would be required, but not for some time, so could be adequately planned for.</p> <p>This does not account for any transitional retirement benefit, which would increase operational complexity.</p>

	Counterfactual	Option One – a phased increase by birth date	Option Two – a delayed jump to 20 years	Option Three – a jump to 15 years followed by a jump to 20 years
Legal implications	0	<p>=</p> <p>Amendments to the Bill are required through the select committee (or committee of the whole House).</p> <p>The change to the residence criteria should be reasonably easy to draft in itself and does not require grandparenting provisions.</p>	<p>=</p> <p>Amendments to the Bill are required through the select committee (or committee of the whole House).</p> <p>The change to the residence criteria should be reasonably easy to draft in itself, and grandparenting provisions should not be too complex.</p> <p>This does not account for any transitional retirement benefit.</p>	<p>=</p> <p>Amendments to the Bill are required through the select committee (or committee of the whole House).</p> <p>The change to the residence criteria should be reasonably easy to draft in itself, and grandparenting provisions should not be too complex.</p> <p>This does not account for any transitional retirement benefit.</p>
Overall assessment	0	++ (preferred)	+	++

Options for accommodations for the Realm of New Zealand

Our preferred approach is that residence in the Realm would count as residence toward the additional 10 years.

Counterfactual

- 203 Under the bill as proposed, people would need 20 years residence and presence in New Zealand to qualify for NZS or VP. While residence and presence in the Cook Islands, Niue or Tokelau can count toward the 5 years after age 50 requirement, it could not count toward the extra 10 years after age 20.

Fairness

- 204 The Social Assistance (Residency Qualification) Legislation Act 2018 allowed people to count residence in the Cook Islands, Niue or Tokelau toward the 5 years after age 50 residence requirement. This has led to significant improvements in access to NZS and VP in the Cook Islands, Niue and Tokelau, including for people with less than 20 years residence, who receive part payments of NZS or VP.²³
- 205 An increase to the residence requirement with no accommodations made for residents in the Realm will mean that people who have migrated or returned to a Realm country with at least 10, but less than 20 years residence, and potentially may have moved due to this policy change, would need to return to New Zealand and re-establish residence to qualify for NZS or VP. Anybody who has not yet migrated or returned to a Realm country (but plans to) would need to remain in New Zealand for longer. However, those who do return to New Zealand or delay migration to the Realm would eventually be paid more than they would be under the status quo.

Income Adequacy

- 206 Undermining recent legislative/policy changes can significantly interfere with people's financial planning.

Sustainability

- 207 Given the small number of people likely to be affected, this will have minimal impact on the overall savings from this policy change.

Simplicity

- 208 While the policy would be simple enough to understand, it might not be easy to comply with, especially for people who have already moved to the Realm.

²³ At the end of November 2020, there were around 150 people receiving NZS or VP in the Cook Islands, Niue or Tokelau who had less than 20 years residence. Two years previously there had been fewer than 20 people receiving NZS or VP in the Realm with less than 20 years residence.

Policy stability

- 209 Not including an accommodation for the Realm may undermine achievements made under the Social Assistance (Residency Qualification) Legislation Act 2018 regarding access to NZS and VP in the Cook Islands.

International mobility

- 210 A significant problem regarding international mobility (and New Zealand's international relations) is the impact of an increase on the Realm of New Zealand – the Cook Islands, Niue and Tokelau.
- 211 An increase in the residence requirements with no accommodation for The Realm will be detrimental as it will require people to stay longer in New Zealand, may encourage depopulation of the Realm and disadvantage people who have already returned to the Realm. People planning to migrate to the Realm and one day receive NZS would be delayed from doing so.

Option One – residence in the Realm counts as residence toward the additional 10 years

- 212 This option would see residence and presence (after age 20) in the Cook Islands, Niue or Tokelau counted toward the increase in the residence requirement.
- 213 This would mean that once the 20 year requirement is fully introduced, it would consist of:
- 10 years residence and presence since age 20 in New Zealand; and
 - a further 10 years residence and presence since age 20 in one or more of New Zealand, the Cook Islands, Niue and/or Tokelau.
- 214 As previously discussed, there have been changes recently to NZS and VP to better accommodate the Realm of New Zealand. These reforms were intended chiefly to support the efforts of the Cook Islands, Niue and Tokelau against depopulation. They allow people to migrate to or return to these countries and ultimately receive NZS or VP so long as they have been resident and present in New Zealand for at least 10 years since age 20.

Fairness

- 215 An increase to the residence requirement with no accommodations made for residents in the Realm will mean that people who have migrated or returned to a Realm country with at least 10, but less than 20 years residence (and they may have done so recently) would now need to return to New Zealand and re-establish residence to qualify for NZS or VP. Anybody who has not yet migrated or returned to a Realm country (but plans to) would need to remain in New Zealand for longer. However, those who do return to New Zealand or delay migration to the Realm would eventually be paid more than they would be under the status quo.

Income Adequacy

- 216 As previously discussed, there have been recent changes recently to NZS and VP to better accommodate the Realm of New Zealand. Maintaining this policy will not disrupt any planning individuals have made based on this new policy.

Sustainability

- 217 This accommodation will have minimal impact on the expected savings from the residency requirement increase.

Simplicity

- 218 While this may make NZS policy slightly more difficult to understand, it would make complying with its requirements easier for people hoping to live in the Realm.

Policy stability

- 219 Allowing this accommodation will ensure consistency with the recent policy changes. We considered whether this could be limited to people who are already ordinarily resident in the Realm at the time of the transition. However, this would still undermine

the objective of discouraging depopulation in the Realm and could create confusion over some people's entitlements.

International mobility

- 220 A significant problem regarding international mobility (and New Zealand's international relations) is the impact of an increase on the Realm of New Zealand – the Cook Islands, Niue and Tokelau.
- 221 This will ensure that the increase in the residence requirement does not encourage depopulation of the Realm or disadvantage people who have already returned to the Realm. People planning to migrate to the Realm and one day receive NZS would not be delayed from doing so.
- 222 Only New Zealand residence counts toward the calculation of payments in the special portability formula (or the general portability formula). This means that there would be no difference in the level of payments made to the Realm compared to the current situation.

Operational Implications

- 223 Assessments of eligibility for people who rely on residence in a Realm country may be more complex than other assessments as the relevant information is not held by the New Zealand government. However, MSD already relies on information about Realm country residence after age 50, which should mean that the added burden is not significant.

Legal implications

- 224 s 9(2)(f)(iv) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Multi-Criteria Analysis – Options for accommodations for the Realm of New Zealand

Key for qualitative judgements:

- ++ much better than doing nothing/the status quo/counterfactual
- + better than doing nothing/the status quo/counterfactual
- = about the same as doing nothing/the status quo/counterfactual
- worse than doing nothing/the status quo/counterfactual
- much worse than doing nothing/the status quo/counterfactual

	Counterfactual	Option One – residence in the Realm counts as residence toward the additional 10 years
Fairness	0	<p style="text-align: center;">+</p> <p>People who have migrated or returned to a Realm country with at least 10, but less than 20 years residence would not need to quickly return to New Zealand to re-establish residence to qualify for NZS or VP, when they had already made their plans in accordance with recent policy changes.</p>
Income adequacy	0	<p style="text-align: center;">++</p> <p>Maintaining recent policy changes will not disrupt any planning individuals have made</p>
Simplicity	0	<p style="text-align: center;">=</p> <p>While this may make NZS policy slightly more difficult to understand, it would make complying with its requirements easier for people hoping to live in the Realm.</p>
Sustainability	0	<p style="text-align: center;">=</p> <p>This accommodation will have minimal impact on the expected savings from the residency requirement increase.</p>
International mobility	0	<p style="text-align: center;">++</p> <p>This will ensure that the increase in the residence requirement does not encourage depopulation of the Realm or disadvantage people who have already returned to the Realm. People planning to migrate to the Realm and one day receive NZS would not be delayed from doing so.</p>
Policy stability	0	<p style="text-align: center;">++</p> <p>Allowing this accommodation will ensure consistency with the recent policy changes.</p>
Operational implications	0	<p style="text-align: center;">=</p> <p>Assessments of eligibility for people who rely on residence in a Realm country may be more complex than other assessments as the relevant information is not held by the New Zealand government. However, MSD already relies on information about Realm country residence after age 50, which should mean that the added burden is not significant.</p>

	Counterfactual	Option One – residence in the Realm counts as residence toward the additional 10 years
Legal implications	0	= s 9(2)(f)(iv)
Overall assessment	0	++

Options for accommodations for refugees

Our preferred option is that the 10-year residence and presence requirement is retained for a person granted refugee or protected person status in New Zealand at age 55 or higher. For those who are granted refugee or protected status aged 45-54, we propose that the total residence and presence requirement be no more than the difference between the date that person was granted that status, and the date on which that person turns 65.

Counterfactual

- 225 Under the bill as proposed, the same requirements would apply to refugees as to anybody else.

Fairness

- 226 The residency requirement for NZS reflects, to some extent, the need for people who benefit from NZS to have a reasonably substantive connection to New Zealand. The proposed changes to increase the residency requirement do help to strengthen this connection. There is therefore a case to be made that there should be no exceptions to this rule, with everyone who comes to New Zealand needing to demonstrate an adequate connection to the country before becoming eligible for NZS.
- 227 In the case of refugees however, the question of fairness around basic human rights needs to be considered. New Zealand's Refugee Quota Programme demonstrates New Zealand's ongoing international humanitarian obligations and commitments to provide protection to refugees who are not able to return safely to their home country. Refugees are identified for resettlement by the United Nations High Commissioner for Refugees (UNHCR) according to internationally accepted guidelines that take account of physical and legal protection needs, as well as family reunification. Quota refugees do not elect to be resettled in New Zealand, they are placed by the UNHCR.
- 228 While asylum seekers who claim refugee or protected person status in New Zealand may in some sense be 'choosing' to come to New Zealand rather than another country, they come to New Zealand because they cannot live safely in their home country. People in this position are subject to strict criteria when their claims are assessed by Immigration New Zealand, proving the danger to their lives if they are deported from New Zealand to justify their assignment of refugee or protected person status.
- 229 Without any choice to have a substantive connection with New Zealand in the first place, increasing the residency requirement for this group of older refugees raises significant issues of fairness.

Income adequacy

- 230 Increasing the residence requirements will result in an increase in the number of older people experiencing poverty or material hardship.
- 231 Refugees that come to New Zealand in later life (age 45+) are more likely to find life in New Zealand more difficult than younger refugees. Learning English is a particular challenge, many lack formal qualifications, and they are less likely to find work than

younger former refugees or protected persons. This is unlikely to change if a further ten years is added to the residence requirement – the most likely scenario is that older refugees simply spend longer receiving a main benefit and in increasing hardship.

Sustainability

- 232 While this option would reduce NZS costs, the impact would be limited once increased main benefit, supplementary assistance and administrative costs are accounted for.
- 233 Savings would be further limited by the relatively small numbers of refugees and asylum seekers who arrive in New Zealand aged 45 and over.²⁴

Simplicity

- 234 The counterfactual option would be a simple approach, as there would be no added administrative complexity since all people would be treated the same.

International mobility

- 235 For refugees or asylum seekers, it is unlikely that the counterfactual option will have a substantive effect on these groups. As discussed, these groups (in particular quota refugees) have limited agency in where they are placed, therefore NZS incentives do not play a substantive part in their decision on whether they come to New Zealand or not.

Operational implications

- 236 We expect that requiring this group to meet a higher residence requirement will increase MSD caseloads, though the numbers of clients will not be large.

²⁴ Over the last three years only 12% (396) of asylum seekers and refugees were aged 45 and over.

Option One – limits on the residence requirement for refugees who arrive after age 45

- 237 The 10-year residence and presence requirement is retained for a person granted refugee or protected person status in New Zealand at age 55 or higher.
- 238 The total residence and presence requirement for a person granted refugee or protected person status in New Zealand while aged 45-54 is limited to no more than the difference between the date that person was granted that status, and the date on which that person turns 65.

Fairness

- 239 This option reflects the unique nature of older refugees and protected persons and the fact that they have limited choice over where they ultimately reside.
- 240 Retaining the 10-year residence and presence requirement for a person granted refugee or protected person status in New Zealand at age 55 or higher would ensure that there is still a requirement for a substantive connection to New Zealand, but would balance this against the risk of prolonged hardship for someone with no choice in where they were ultimately placed.
- 241 Similarly, for those between the ages of 45-54, a middle ground between a 10 and 20 years is a fairer solution for those who have no choice in coming to New Zealand but should still be expected to demonstrate some connection to New Zealand.

Income adequacy

- 242 This concession would mean there is little to no difference in when refugees who come to New Zealand at age 45 or greater can qualify. For people aged 45-54, it would effectively mean that they can receive NZS from age 65 – delayed only by any time they spend outside NZ that cannot be counted as presence in New Zealand under one of the special provisions in the NZSRI Act. This would help mitigate the number of older former refugees experiencing poverty or material hardship.

Sustainability

- 243 While the concession would marginally reduce the savings accruing from increasing the residence requirement, this would be minimal in the context of NZS expenditure given the small number of people who would benefit each year, and the high likelihood that most would otherwise receive a main benefit and supplementary assistance.

Simplicity

- 244 This option would have no impact on the ease of understanding NZS for anyone other than the former refugees who benefit from it.

International mobility

- 245 As discussed, refugees or asylum seekers (in particular quota refugees) have limited agency in where they are placed, therefore NZS incentives do not play a substantive part in their decision on whether they come to New Zealand or not.

Policy stability

- 246 There is a strong argument for this concession to acknowledge the unique situation of older refugees and protected persons in that they have limited choice over where they ultimately reside, and that it would help mitigate the number of older former refugees experiencing poverty or material hardship.

Operational implications

- 247 The concession could marginally increase the administrative complexity of NZS.

Legal implications

- 248 s 9(2)(h) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- 249 s 9(2)(h) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Multi-Criteria Analysis – Options for accommodations for refugees

Key for qualitative judgements:

++	much better than doing nothing/the status quo/counterfactual
+	better than doing nothing/the status quo/counterfactual
=	about the same as doing nothing/the status quo/counterfactual
-	worse than doing nothing/the status quo/counterfactual
--	much worse than doing nothing/the status quo/counterfactual

	Counterfactual	Option One - limits on the residence requirement for refugees who arrive after age 45
Fairness	0	<p style="text-align: center;">+</p> <p>This option reflects the unique situation of older refugees and protected persons and the fact that they have limited choice over where they ultimately reside.</p>
Income adequacy	0	<p style="text-align: center;">++</p> <p>This concession would mean there is little to no difference in when refugees who come to New Zealand at age 45 or greater can qualify. This would help mitigate the number of older former refugees experiencing poverty or material hardship.</p>
Simplicity	0	<p style="text-align: center;">=</p> <p>This option would have no impact on the ease of understanding NZS for anyone other than the former refugees who benefit from it.</p>
Sustainability	0	<p style="text-align: center;">=</p> <p>While the concession would marginally reduce the savings accruing from increasing the residence requirement, this would be minimal in the context of NZS expenditure given the small number of people who would benefit each year, and the high likelihood that most would otherwise receive a main benefit and supplementary assistance.</p>
International mobility	0	<p style="text-align: center;">=</p> <p>Refugees or asylum seekers (in particular quota refugees) have limited agency in where they are placed, therefore NZS incentives do not play a substantive part in their decision on whether they come to New Zealand or not.</p>
Policy stability	0	<p style="text-align: center;">++</p> <p>There is a strong argument for this concession to acknowledge the unique situation of older refugees and protected persons in that they have limited choice over where they ultimately reside, and that it would help mitigate the number of older former refugees experiencing poverty or material hardship.</p>
Operational implications	0	<p style="text-align: center;">=</p> <p>The concession could marginally increase the administrative complexity of NZS, although this would be minimal given the small number of people each year this concession would be applicable to.</p>

	Counterfactual	Option One - limits on the residence requirement for refugees who arrive after age 45
Legal implications	0	<p>–</p> <p>The concession will mean refugees applying for NZS or VP may be treated differently from New Zealanders applying for NZS or VP, as depending on their age when they enter New Zealand, they will have a lesser residence requirement than New Zealanders.</p> <p>It is arguable that this is different treatment on a prohibited ground of national or ethnic origin, and may be subject to human rights complaints on this ground. While it is likely the Ministry could successfully argue that this different treatment is justified as refugees do not get to choose the country they are placed in, the litigation risk remains.</p>
Overall assessment	0	+

Population group impacts – if all preferred options adopted

Population group	Implications
Current seniors	The proposed transition arrangements mean there is no effect on anybody currently aged 64+
Those aged 63 and below (as at 30 June 2021)	<p>People aged 63 and below will need to meet a higher requirement, based on their age.</p> <p>Those who already meet the applicable higher requirement do not need to do anything new.</p> <p>Most of those who do not yet meet the applicable higher requirement will meet it by the time they reach age 65 without doing anything new.</p> <p>People living outside New Zealand or considering living outside New Zealand, and intending to receive NZS or VP, will need to consider their options. If their absence or intended absence would mean they do not meet the applicable higher requirement, they will need to decide whether to:</p> <ul style="list-style-type: none"> • change their plans to receive NZS or VP earlier • not change their plans, and face a delay in receiving NZS or VP • not return to New Zealand. <p>Where people are unable to meet the higher residence requirement by the point they would qualify under the status quo, or decide not to change their plans to meet the higher residence requirement, they will have a number of options:</p> <ul style="list-style-type: none"> • They may support themselves during the period they do not qualify for NZS by working, through a private pension or overseas government pension, or through their personal savings. • They will have recourse to social security assistance appropriate to their circumstances – Jobseeker Support for those who are able to work, Supported Living Payment for those who are unable to work due to a health condition, disability, or full-time care responsibilities, or an Emergency Benefit if they do not meet the criteria for a main benefit and experience hardship. <p>It is likely that there will be increased levels of poverty and hardship amongst people who are unable or unwilling to support themselves. People who are able to support themselves through the delay are still likely to face increased difficulties later, given that they will use resources that could have benefited them later in life.</p>
Expatriate New Zealanders	<p>Expatriate New Zealanders must meet the same conditions as migrants, based on their age.</p> <p>However, a high proportion of expatriate New Zealanders live or have lived in a country with which New Zealand has a social security agreement. When this is the case, they are able to combine residence in an agreement partner country with residence in New Zealand. This is likely to mean that most expatriate New Zealanders are not affected in practice. Some people intending to live in New Zealand but who are reliant on Australian residence will be impacted because they must meet the Australian Age Pension qualifying age to use that residence.</p>

Population group	Implications
<p>People who can't return to New Zealand because of the COVID-19 pandemic</p>	<p>New Zealanders who are stranded overseas due to the effects of COVID-19 and who are born on or after 1 July 1957 may be impacted by the proposed changes, depending on their situation. For example, if an individual was stranded overseas for a year during the pandemic after being resident and present in New Zealand prior to becoming stranded, this absence may require them to complete an additional year of being resident and present in New Zealand along with the further residency requirements proposed by the bill (which will be dependent on their age if the preferred transitional approach is adopted), before being eligible for NZS/VP. Officials are determining MSD's approach to how periods of time spent stranded abroad as a result of COVID-19 will be treated in the context of calculating periods of residency for NZS/VP entitlement.</p> <p>New Zealanders who are born on or before 30 June 1957 will retain a 10 year residence requirement for NZS/VP. It is possible some New Zealanders who were born on or before 30 June 1957 who are trapped overseas because of COVID-19 will not be able to meet the 10 year residence requirement. The proposed changes do not impact this group.</p>
<p>Māori</p>	<p>Māori must meet the same conditions as New Zealanders of other ethnicities.</p> <p>MSD administrative data about the ethnicity of the superannuitant population is inconsistent, and data about length of residence is of varying qualities. Based on the data that is currently available however, it is likely that very few Māori will be impacted by the increase in the residence requirements. While it is possible the number of Māori reaching age 65 who have spent less than 20 years in New Zealand will grow (due to economic and social reasons), most will have spent much of the remainder of their lives in an agreement partner country (usually Australia), limiting the effects of the increase as residency in both countries will be able to be used to meet the new requirements.</p> <p>Older Māori intending to live in New Zealand but who are reliant on Australian residence will be impacted as they must meet the Australian Age Pension qualifying age (67 instead of 65) to use that residence.</p> <p>An increase in residence requirements will also likely have an impact on those who are outside of agreement partner countries. As MSD administrative data about the ethnicity of the superannuitant population is inconsistent and data about length of residence is of varying qualities, data is unable to be provided regarding the number of Māori currently residing in non-agreement countries.</p>

Pacific peoples	<p>The Pacific region includes both the Realm of New Zealand and other countries that are covered by the 'special portability' provisions. Special portability provisions enable NZS or VP to continue to be paid when someone moves to one of the Pacific countries included in the special arrangement. This was introduced in context of New Zealand's proximity to, and linkages with, Pacific Island nations. The amount of NZS/VP paid is dependent on how long someone has been resident and present in New Zealand since age 20. For 20 complete years or more since age 20 the full basic rate is paid, for between 10 – 20 complete years since age 20 1/20th of the basic rate is paid for each year lived in NZ since the age 20, and for 10 complete years since age 20 half of the basic rate is paid. The special portability provisions are more generous than the alternative of payment through general portability (payment of NZS/VP outside of agreement countries and nations covered by special portability).</p> <p>People who have moved to or are considering moving to the Realm of New Zealand are unlikely to be affected unless they have spent significant time in a third country. This is because the proposed approach allows residence and presence after the age 20 in the Realm to be counted towards the increase in the residence requirement.</p> <p>People from or hoping to live in non-Realm Pacific nations will be required to meet the new requirements, and will not be able to return to reside in a nation outside the Realm until they qualify under those new requirements if they wish to receive NZS or VP.</p> <p>Based on MSD administrative data, the main countries of birth of Pacific people who may be affected by the increase are Fiji and Samoa.²⁵ However, this data reflects a point in time and it is difficult to predict the makeup of future NZS and VP aspirants.</p> <p>Pacific people who do face a delay in their eligibility for NZS or VP are likely to face greater financial hardship than other affected people. Pacific people in New Zealand experience lower wages, increasing the difficulty of independently saving for their retirements. Industries employing Pacific peoples are primarily trades, health care, social assistance etc. requiring greater physical work. Increased residence requirements raise concerns for Pacific peoples having to work longer during later life and the impact on their health and wellbeing. They also face lower life expectancy than the national average, which means they do not necessarily get the same value from NZS or VP as other New Zealanders, and this would be further reduced for those whose entitlement is delayed.</p> <p>For people from or hoping to live in non-Realm Pacific nations impacted by the new requirements not be able to return to reside in a nation outside the Realm until they qualify under those new requirements, the change may also have impacts on family connectedness and the labour market in New Zealand and in the Pacific. In particular, increasing the residence requirement can disincentivize Pacific peoples from returning to their home countries, which contributes to the Pacific region's depopulation and skills drain, which can in turn undermine efforts to support their sustainable development.</p>
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Population group	Implications
	<p>As an indication of the number of people impacted, according to MSD data around 50 people in the Pacific (excluding the Realm) are receiving NZS/VP under the special portability provision and have 10 to 19 years of NZ residence meaning they receive proportional payments. Although MSD administrative data regarding length of residence is of varying qualities, data for payments made under special portability this is specifically recorded. It should be noted however that data about ethnicity is also inconsistent.</p>
Disabled people	<p>Disabled people are probably no more likely to face a delay in qualifying for NZS or VP than other New Zealanders. This is because people who are disabled through much or all of their lives may face both practical and administrative barriers in migrating to or from New Zealand (such as being less likely to be granted a visa).</p> <p>However, those disabled people who face delays in qualifying for NZS or VP are likely to be affected to a significantly greater extent than other people who face delays, given that they may have higher costs, and will face additional challenges in providing for themselves. Disabled people are less likely to be employed and live in households with lower incomes.²⁶ As a result disabled people are less likely to have had a sufficient opportunity to build retirement savings, and these savings may be rapidly depleted during a delay in eligibility of NZS or VP.</p> <p>The outcome of this is that there will be an increase in poverty and material hardship amongst the disabled people affected by the delay, and likely to a greater extent than for non-disabled people affected by the delay. It is likely that there will be increased demand for government services such as a disability employment services.</p> <p>To the extent that some disabilities or health conditions reduce life expectancy, it may seem less fair for people with these disabilities or health conditions to face delays in receipt of NZS or VP – since they cannot expect to receive the same amount of NZS or VP as others in any case. On the other hand, the change may improve fairness between long-term New Zealanders with life expectancy limiting conditions, and people with less connection to New Zealand who currently can expect to receive NZS or VP for longer.</p>

²⁵ Around 300 people born in Fiji, and around 120 people born in Samoa, who were granted NZS or VP in the year to the end of August 2020 had between 10 and 19 years of New Zealand residence recorded.

²⁶ Stats NZ. 2020. Measuring inequality for disabled New Zealanders: 2018. Retrieved from <https://www.stats.govt.nz/reports/measuring-inequality-for-disabled-new-zealanders-2018>.

Population group	Implications
Migrants...	<p>Migrants to New Zealand must meet the same conditions as expatriate New Zealanders, based on their age. However, there will be significant differences in the experiences of different migrant groups.</p> <p>In calculation of anticipated costs and savings, an assumption was included that 35% of people who would be affected by the impact of the change would arrive earlier to become eligible for NZS. This assumption is not broken down by ethnic groups or by nationality (due to uncertainties about the future population, and data quality issues). The information below is based on our current understanding of people receiving NZS, however this may not be applicable to future behaviours which we cannot quantify.</p>
...from agreement partner countries	<p>Migrants from agreement partner countries are unlikely to be affected by the change unless they have spent significant time in a third country.</p>
...from non-agreement countries with well-developed pension systems	<p>Migrants from non-agreement countries will be more likely than the average expatriate New Zealander or migrant from an agreement partner country to be affected by the increase in the residence requirements.</p> <p>Where someone has lived for an extended period in a non-agreement country with a well-developed government pension system (eg Switzerland), they may well have an overseas pension that helps to support them through the delay in their NZS or VP eligibility. However, where they need benefit support this overseas pension will not assist them as it would be deducted from any main benefit they are eligible for.</p>
...from non-agreement countries without well-developed pension systems	<p>Migrants from non-agreement countries with less developed government pension systems (eg India) are most likely to be significantly affected by the increase in the residence requirements, as they are less likely to have a significant government pension to fall back on.</p> <p>On current administrative and census data, migrants from China, India, South Africa and other low and middle income countries are most likely to be affected.²⁷</p>
Refugees	<p>Refugees who are granted that status in New Zealand at age 45-54 can receive NZS at age 65 as long as they remain resident and present. Those who are granted that status in New Zealand at age 55+ can receive NZS after 10 years residence and presence.</p> <p>Therefore, there will be no impact on refugees who are granted that status in New Zealand after age 55. Those granted refugee status at age 45-54 will have less flexibility to spend time outside of New Zealand but can still qualify at age 65.</p>

²⁷ In the year to the end of August 2020, around 740 people born in China, 470 people born in India, 400 people born in South Africa, 300 people born in Fiji, 130 people born in the Philippines, 120 people born in Samoa and 120 people born in Malaysia who were granted NZS in the year to the end of August 2020 had 10-19 years New Zealand residence recorded.

Conclusions

250 MSD's preferred approach is to:

- increase the requirement for residence and presence after age 20 from 10 years to 20 years (retaining the five years after 50 requirement) – this best achieves the policy objectives of increasing fairness and contributing to the sustainability of NZS
- a phased increase by birthdate in which for every two complete years a person was born after 1955, that person would require one additional year of residence up to a maximum of 20 years in total – this provides the greatest equality of treatment between people in similar positions, while mitigating impacts on income adequacy
- residence in the Realm would count as residence toward the additional 10 years, and
- retained the 10-year residence and presence requirement for a person granted refugee or protected person status in New Zealand at age 55 or higher, and provide that the total residence and presence requirement for a person granted refugee or protected status aged 45-54 is no more than the difference between the date that person was granted that status, and the date on which that person turns 65.

251 MSD considers this specific combination of preferred options provide the optimum balance between achieving the policy intent of increasing residency requirements for NZS/VP, whilst protecting the entitlements of existing and soon to be NZS/VP holders who would face significant hardship should immediate changes to residency requirements be made.

252 In assessing options against the outlined outcomes for NZS policy, where there has been tension between two or more outcomes, trade-offs have been made in line with the ideal NZS policy aims:

- NZS policy aims to achieve the fair distribution of wellbeing across the members of the community and through time
- NZS policy also aims to maintain a socially acceptable overall level of wellbeing of New Zealanders, both those who are older and those who are yet to become older, and their community.

Costs and benefits of preferred option

253 In the table below, we compare the proposed transition approach relative to the bill proceeding as drafted.

Affected groups)	Comment	Impact
Additional costs of the preferred <u>transition</u> option compared to taking no action (resulting in the counterfactual – an immediate jump)		
Longer term residents (20 years or more)	Equity issues may arise where people entering NZ in late life (especially following the legislative change) would face a lesser residence requirement than people who have already been in NZ and have a more justifiable expectation of receiving NZS.	Low This option minimises the differences between the treatment of people who are near in age and interests (and to a greater degree than a phased increase over time). Unlike the other options, it would be linked explicitly to age. However, that can be justified by the need to provide security of entitlements.
	People will have to pay for the preferred option accruing significantly less savings than the counterfactual through tax or other means	High The difference in savings between the counterfactual and MSD's proposed transition approach is quite high in the near term – although this difference has not been formally costed. There is an opportunity cost from the savings that would have otherwise been accrued.
Shorter term residents (less than/around 20 years)	People will have to pay for the preferred option accruing significantly less savings than the counterfactual through tax or other means	Medium The difference in savings between the counterfactual and MSD's proposed transition approach is quite high – although this difference has not been costed. There is an opportunity cost from the savings that would have otherwise been accrued. However, shorter term residents will meet a relatively smaller proportion of these costs.
Regulators	Amendments to the Bill are required through the select committee (or committee of the whole House).	The change to the residence criteria should be reasonably easy to draft in itself and does not require grandparenting provisions.
Other groups	No assessed costs due to limitations on analysis	No assessed costs due to limitations on analysis

Total monetised costs		As the counterfactual's short-term savings have not been costed, we treat those as non-monetised.
Non-monetised costs		<i>High</i>
Additional benefits of the preferred option compared to taking no action (resulting in the counterfactual)		
Longer term residents (20 years or more)	The incentive for people to return to New Zealand rapidly would be lower than under the counterfactual, avoiding sudden distortions on the housing and labour markets	<i>Low</i> This effect is challenging to quantify and it is not clear to what extent people's behaviour would be different.
Shorter term residents (less than/around 20 years)	Existing superannuitants or those soon to be eligible for NZS with less than 20 years residency will not lose their entitlement or anticipated entitlement to NZS. The phased approach provides an opportunity for affected people to adjust, qualifying for NZS under the current provisions or preparing to support themselves.	<i>High</i> This option distributes fairness while ensuring income adequacy for significantly more people than the counterfactual. The counterfactual option could potentially leave a large amount of people in financial hardship if they suddenly lost their entitlement to NZS.
Regulators	The phased approach avoids the need to review and potentially cancel tens of thousands of superannuation payments.	<i>Medium</i> This avoids the need for significant one off investment of staff time
	The phased approach reduces the demand for benefits and supplementary assistance in the near to medium term.	<i>Medium</i> This could significantly reduce ongoing operational costs compared to the counterfactual in the near to medium term.
Other groups (e.g. wider government, consumers etc.)	If needed, the period of time NGOs and family/friend/community support groups may need to support impacted individuals would be for a significantly lower amount of time than the counterfactual, as no one will suddenly need to meet another 10 years residence, rather it is a gradual process that allows people to plan accordingly	<i>Medium</i> As this option significantly mitigates the impacts on income adequacy, there will be much less pressure on families and communities
Total monetised benefits		

Non-monetised benefits		<i>High</i> There is a direct trade off between benefits for longer and shorter term residents between the counterfactual and phased option. However, there are significant additional benefits from the phased option.
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Section 3: Implementing the preferred option

How will it be implemented?

- 254 New Zealand Superannuation and Retirement Income Act 2001 is administered by the Ministry of Social Development and the Treasury. MSD administers section 8, which the bill is proposing to amend.
- 255 MSD manages applications for and payments of NZS, which involves assessing an applicant's period of New Zealand residency for the purposes of NZS eligibility and in general advising potential applicants whether they are eligible for NZS. Implementation of this change will occur within this existing framework.
- 256 The bill currently comes into force on the day after the date on which it receives the Royal assent.
- 257 The operational implications of increasing the residence requirements are heavily dependent on the transitional provisions adopted. However, the generic implications are as follows:
- MSD will need to make changes to its IT systems, business processes, training materials, and internal and external communications ahead of the introduction of the change.
 - NZS applications will decline, but a portion will become more complex to determine, which may have implications for the allocation and training of staff.
- 258 Applications for main benefits, supplementary assistance, and hardship assistance are all expected to increase.
- 259 If the bill comes into force as it currently stands, current superannuitants who do not meet the new 20 years residency requirements will lose their entitlement, and anyone who would otherwise apply for NZS in the medium/short term but does not meet the new requirement will have to delay their application until this requirement is met. Systems changes would need to be implemented quickly, and there would need to be extensive publicity around the impacts – including, if possible, to the New Zealand diaspora. As it would lead to a significant increase in the number of people needing a main benefit there would be an impact on MSD's operational capacity – and people would need to understand the (more complex) benefit system.
- 260 If MSD's preferred option is implemented, compared to a one-off jump in the residence requirements, it would have a significantly lower operational impact. The impact of change will not be realised until 2022, when the increase begins to take effect. This would also allow time for MSD to make the necessary operational changes (although these would still be required relatively quickly) and communicate to the public and affected groups the raise in residency requirements. It would not result in an immediate dramatic increase in main benefit caseloads, and nor would it require complex grandparenting arrangements and regular systems changes (indeed,

grandparenting would not be required at all). There would be a modest increase in main benefit caseloads over time.

- 261 If a delayed jump was implemented this would allow more time for MSD to make and communicate these changes. Changes to systems and business processes would still be required, but not for some time, so these could be adequately planned for. If the two-jump option was pursued, two rounds of changes to systems and business processes would be required, but not for some time, so could be adequately planned for. However, for both options involving a delayed jump, there is a risk that impacted people may not calculate their new residency requirement correctly, which may have significant negative consequences. MSD would need to make sure our communications strategy and messaging is as clear as possible.

Monitoring, Evaluation, and Review

- 262 MSD has an existing system to manage applications for and payments of NZS, which involves assessing an applicant's period of New Zealand residency for the purposes of NZS eligibility.
- 263 Applications for main benefits and supplementary assistance by people 65+ can be monitored on an ongoing basis as the residence requirements increase until 2041. Operational impacts can also be monitored, for example if there was a significant increase in resourcing needed or if applications for NZS or benefits/supplementary assistance in regard to people impacted by the change became increasingly complex.
- 264 The Commission for Financial Capability monitors New Zealand retirement policies settings on an ongoing regular basis, currently every 3 years. MSD contributes to this review. This could assist in monitoring the policy change over time and any notable impacts that arise from it.
- 265 We may ultimately find that a minimum residence requirement that is less or more than 20 years is appropriate. The preferred approach to increase the residency requirements by birthdate would allow for the transition to 20 years to be halted or extended at some point by Act of Parliament.