2015 ATTA Conference Abstract Template

Cost Sharing of Pensions Paid Under the New Zealand-Australia Social Security Agreement: Should It Be Time For Change?

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Since 1944 New Zealand and Australia have negotiated a number of bilateral treaties (known as "social security agreements" or "SSAs") to coordinate and harmonise the payment of pensions to individuals who have split their working lives between the two countries. Until the current SSA was negotiated in 2001, all of the earlier SSAs had been negotiated on the principle that the state where the claimant resided would assume responsibility for the cost of their pension even though part or all of their working lives had been spent in the other state.

The 2001 SSA fundamentally departs from this principle by adopting a fractional pension approach whereby each state will pay a part pension based on the time the claimant has spent working in each state. Such an approach would usually result in fairer allocation of pension costs between the two states when taking into account the tax that would have been collected by each state from the claimant during their working lives.

In the case of the 2001 SSA between Australia and New Zealand, the fractional pension approach is complicated by two factors. Firstly, the total amount of the two fractional pensions receivable by the claimant is determined solely by the domestic pension rules of the state where the claimant has retired. Secondly, the amount the other state must contribute to that pension is determined by the domestic pension rules of that state, not the state where the claimant has retired. As a consequence the actual costs of meeting the overall pension may be disproportionately borne by one of the states.

This paper will examine which state has the greatest liability for pension payments under the New Zealand-Australia SSA by examining a range of case studies. It will be concluded that the potential liabilities of one state may mean that the 2001 SSA may not be sustainable in the longer term.

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