MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

29 July 2026

Tēnā koe

Official Information Act request

Thank you for your request submitted via online form on 03 June 2026, requesting information about deductible overseas pensions and Chinese pensions. You requested:

1. *All policies, guidelines, manuals, instructions, operational procedures, decision-making frameworks and legal advice used by MSD when determining whether an overseas pension is deductible from New Zealand Superannuation.*
2. *All such documents specifically relating to pensions, retirement benefits or social insurance payments from the People's Republic of China.*
3. *The criteria used to determine whether a foreign pension is a state, social insurance, contributory, private or otherwise deductible pension.*
4. *Any reports, reviews, legal opinions, briefing papers or analyses since 1 January 2015 concerning the treatment of Chinese retirement benefits.*
5. *The number of NZ Super recipients receiving Chinese retirement pensions and the number whose NZ Super has been reduced as a result.*
6. *Any documents comparing the treatment of Chinese and UK pensions.*
7. *The legal basis for any distinction between the UK State Pension and Chinese.*

I have considered your request under the Official Information Act 1982 (the Act). Please find my decision on each part of your request set out separately below.

- *All policies, guidelines, manuals, instructions, operational procedures, decision-making frameworks and legal advice used by MSD when determining whether an overseas pension is deductible from New Zealand Superannuation*

Overseas pensions are assessed in accordance with the Social Security Act 2018 and the Social Security Regulations 2018. I've outlined the relevant provisions relating to overseas pension deductions below:

Social Security Act 2018

a. Section 187 – 191 (*Factors reducing benefits: entitlement to overseas pensions)*

   https://legislation.govt.nz/act/public/2018/32/en/latest/#DLM6783494

b. Section 173 (Applicant for benefit, etc, to take reasonable steps to obtain overseas pension)

   www.legislation.govt.nz/act/public/2018/32/en/latest/#DLM6783464.

Social Security Regulations 2018

c. Section 118 – 123 (Subpart 3—Factors affecting benefits: entitlement to overseas pensions)

   www.legislation.govt.nz/secondary-legislation/pco-drafted/2018/202/en/latest/#LMS96553

d. Section 124 – 136 (Subpart 4—Overseas pension deduction)

   www.legislation.govt.nz/secondary-legislation/pco-drafted/2018/202/en/latest/#LMS96601

Below outlines the Ministry's operational policy in relation to overseas pensions deductions:

Payments from Overseas

a. Overseas Pensions
   www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/overseas-pensions.html

b. Possible overseas pension entitlement
   www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/possible-overseas-pension-entitlement.html

c. Direct deductions of overseas pensions
   www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/direct-deductions.html

   a. Exchange Rates
      www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/exchange-rates.html.

d. Couples getting overseas pensions
   www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/couples-getting-overseas-pensions.html

   a. New Zealand Superannuation and Veteran's Pension both qualify
      www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/new-zealand-superannuation-and-veterans-pension-both-qualify.html

   b. New Zealand Superannuation or Veteran's Pension with a partner not getting a benefit
      www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/new-zealand-superannuation-or-veterans-pension-with-a-partner-not-getting-a-benefit.html

c. New Zealand Superannuation or Veteran's Pension with a partner getting a main benefit
www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/new-zealand-superannuation-or-veterans-pension-with-a-partner-getting-a-main-benefit.html

d. Grandparented New Zealand Superannuation non-qualified partner included and New Zealand Superannuation with main benefit partner
www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/grandparented-new-zealand-superannuation-non-qualified-partner-included-and-new-zealand-superannuation-with-main-benefit-partner.html

e. Overseas Pensions for dependants
www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/overseas-pensions-for-dependants-01.html

f. Voluntary portion of overseas pension
www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/voluntary-portion-of-overseas-pension.html

g. Government Occupational Pensions
www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/government-occupational-pensions-01.html

h. Accident compensation
www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/accident-compensation-01.html

i. War Pensions
www.workandincome.govt.nz/map/to-or-from-overseas/payments-from-overseas/war-pensions-01.html

Portability

j. General Portability
www.workandincome.govt.nz/map/to-or-from-overseas/portability/general-portability/overseas-pensions-01.html

k. Special Portability
www.workandincome.govt.nz/map/to-or-from-overseas/portability/special-portability/overseas-pensions-01.html

- *All such documents specifically relating to pensions, retirement benefits or social insurance payments from the People's Republic of China*

Please find attached **Appendix One** outlining the testing criteria and direct deductibility in relation to Chinese pensions.

- *The criteria used to determine whether a foreign pension is a state, social insurance, contributory, private or otherwise deductible pension*

Section 187 of the Social Security Act 2018 outlines the specific interpretation of an overseas pension. Here is the link:

www.legislation.govt.nz/act/public/2018/32/en/latest/#DLM6783495

- *Any reports, reviews, legal opinions, briefing papers or analyses since 1 January 2015 concerning the treatment of Chinese retirement benefits*
- *Any documents comparing the treatment of Chinese and UK pensions*
- *The legal basis for any distinction between the UK State Pension and Chinese*

I have attached following documents in relation to the treatment of Chinese pensions:

- **Appendix Two** – Treatment of Chinese pensions in New Zealand
- **Appendix Three** – China's pension system and direct deduction
- **Appendix Four** – Memo - Direct deduction and China's pension system
- **Appendix Five** – REP-22-9-834 - Report - *Direct deduction and China's pension system*
- **Appendix Six** – Memo – Updated assessment of the Chinese Pension system

At the bottom of page 4 in Appendix Two, you can find a comparison of, and key distinctions between, the Chinese pension system and the United Kingdom State Pension.

Please note that some information in Appendix Two has been withheld under section 9(2)(h) of the Act in order to maintain legal professional privilege. The greater public interest is in ensuring that government agencies can continue to obtain confidential legal advice.

In addition, some information has been withheld under section 6(a) to protect the international relations of the Government of New Zealand.

In relation to your request for any reviews, opinions or analyses, the Ministry has determined that responding would require substantial manual collation to locate and prepare all documents within scope of your request. As such, I refuse your request under section 18(f) of the Act. The greater public interest is in the effective and efficient administration of the public service.

I have considered whether the Ministry would be able to respond to your request given extra time, or the ability to charge for the information requested. I have concluded that, in either case, the Ministry's ability to undertake its work would still be prejudiced.

- *The number of NZ Super recipients receiving Chinese retirement pensions and the number whose NZ Super has been reduced as a result*

Please find attached **Appendix Seven**, which outlines the number of Chinese Overseas Pension recipients whose New Zealand Superannuation and Veteran's Pension payments were deducted, as at the end of each calendar year from 2015 to 2025, and as 31 March 2026.

I will be publishing this decision letter, with your personal details deleted, on the Ministry's website in due course.

If you wish to discuss this response with us, please feel free to contact OIA_Requests@msd.govt.nz.

If you are not satisfied with my decision on your request, you have the right to seek an investigation and review by the Ombudsman. Information about how to make a complaint is available at www.ombudsman.parliament.nz or 0800 802 602.

Ngā mihi nui

pp.

Anna Graham
General Manager
Ministerial and Executive Services


China

Non-reciprocal country **Agreement made: n/a** **Page last updated: 07/10/2025**

Overseas Agency Contact

Ministry of Human Resources and Social Security (MOHRSS)
中华人民共和国人力资源和社会保障部

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Testing Criteria

China has a three-tier pension system, consisting of a basic/defined pension, a mandatory second-tier plan and a voluntary third-tier scheme

Basic Pension

The Ministry has determined that the Chinese Basic Pension (formerly referred to as Urban Employees' Pension) is to be treated as directly deductible from 1 July 2022. The Basic/Chinese Urban Employees' Pension should be treated as other income prior to that date.

To be eligible for payments of the Basic Pension, a person must:

- have made 15 years of contributions from 1997; and

- 60 (men and professional women), age 55 (nonprofessional salaried women), or age 50 (other categories of women), with at least 15 years of contributions.
- 55 (men) or age 45 (women) with at least 15 years of contributions if employed in arduous or unhealthy work.
- Early pension: Age 50 (men) or age 45 (women) with at least 1
- 0 years of contributions and assessed with a total disability; age 55 (men) or age 45 (women) with eight to 10 years of continuous contributions if employed in arduous or unhealthy work.

Clients in receipt of benefits who have 15 years of residence or more in China from 1997 should be asked if they are in receipt of a Chinese pension and be asked to provide verification for International Services to assess if they confirm this to be the case.

Mandatory Enterprise and Occupational Annuities

Enterprise and Occupational Annuities are part of the second-tier supplementary old-age insurance system. These annuities are now more commonly referred to as 'mandatory individual accounts'. Individual accounts are mandatory for full-time and part-time employees in urban enterprises and civil servants, and certain public sector employees. The Occupational Annuity covers government workers and the Enterprise Annuity is the equivalent scheme for private sector workers. If a client has one of these pensions, check for voluntary contributions (see below).

Voluntary coverage is possible for Basic and Enterprise/Occupational Annuities

Some groups without mandatory coverage can now be voluntarily covered for both the basic pension and the mandatory individual accounts. This includes the self-employed, small business owners with no employees, part-time workers not covered through their employers and casual workers.

Voluntary pensions should not be deducted

Pensions determined by MSD to be attributable to voluntary contributions are not overseas pensions under s187 of the Social Security Act and should not be deducted.

The potential that a person has voluntary coverage will need to be considered when assessing **all** Basic Pensions and Enterprise and Occupational Annuities under s187.

Assessment of Chinese Pensions:

	First tier basic pension insurance (social insurance)		**Second-tier basic pension insurance (individual account)**		**Third tier**
Programme	Basic Pension	Pension schemes for non-salaried urban and rural residents	Mandatory individual accounts (Enterprise Annuity)	Mandatory individual accounts (Occupational Annuity)	Individual Tax-deferred Commercial Pension Insurance Programme
Assessment of status under s187	**Deductible:** Pensions arising from mandatory coverage of full and part-time urban employees and civil servants are deductible	**Not deductible:** Coverage is not mandatory	**Deductible:** Pensions arising from mandatory coverage of full and part-time urban employees are deductible	**Deductible** Pensions arising from mandatory coverage of civil servants are deductible	**Not deductible:** Private pension that arises from voluntary contributions

Directly Deductible under NZ Law

Yes	**No**
• Basic Pension (formerly referred to as Urban Employee's Pension) • Enterprise Annuity • Occupational Annuity	• All other pensions currently do not fit the criteria to be considered a deductible pension.

External Links

Social Security Throughout the World – China
Pension system reform in China
China's social security system
Country profile | International Social Security Association (ISSA)

Military OSPs

Ministry of Veterans Affairs
Civil Service and Military Service Pensions in China

TREATMENT OF CHINESE PENSIONS IN NEW ZEALAND

MSD's treatment of Chinese pensions may change in 2022

The Ministry of Social Development (MSD) needs to determine whether Chinese pensions will be covered by the direct deduction policy (sections 187 to 191 of the Social Security Act 2018 – previously section 70 of the Social Security Act 1964) from July 2022. If Chinese basic (pillar one) pensions are covered, they would be deducted dollar for dollar from any New Zealand pension or benefit a person is entitled to receive.

MSD has not been deducting Chinese pensions since 2002

In 2002, MSD operational officials met with Chinese community leaders to discuss treatment of Chinese pensions under the direct deduction policy (at that stage MSD was deducting Chinese pensions). The Chinese community were adamant that Chinese pensions should not be deducted. s9(2)(h) [redacted] Consequently, direct deductions of Chinese pensions were stopped.

A new policy to deduct Chinese pensions was developed in 2004

After investigation into the Chinese pension system, which included a 2004 meeting with the Chinese Ministry of Labour and Social Security[1] (MOLSS), MSD developed a new proposed policy on treatment of Chinese pensions. The policy was based on MSD's understanding that China was in the process of replacing its old system of state-owned enterprise pensions with a three-pillar pension system consisting of:

- Pillar one - a basic pension scheme, which is administered by the Chinese government
- Pillar two - occupational pension schemes which employers offer on top of the pension contributions they make on behalf of their employees to the pillar one scheme.
- Pillar three - individual savings.

The proposed policy was that MSD would deduct pillar one pensions. s6(a) [redacted]
s6(a) [redacted]

[1] Since 2008 the Ministry of Human Resources and Social Security (MOHRSS).

s6(a) [redacted]

MSD consulted with the International Social Security Association

In September 2005, MSD consulted with the International Social Security Association (ISSA). China and New Zealand are both members of ISSA. s6(a)

s6(a)

s6(a) [redacted]

Subsequently MSD determined that Chinese pensions would not be covered by the direct deduction with a reassessment of the position from July 2022

Based on its consultations s6(a) [redacted] MSD decided not to deduct Chinese pensions until at least July 2022 on the basis that:

- the Chinese national insurance scheme did not begin until July 1997; and
- no pillar one pensions under this scheme would be payable until July 2012 because no pension is payable with less than 15 years of insurance
- a person needs ten years residence in New Zealand to qualify for NZS.

This position has been communicated to the public in ministerials and other correspondence. s6(a) [redacted]

APPENDIX

The direct deduction policy

Under the direct deduction policy New Zealand benefits and pensions are reduced by the value of an overseas state pension. People getting New Zealand Superannuation (NZS) are the largest group affected by this policy.

The legislation requires the dollar-for-dollar deduction of the amount of any overseas pension if it:

is determined by MSD to be a payment that is part of a programme that—

- *(i) provides benefits, pensions, or periodical allowances for any of the contingencies for which benefits, pensions, or allowances may be paid under NZ benefits legislation; and*
- *(ii) is administered by or on behalf of the Government of the country from which the benefit, pension, or periodical allowance is received;*

We are currently deducting around 100,000 overseas pensions, the majority of which are from the UK and Australia.

Eligibility rules for NZS

To qualify for NZS a person must:

- be 65 years of age
- be ordinarily resident in NZ, the Cook Islands, Niue or Tokelau on the date of application
- have been resident in NZ for 10 years since the age of 20
- have been resident for five years since the age of 50 in any one or more of NZ, the Cook Islands, Niue or Tokelau.

MSD's current messaging on Chinese pensions

MSD's current messaging is:

The nature of the Chinese state-administered pension system is not so different from the social insurance systems that exist in other countries. The difference lies in the length of time the Chinese state-administered pension system has been in place compared with other countries' long-established, state-administered pension schemes. For example, the United Kingdom state pension scheme was first introduced in 1948. As the United Kingdom state-administered pension system has been in place for such a long time, pensions are payable to eligible United Kingdom pensioners who are currently also eligible for New Zealand Superannuation.

By contrast, the Chinese state-administered pension system was introduced relatively recently in 1997. Pensions are not payable until an employee and their employer have paid into that state system for at least 15 years. This means a person must have worked in China for 15 years between 1997 and 2012 and must have migrated to New Zealand after July 2012 in order to be eligible for a Chinese state-administered pension payable in New Zealand and New Zealand Superannuation (that person would need to be resident and present in New Zealand for 10 years to qualify for New Zealand Superannuation). Consequently, any Chinese state-administered pension payable to people also applying for New Zealand Superannuation after that time (July 2022) will be subject to section 189 of the Social Security Act 2018.

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Memo

To: Lauren Smith, Team Manager MSD Legal
Jeremy Londt, Manager, Centralised Services

From: Lynne Cousins, Policy Manager, International

Author: Sophie Murphy, Policy Analyst

Cc: Ngaire Boyden, Senior Advisor Specialised Processing Services
Ruby Hey, Lawyer

Date: 30 June 2022

Security level: IN CONFIDENCE

China's Pension System and Direct Deduction

Purpose of the memo

1. This memo provides:

- an outline of our understanding of China's pension system; and
- analysis of China's pension system against the criteria for determining whether they are captured by section 187 of the Social Security Act 2018 (the Act)

China's Pension System

2. China is establishing a multi-tier pension system, consisting of programmes provided by the government, voluntary programmes provided by enterprises, and voluntary provision in a tax-deferred Commercial Pension Insurance Programme.

Overseas pensions and direct deduction

3. If a person is receiving a NZ pension and an overseas pension, the amount of NZ pension must be reduced by the amount of the overseas pension. However, only pensions that fall into the specific legislative definition of 'overseas pension' are subject to this direct deduction.

4. An overseas pension is defined in section 187 as a benefit, pension, or periodical allowance ("pension") that is:

   - granted somewhere other than in NZ
   - part of a programme (as determined by MSD) that:
     - provides benefits, pensions, or periodical allowances for any of the contingencies for which benefits, pensions, or allowances may be paid under NZ benefits legislation; and
     - administered by or on behalf of the Government of the country from which the benefit, pension, or periodical allowance is received.

5. Sections 187(c) (d) and (e) state the following payments are not overseas pensions:

   - government occupational pensions, for those (or related family members) who benefit from a pension related to their employment and service to the government
   - compensation payments, similar to New Zealand's ACC payments
   - war pensions
   - disability allowances; or
   - pensions attributable to voluntary contributions.

Analysis of China's pension system

6. The International Social Security Association (ISSA) published a table describing China's pension system in the International Social Security Review Volume 74, Number 1 (early 2021), "*China's development of a multi-tier pension system*".

7. We undertook further research, including consulting with international experts, to confirm our understanding and analysis of China's pension system (presented in Table 1).

Table 1: China's pension system

Features	First tier basic old-age insurance system		Second-tier supplementary old-age insurance system		Third tier
Programme	Urban Employees' Pension	Basic Old-age insurance Programme for Urban and Rural Residents	Enterprise Annuity	Occupational Annuity	Individual Tax-deferred Commercial Pension Insurance Programme
Mandatory/ Voluntary	Mandatory	Voluntary	Voluntary	Voluntary	Voluntary
Participants	Enterprise employees, govt and public institution workers	Rural residents and 16+ urban unemployed	Enterprise employees	Govt and other public institution workers	Employed and self employed in piloted areas
Contribution	16% of wage contributed by employers (to social account), 8% by employees (to individual account)	No fixed amount of contribution – govt matches contributions	Employers and employees max 8% each, total cannot be more than 12%	Employers 8% and employees 4%	Individual contribution, govt tax reduction
Financing	Social account is PAYG, individual account is NDC[1]	Defined contribution	Defined contribution	Defined contribution	Defined contribution
Eligibility	15 years of contributions	15 years of contributions	Reached 'retirement age', lose ability to work or migrate overseas		Retirement age or disability or major illness
When programme started	1997	2011	2004	2015	2010

8. The Organisation for Economic Co-operation and Development (OECD) confirmed that the description in **Table 1** met the OECD's understanding of China's pension system.

[1] Notional defined contribution

9. Our assessment of China's pension system in relation to s187 of the Act is outlined in **Table 2**:

Table 2: Assessment of China's pension system

	First tier basic old-age insurance system		**Second-tier supplementary old-age insurance system**		**Third tier**
Programme	Urban Employees' Pension	Basic Old-age insurance Programme for Urban and Rural Residents	Enterprise Annuity	Occupational Annuity	Individual Tax-deferred Commercial Pension Insurance Programme
Assessment of overseas pension status	**Overseas pension**: is a mandatory pension administered by the Chinese government	**Not an overseas pension**: it arises from voluntary contributions	**Not an overseas pension**: is not administered by the Chinese Government and arises from voluntary contributions	**Not an overseas pension**: is not administered by the Chinese Government and arises from voluntary contributions	**Not an overseas pension**: is a private pension and arises from voluntary contributions

10. The assessment in Table 2 shows that the Chinese Urban Employees' Pension should be treated as an 'overseas pension' under s187 of the Act.

11. Only pensions granted after 1 July 2012 would be subject to direct deduction, as this is the earliest date from which participants of the Chinese Urban Employees' Pension would be eligible for payments.

12. We can provide further assistance on this matter if you require any additional information, or clarification on the assessment provided.

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Memo

To: Debbie Power, Chief Executive Ministry of Social Development

From: Lynne Cousins, Manager, International Policy

Date: 6 September 2022

Security level: IN CONFIDENCE

This memo may contain legal advice and may be legally privileged. It should not be disclosed on an information request, without further legal advice.

Direct deduction and China's pension system

Action: For Information

Purpose of the memo

1 This memo updates you on China's pension system and action we are taking under section 187 of the Social Security Act 2018 (the Act) to direct deduct Chinese pensions from New Zealand entitlements.

The direct deduction policy reduces overseas pensioners' New Zealand entitlements

1 For every one dollar a person is entitled to receive or receives from an "overseas pension"[1] defined in sections 187 – 191 of the Act their New Zealand superannuation (NZS) or other benefit payment is reduced by one dollar. This process is known as direct deduction. Further information on the direct deduction policy and which overseas payments this policy applies to is included in Appendix A.

There are a significant number of Chinese superannuitants

2 The Chinese community is one of New Zealand's largest migrant communities, numbering 247,000 people at the 2018 Census. Approximately 36,500 Chinese born people receive New Zealand Superannuation.

[1] "Overseas pension" in this context includes certain pensions, benefits, or periodical allowances.

MSD paused the deduction of Chinese pensions in 2002

3 Up until the mid 1990s, China had a pay-as-you-go pension system which was administered by state-owned enterprises. Overseas pensions paid by state-owned enterprises are not deductible.

4 Consequently, in 2002 we suspended direct deductions of Chinese pensions until we could undertake a thorough investigation of China's pension system. China has since worked on developing a more regulated approach, adopting a three pillar pension system (Appendix Two). We understand that at this stage the pension system has limited coverage.

5 As a result of this investigation we concluded that no Chinese pensions would be deductible until 1 July 2022.

6 We have recently consulted with international experts to confirm our earlier understanding and analysis of China's pensions system. The Organisation for Economic Co-operation and Development (OECD) confirmed that the description in Appendix A met the OECD's understanding of China's pension system.

7 We have assessed these pensions in relation to s187 of the Act, outlined in Table 1:

Table 1: Assessment of China's pension system

	First tier basic old-age insurance system		**Second-tier supplementary old-age insurance system**		**Third tier**
Programme	Urban Employees' Pension	Basic Old-age insurance Programme for Urban and Rural Residents	Enterprise Annuity	Occupational Annuity	Individual Tax-deferred Commercial Pension Insurance Programme
Assessment of overseas pension status under s.187	**Overseas pension**: is a mandatory pension administered by the Chinese government	**Not an overseas pension**: it arises from voluntary contributions	**Not an overseas pension**: is not administered by the Chinese Government and arises from voluntary contributions	**Not an overseas pension**: is not administered by the Chinese Government and arises from voluntary contributions	**Not an overseas pension**: is a private pension and arises from voluntary contributions

What this means from a client perspective

8 This assessment indicates that only the Urban Employees' Pension (UEP) should be treated as an "overseas pension" under s187 of the Act.

9 Only NZS payments granted after 1 July 2022 would be subject to direct deduction, as this is the earliest date from which individuals would simultaneously be:

- Eligible for payments under the UEP, which started in 1997 and has a 15 year minimum contribution period for entitlement; and
- Could be entitled to New Zealand Superannuation, which currently requires 10 years residence in New Zealand.

10 This will not affect superannuitants who were receiving NZS prior to 1 July 2022. We do not yet know the number of individuals impacted by this, as they will be identified as they apply for NZS.

The operational requirements are largely in place

11 The deduction of the UEP from New Zealand Superannuation is consistent with MSD's treatment of all other overseas pensions received by Work and Income clients. When the Ministry is advised that a client is receiving an overseas pension, it is assessed against the criteria laid out in section 187 to determine if it is deductible from New Zealand entitlement.

12 We will update the information available to Case Managers, as up until 1 July 2022 UEP would have been assessed as income. This information will go live on Map and Intheloop, to ensure Case Managers are aware of these changes and know to forward such cases to International Services.

Consultation

13 We have consulted with the Ministry of Foreign Affairs and Trade and the Department of Prime Minister and Cabinet.

Next Steps

14 The International policy team will inform Minister Sepuloni of this update.

15 We will keep the Ministry of Foreign Affairs (MFAT) and the Department of the Prime Minister and Cabinet informed of any further developments.

16 We will liaise with your office and provide you with further supporting information as required.

Appendix A

The direct deduction policy and overseas pensions

1 For every one dollar a person is entitled to receive or receives from an "overseas pension" defined in sections 187 – 191 of the Act, their New Zealand payment is reduced by one dollar. This process is known as direct deduction.

2 An "overseas pension" in this context is not limited to pension payments. In the context of sections 187 – 191 of the Act, an overseas pension means a pension, benefit or periodical allowance that:

- forms part of an overseas programme that provides pensions, benefits and periodical allowances for any of the circumstances for which New Zealand benefits and pensions would be paid (including old age, invalidity, death of a spouse); and
- is administered by or on behalf of the Government of the country from which the pension, benefit or periodical allowance originates; and
- excludes an overseas pension or any part of it that has been gained from voluntary contributions made by the person.

3 MSD must deduct any overseas pensions that are deductible under section 189(1) of the Act.

The purpose of the direct deduction policy

4 The principle behind the direct deduction policy is that all qualifying New Zealand residents should receive an equitable level of social security coverage.

5 "Equitable" here means having due regard for the interests of both pensioners and taxpayers. This ensures that people who have resided overseas, and may have entitlement to overseas state pensions, are not advantaged over New Zealanders who have resided in New Zealand throughout their working lives.

6 People who have resided overseas are able to receive the full rate of a New Zealand benefit or pension even if they have not resided in New Zealand all their lives. New Zealand residents receive an amount equivalent to the amount of NZS. This may come from NZS, the overseas pension or a combination of NZS and the overseas pension.

7 The direct deduction policy is also underpinned by the "one pension principle", which means that a person should not be able to receive two forms of state financial assistance for the same or similar circumstances. For example, a veteran over the age of 65 cannot get both a Veteran's Pension and NZS, despite the fact that they may meet the qualifying criteria for both. This same principle extends to the treatment of overseas state pensions.

8 The policy also enables the New Zealand Government to share the cost of benefits and pensions with other countries.

China's pension system

17 The first pillar is a basic pension scheme, which is administered by the Chinese government. The scheme covers people in urban areas and involves a combination of a social pool and individual accounts. The social pool provides a basic pension of

20% of the average wage for all retirees. At present about 142 million people from all urban areas contribute to the scheme.

18 The second pillar comprises occupational pension schemes which employers offer on top of the pension contributions they make on behalf of their employees to the pillar one scheme. Pillar two schemes are not currently compulsory, but the Chinese Government does encourage enterprises to offer such schemes. Pillar two schemes are not administered by the Chinese Government.

19 Pillar three is individual savings. The Chinese Government gives incentives for individual savings through preferential taxation policies (usually by exempting tax from interest earned in retirement saving accounts). Pillar three is not administered by the Chinese Government.

20 There is also a special pension for workers in rural areas which gives only a very basic form of protection. The system covers approximately 82 million rural people, and pension payments are currently made to 0.5 million people.

Assessment of China's pension system

21 The International Social Security Association (ISSA) published a table describing China's pension system in the International Social Security Review Volume 74, Number 1 (early 2021), "*China's development of a multi-tier pension system*".

22 The Organisation for Economic Co-operation and Development (OECD) confirmed that the description in Table 1 met the OECD's understanding of China's pension system.

Table one: China's pension system

Features	**First tier basic old-age insurance system**		**Second-tier supplementary old-age insurance system**		**Third tier**
Programme	Urban Employees' Pension	Basic Old-age insurance Programme for Urban and Rural Residents	Enterprise Annuity	Occupational Annuity	Individual Tax-deferred Commercial Pension Insurance Programme
Mandatory/ Voluntary	Mandatory	Voluntary	Voluntary	Voluntary	Voluntary
Participants	Enterprise employees, govt and public institution workers	Rural residents and 16+ urban unemployed	Enterprise employees	Govt and other public institution workers	Employed and self employed in piloted areas
Contribution	16% of wage contributed by employers (to social account), 8% by	No fixed amount of contribution –	Employers and employees max 8% each, total	Employers 8% and employees 4%	Individual contribution, govt tax reduction

Features	First tier basic old-age insurance system		Second-tier supplementary old-age insurance system		Third tier
	employees (to individual account)	govt matches contributions	cannot be more than 12%		
Financing	Social account is PAYG, individual account is NDC[2]	Defined contribution	Defined contribution	Defined contribution	Defined contribution
Eligibility	15 years of contributions and reached "retirement age" (age 60 for men, 55 for female managers, 50 for other women)	15 years of contributions reached "retirement age" (age 60)	Reached 'retirement age', lose ability to work or migrate overseas		Retirement age or disability or major illness
When programme started	1997	2011	2004	2015	2010

[2] Notional defined contribution

Report

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Date: 22 September 2022 **Security Level:** IN CONFIDENCE

To: Hon Carmel Sepuloni, Minister for Social Development and Employment

Direct deduction and China's pension system

Purpose of the report

1 This report updates you on China's pension system and action we are taking under section 187 of the Social Security Act 2018 (the Act) to direct deduct China's Urban Employees' Pensions from New Zealand entitlements.

Recommended actions

It is recommended that you:

1 **note** that 'overseas pensions' (as defined in section 187 of the Social Security Act 2018) paid to superannuitants must be direct deducted from any New Zealand benefit

2 **note** that from 1 July 2022, Chinese Urban Employees' Pensions granted after 1 July 2012 have been subject to direct deduction

3 **note** that 1 July 2022 was the earliest possible date for direct deductions to begin based on our assessment of when the Chinese pension system commenced and when a person can qualify for NZS

4 **note** we are unable to estimate how many people are affected by this, as most will not yet be clients of MSD

5 s6(a)

6 s6(a)

7 **agree** to forward a copy of this report to the Minister of Foreign Affairs

agree/disagree

8 **note** that we will liaise with your Office and provide you with further supporting information as required.

22/9/22

Steven Bailey
Acting Policy Manager
Seniors and International Policy

Date

26/9/22

Hon Carmel Sepuloni
Minister for Social Development and Employment

Date

The direct deduction policy reduces overseas pensioners' New Zealand entitlements

1 For every one dollar a person is entitled to receive or receives from an "overseas pension"[1] defined in sections 187 – 191 of the Act their New Zealand superannuation (NZS) or other benefit payment is reduced by one dollar. This process is known as direct deduction. Further information on the direct deduction policy and which overseas payments this policy applies to is included in Appendix A.

The Chinese community is significant

2 The Chinese community is one of New Zealand's largest migrant communities, numbering 247,000 people at the 2018 Census. Approximately 36,500 Chinese born people receive New Zealand Superannuation.

China is developing its pension system

3 Up until the mid 1990s, China had a pay-as-you-go pension system which was administered by state-owned enterprises.

4 China has since developed a more regulated approach, adopting a three pillar pension system (Appendix B). We understand that at this stage the pension system has limited coverage.

MSD paused the deduction of Chinese pensions in 2002

5 Overseas pensions paid by state-owned enterprises are not deductible. Consequently, in 2002 we suspended direct deductions of Chinese pensions until we could undertake a thorough investigation of China's pension system. As a result of that investigation, we concluded that no Chinese pensions would be deductible until 1 July 2022.

6 We recently consulted international experts to confirm our earlier understanding and analysis of China's pensions system. The Organisation for Economic Co-operation and Development (OECD) confirmed that the description in Appendix B met the OECD's understanding of China's pension system.

[1] "Overseas pension" in this context includes certain pensions, benefits, or periodical allowances.

7 We have assessed these pensions in relation to s187 of the Act, outlined in Table 1:

Table 1: Assessment of China's pension system

	First tier basic old-age insurance system		Second-tier supplementary old-age insurance system		Third tier
Programme	Urban Employees' Pension	Basic Old-age insurance Programme for Urban and Rural Residents	Enterprise Annuity	Occupational Annuity	Individual Tax-deferred Commercial Pension Insurance Programme
Assessment of overseas pension status under s.187	**Overseas pension**: is a mandatory pension administered by the Chinese government	**Not an overseas pension**: it arises from voluntary contributions	**Not an overseas pension**: is not administered by the Chinese Government and arises from voluntary contributions	**Not an overseas pension**: is not administered by the Chinese Government and arises from voluntary contributions	**Not an overseas pension**: is a private pension and arises from voluntary contributions

8 This assessment indicates that only the Chinese Urban Employees' Pension should be treated as an "overseas pension" under s187 of the Act.

9 Only NZS payments granted after 1 July 2022 would be subject to direct deduction, as this is the earliest date from which individuals would simultaneously be:

- Eligible for payments under the Chinese Urban Employees' Pension, which started in 1997 and has a 15 year minimum contribution period for entitlement; and
- Could be entitled to New Zealand Superannuation, which currently requires 10 years residence in New Zealand.

10 We do not yet know the number of individuals impacted by this, as many will not yet be clients of MSD. However, this will not affect superannuitants who were receiving NZS prior to 1 July 2022.

We anticipate this may generate some interest

11 s6(a) [redacted]

12 [redacted]

13 [redacted]

14 s6(a) [redacted]

15 We have prepared key messages to respond should queries be received.

Consultation

16 We have consulted with the Department of Prime Minister and Cabinet, and the Ministry of Foreign Affairs and Trade.

Next Steps

17 We will keep your Office, the Ministry of Foreign Affairs (MFAT) and the Department of the Prime Minister and Cabinet informed of any developments.

18 We will liaise with your Office and provide you with further supporting information as required.

Author: (Sophie Murphy, Policy Analyst, International Policy)

Responsible manager: (Lynne Cousins, Policy Manager, International Policy)

Appendix A

The direct deduction policy and overseas pensions

1 For every one dollar a person is entitled to receive or receives from an "overseas pension" defined in sections 187 – 191 of the Act, their New Zealand payment is reduced by one dollar. This process is known as direct deduction.

2 An "overseas pension" in this context is not limited to pension payments. In the context of sections 187 – 191 of the Act, an overseas pension means a pension, benefit or periodical allowance that:

- forms part of an overseas programme that provides pensions, benefits and periodical allowances for any of the circumstances for which New Zealand benefits and pensions would be paid (including old age, invalidity, death of a spouse); and
- is administered by or on behalf of the Government of the country from which the pension, benefit or periodical allowance originates; and
- excludes an overseas pension or any part of it that has been gained from voluntary contributions made by the person.

3 MSD must deduct any overseas pensions that are deductible under section 189(1) of the Act.

The purpose of the direct deduction policy

4 The principle behind the direct deduction policy is that all qualifying New Zealand residents should receive an equitable level of social security coverage.

5 "Equitable" here means having due regard for the interests of both pensioners and taxpayers. This ensures that people who have resided overseas, and may have entitlement to overseas state pensions, are not advantaged over New Zealanders who have resided in New Zealand throughout their working lives.

6 People who have resided overseas are able to receive the full rate of a New Zealand benefit or pension even if they have not resided in New Zealand all their lives. New Zealand residents receive an amount equivalent to the amount of NZS. This may come from NZS, the overseas pension or a combination of NZS and the overseas pension.

7 The direct deduction policy is also underpinned by the "one pension principle", which means that a person should not be able to receive two forms of state financial assistance for the same or similar circumstances. For example, a veteran over the age of 65 cannot get both a Veteran's Pension and NZS, despite the fact that they may meet the qualifying criteria for both. This same principle extends to the treatment of overseas state pensions.

8 The policy also enables the New Zealand Government to share the cost of benefits and pensions with other countries.

Appendix B

China's pension system

19 The first pillar is a basic pension scheme, which is administered by the Chinese government. The scheme covers people in urban areas and involves a combination of a social pool and individual accounts. The social pool provides a basic pension of 20% of the average wage for all retirees. At present about 142 million people from all urban areas contribute to the scheme.

20 The second pillar comprises occupational pension schemes which employers offer on top of the pension contributions they make on behalf of their employees to the pillar one scheme. Pillar two schemes are not currently compulsory, but the Chinese Government does encourage enterprises to offer such schemes. Pillar two schemes are not administered by the Chinese Government.

21 Pillar three is individual savings. The Chinese Government gives incentives for individual savings through preferential taxation policies (usually by exempting tax from interest earned in retirement saving accounts). Pillar three is not administered by the Chinese Government.

22 There is also a special pension for workers in rural areas which gives only a very basic form of protection. The system covers approximately 82 million rural people, and pension payments are currently made to 0.5 million people.

Assessment of China's pension system

23 The International Social Security Association (ISSA) published a table describing China's pension system in the International Social Security Review Volume 74, Number 1 (early 2021), "*China's development of a multi-tier pension system*".

24 The Organisation for Economic Co-operation and Development (OECD) confirmed that the description in Table 1 met the OECD's understanding of China's pension system.

Table one: China's pension system

Features	First tier basic old-age insurance system		Second-tier supplementary old-age insurance system		Third tier
Programme	Urban Employees' Pension	Basic Old-age insurance Programme for Urban and Rural Residents	Enterprise Annuity	Occupational Annuity	Individual Tax-deferred Commercial Pension Insurance Programme
Mandatory/ Voluntary	Mandatory	Voluntary	Voluntary	Voluntary	Voluntary
Participants	Enterprise employees, govt and public institution workers	Rural residents and 16+ urban unemployed	Enterprise employees	Govt and other public institution workers	Employed and self employed in piloted areas
Contribution	16% of wage contributed by employers (to social account), 8% by employees (to individual account)	No fixed amount of contribution – govt matches contributions	Employers and employees max 8% each, total cannot be more than 12%	Employers 8% and employees 4%	Individual contribution, govt tax reduction
Financing	Social account is PAYG, individual account is NDC[2]	Defined contribution	Defined contribution	Defined contribution	Defined contribution
Eligibility	15 years of contributions and reached "retirement age" (age 60 for men, 55 for female managers, 50 for other women)	15 years of contributions reached "retirement age" (age 60)	Reached 'retirement age', lose ability to work or migrate overseas		Retirement age or disability or major illness
When programme started	1997	2011	2004	2015	2010

[2] Notional defined contribution

Memo

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

To: Vice Saletele, Manager Centralised Services

CC:

From: Steven Bailey, International Policy

Date: 30 September 2025

Security level: In Confidence

This memo may contain legal advice and be legally privileged. It should not be disclosed on an information request, without further legal advice

Updated assessment of the Chinese Pension system

Purpose

This memo sets out our updated assessment of the Chinese pension system and how Chinese pensions should be treated under s187 of the Social Security Act.

2022 Assessment of China's pension system

In 2022 our understanding of the Chinese pension system and deductibility of Chinese pensions was as set out in the table below:

	First tier basic old-age insurance system		**Second-tier supplementary system**		**Third tier**
Programme	Urban Employees' Pension	Basic Old-age insurance Programme for Urban and Rural Residents	Enterprise Annuity	Occupational Annuity	Individual Tax-deferred Commercial Pension Insurance
Assessment of status under s187	**Deductible**: is mandatory and administered by the Chinese government	**Not deductible**: it arises from voluntary contributions	**Not deductible**: is not administered by the Chinese govt and arises from voluntary contributions	**Not deductible**: is not administered by the Chinese govt and arises from voluntary contributions	**Not deductible**: is a private pension and arises from voluntary contributions

As the table shows, we determined that the 'Urban Employees' Pension' was the only pension that was deductible because it appeared to be the only mandatory pension in the Chinese system. We also determined that it was not possible to make voluntary contributions to Chinese pensions administered by the Chinese Government.

Updated assessment of China's pension system

Enterprise and occupational annuities are also mandatory

Our recent research indicates that the Enterprise and Occupational Annuities which are part of the second-tier supplementary old-age insurance system are also mandatory (the Occupational Annuity covers government workers and the Enterprise Annuity is the equivalent scheme for private sector workers). These annuities are now more commonly referred to as 'mandatory individual accounts'.

The key sources for this finding are the International Social Security Association (ISSA) and the OECD. According to ISSA[1] the Chinese 'basic pension insurance program has two components: a social insurance pension [the Urban Employees' Pension in the table above] and mandatory individual accounts [Enterprise and Occupational Annuities in the table above].' ISSA states that the individual accounts are mandatory for full-time and part-time employees in urban enterprises and civil servants and certain public sector employees.

ISSA's analysis of China's system is backed up by the OECD which states that 'China has a three-tier pension system, consisting of a basic/defined pension, a mandatory second-tier plan and a voluntary third-tier scheme'.[2]

The above also illustrates that the 'Urban Employees' Pension' is now generally referred to as the 'Basic Pension'.

Voluntary coverage is possible

According to ISSA some groups without mandatory coverage can now be voluntarily covered for both the basic pension and the mandatory individual accounts. This includes the self-employed, small business owners with no employees, part-time workers not covered through their employers and casual workers.

Updated summary of the Chinese pension system

The above points and our recommended treatment of Chinese pensions is summarised in the table below.

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[1] ISSA Country profiles: China [Country profile | International Social Security Association (ISSA)]

[2] Pensions at a Glance Asia/Pacific 2024

	First tier basic pension insurance (social insurance)		Second-tier basic pension insurance (individual account)		Third tier
Programme	Basic Pension	Pension schemes for non-salaried urban and rural residents	Mandatory individual accounts (Enterprise Annuity)	Mandatory individual accounts (Occupational Annuity)	Individual Tax-deferred Commercial Pension Insurance Programme
Assessment of status under s187	**Deductible**: Pensions arising from mandatory coverage of full and part-time urban employees and civil servants are deductible	**Not deductible**: Coverage is not mandatory	**Deductible**: Pensions arising from mandatory coverage of full and part-time urban employees are deductible	**Deductible** Pensions arising from mandatory coverage of civil servants are deductible	**Not deductible**: Private pension that arises from voluntary contributions

Voluntary pensions should not be deducted

Pensions determined by MSD to be attributable to voluntary contributions are not overseas pensions under s187 of the Social Security Act and should not be deducted.

The potential that a person has voluntary coverage will need to be considered when assessing all Basic Pensions and Enterprise and Occupational Annuities under s187.

Consultation

We have consulted with Legal Division.