

Income Streaming in Retirement

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Prepared by the Retirement Income Interest Group of the New Zealand Society of Actuaries:

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This work represents the collective personal views of the members of the group, and does not necessarily represent the positions of their employers or the New Zealand Society of Actuaries

Introduction



- This paper helps set the scene for policy work such as the forthcoming review of the viability of different approaches to the voluntary annuitisation of savings.
- Our aims for this paper are to:
 - Refine a shared understanding of ‘the decumulation problem’ which New Zealand faces
 - Briefly evaluate options by which New Zealanders could secure income in retirement and the risks inherent in those options
 - Identify useful contributions actuaries could make to help individuals and policy makers facing questions about income in retirement
- It is a first stage of synthesis and we have identified five key questions. We would like to check the level of consensus around these questions and identify unresolved issues that need more attention.

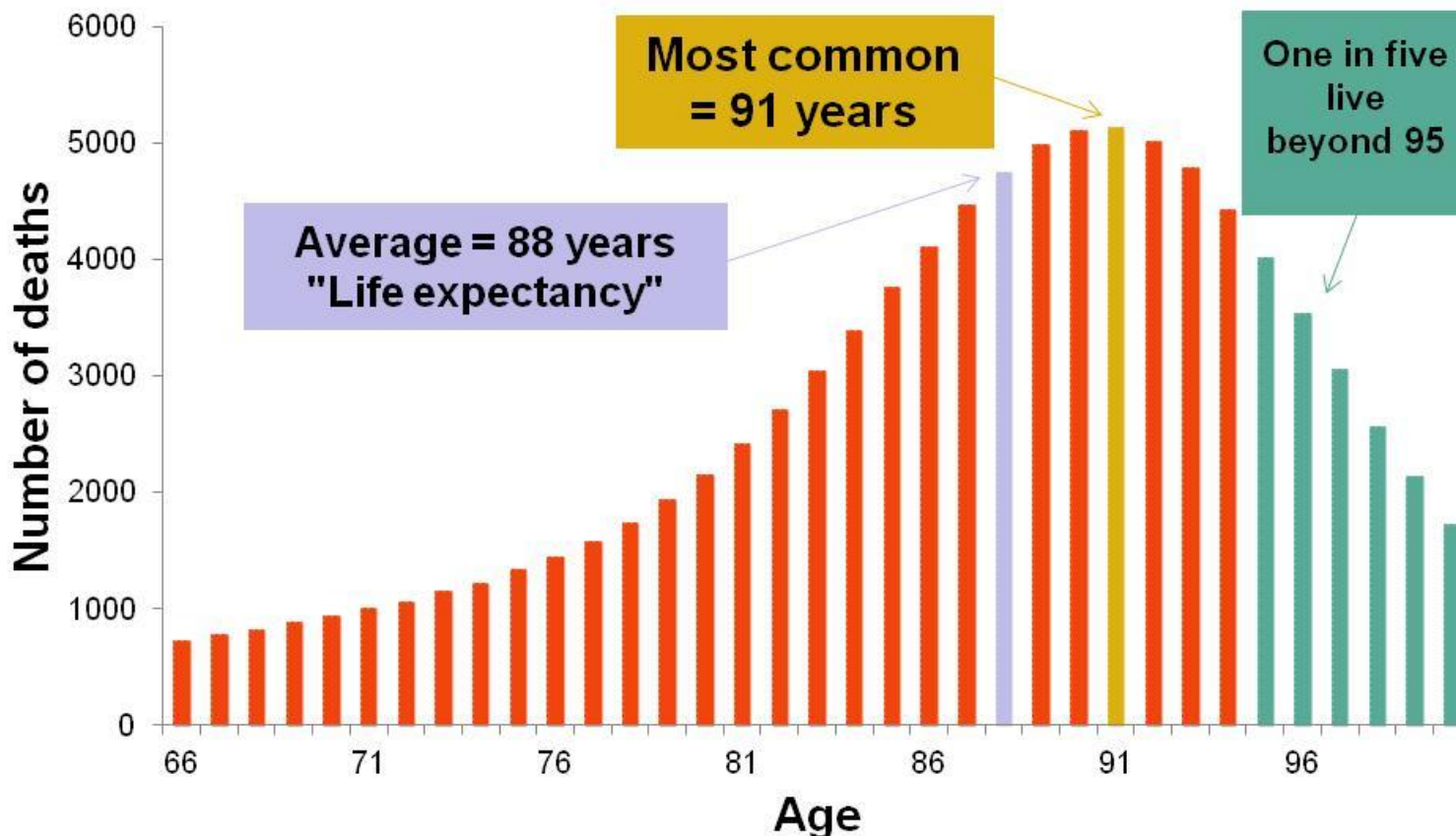
Because of different work, financial and health experiences, diversity is an inherent theme in retirement



Phase	Active Newly or Partly retired	Restricted Desire for independence	Frail Reduced independence
Finances	<p>Relatively high spending potential</p> <p>Desire to undertake new activities, eg travel</p> <p>Paid employment may be possible</p> <p>Capital at maximum</p>	<p>Spending on non-essentials may decrease</p> <p>Participation in travel and other activity reduced</p> <p>Practicality of employment limited</p> <p>Increased financial concerns</p>	<p>Spending on healthcare may increase</p> <p>May move into serviced retirement community</p> <p>Paid employment not practicable</p> <p>Capital may be depleted</p>
Health	<p>Good health</p>	<p>Health problems associated with ageing increase</p>	<p>Need for healthcare and nursing care may increase</p>

Uncertainty is another retirement theme

Estimated number of deaths at each age (from 65 to 100) for 100,000 female New Zealanders who reach their 65th birthday in 2014

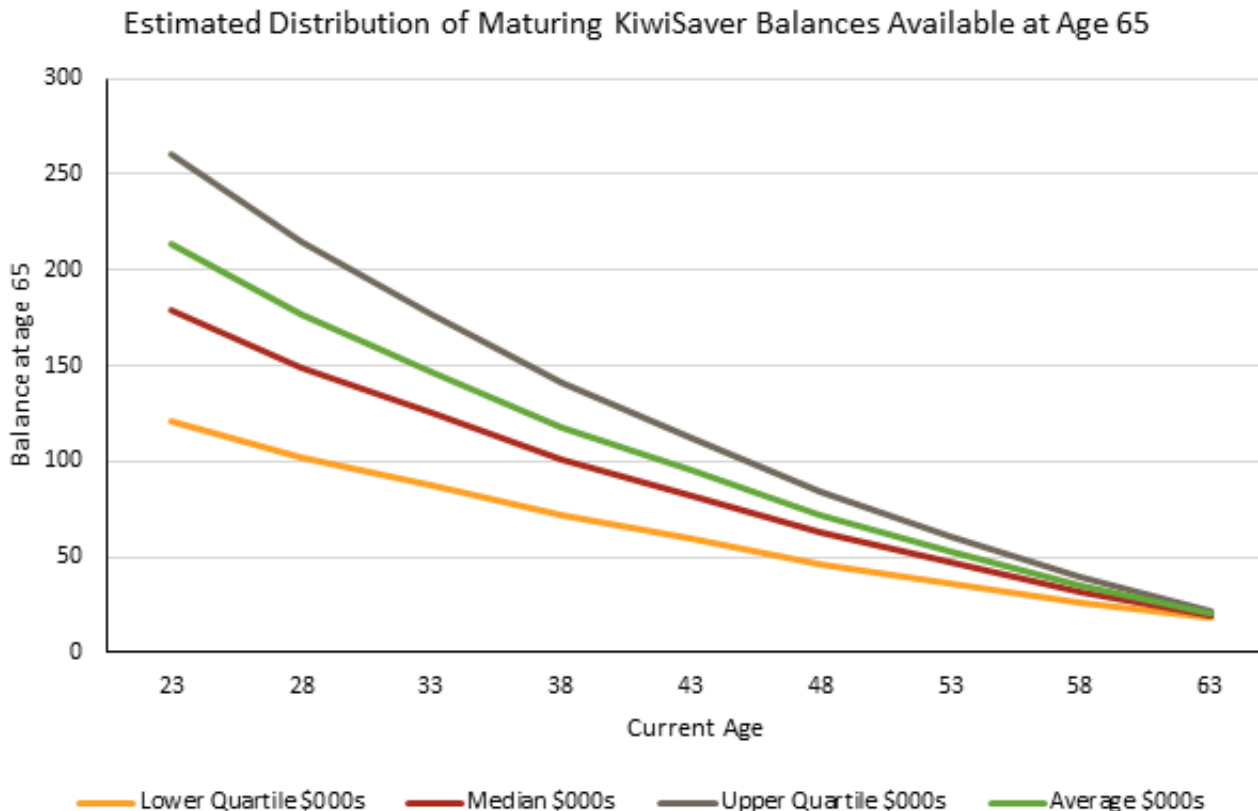


See O'Connell (2012) *Underestimating lifespans? Why longevity risk exists in retirement planning and superannuation policy*, Victoria University. Data from Statistics NZ cohort life tables using mortality assumptions in 2011-base population projections (median projection).

KiwiSaver is changing the retirement landscape



- We estimate about half of KiwiSaver members reaching age 65 in 25 years time will have a KiwiSaver balance of \$100,000 or more in real terms.
- This provides time for the market to innovate



Some suitable ways of using assets to provide income already exist in New Zealand



	Protection against longevity risk	Protection against mortality risk	Protection against credit risk	Protection against inflation risk	Protection against investment risks	Transparency	Simplicity	Personal effort	Liquidity	Flexibility	Portability	Cashflow streaming	Regulatory protection	Reasonable fees and costs	Availability of matching assets
Already available in NZ															
Managed drawdown	X	√	=	=	X	√	√	=	=	=	√	√	=	=	√
Do-It-Yourself drawdown	X	√	=	=	X	√	=	X	√	√	√	√	X	√	√
KiwiSaver drawdowns	X	√	=	=	X	=	=	=	√	√	√	√	√	=	√
Capital assured funds	X	√	=	X	√	=	X	=	=	X	=	X	√	=	√
Term deposits	X	√	=	X	√	√	√	=	=	√	=	=	√	√	√
NZ government bonds	X	√	√	X	X	√	=	=	√	X	X	=	√	√	√
Managed Income Funds	X	√	=	=	X	=	X	=	=	=	√	=	√	=	√
Rental property	=	√	X	=	X	√	√	X	X	X	X	=	X	=	√
Equity release	√	=	=	=	√	X	=	√	X	X	X	√	√	X	√
Life interests	√	X	=	=	X	=	√	√	X	X	X	X	X	√	√
Not currently available in New Zealand															
Annuity (nominal)	√	X	=/√	X	√	X	√	√	X	X	X	√	√	X/√	X
Annuity (inflation-linked)	√	X	=/√	√	√	X	√	√	X	X	X	√	√	X/√	X
Shaped annuities	√	X	=/√	=	√	X	=	√	X	=	X	√	√	X/√	X
Variable annuities	√	√	=/√	=	√	X	√	√	=	=	=	√	√	X/√	=

Notable exception is ability to purchase annuity



- Unpopularity is not unique to New Zealand, due to the risks of investing in an annuity compared to drawdown.
- Barriers to a private annuity market in New Zealand include taxation, small market size and a lack of suitable matching assets
- New Zealand Super already provides an annuity for nearly all New Zealanders, but a greater level of secure income may be appreciated by some
- The Government may be the only feasible provider of fully guaranteed annuities in New Zealand

Critical question: How can an individual put together an appropriate mix of solutions?



- No single product can offer all of the desired features that all retirees wish for
- As people move through retirement phases their capacity to manage products is likely to fall and their need for capital for healthcare costs, etc increase.
- Practical and relevant financial guidance will become even more critical
- Simple guidance and rules of thumb could be helpful, for example *“keep up to \$100,000 above NZ Super in a liquid form, such as KiwiSaver or term deposits”*

Key questions for debate



1. In what circumstances are annuities preferable to drawdown or simply investing for income?
2. Would it be possible for the New Zealand market to provide annuities? If so, what changes are needed?
3. Should the proposal of a full state-provided voluntary annuity solution be developed further? If so, what are the critical issues?
4. How might strategies change during retirement as the potential impacts of the key risks – including longevity, mortality, credit, inflation and investment – change?
5. Given the diversity of needs and the uncertainties inherent in the retirement phase, what can be done to give New Zealanders more guidance on options for managing savings in retirement?