

# **Decumulation retirement savings: making the options work**

RPRC Auckland University, 21 November 2014

## **Workshop session: 1**

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*Opening statement:* There is a problem (or a problem that we will be facing in the future) of income security for middle income NZers with modest lump sums on retirement and uncertain life spans. Some form of annuity/income product would be a welcome addition to existing choices of drawn down products.

Report back under the headings of **needs; barriers; and solutions.**

### **Needs for middle-income NZers**

- Not a great need for other annuity products – NZ Super is a great annuity
- With increasing size of KS lump sums, there will be a need to have an annuity product available
- People need NZ Super x 2 for a comfortable retirement
- Longevity risk
- Degree of income security
- Middle income group have an issue
- Need to build in inflation protection
- Risk of fraud higher with lump sums and lower with an annuity type product
- People are not saying (to Grey Power) that this is a problem, members do not have a lot of money
- Health costs
- A principal concern is a lack of capability (comprising opportunity, knowledge, skills etc) including cognitive decline, which can lead to vulnerability

### **Barriers**

- Failure of education, KS not going to solve problem
- Government getting a good return from TTE tax system, in the UK it is EET
- Risk of poor financial decision making
- Cultures that have an obligation for children to look after parents
- Lack of financial capability
- Lack of AFAs
- Lack of profitable work for AFAs
- Not having products that solve longevity risk
- Self-selection of annuity buyers/adverse selection for providers
- NZ Super is indexed to wages rather than inflation
- Provider (of annuities) risk is huge
- People are infinity variable
- How much education sticks
- Government has put financial education on private sector, with KS member education requirement
- TTE means paying down mortgage is more beneficial than saving for retirement
- Tax treatment is a major problem

### **Solutions**

- Advice provided by digital means
- Financial literacy provided throughout lifetime
- Spending patterns in retirement, mirrors a non-inflation adjusted annuity
- Likes NZ Income Guarantee product plus long term care add-on

- Government only solution
- UK guidance is non-product based
- 30 firms in NZ provide fee base advice
- State solution
- A voluntary state agency
- More education
- Need for an annuity product, with Government only feasible provider
- There was strong resistance to state control or direction but also strong support for this statement: "the only feasible provider is the state, as long as what is offered is not tax subsidised, not compulsory and broadly fiscally neutral (ie taking into account the costs of health care attributable to the ageing population)"