Decumulating retirement savings: making the options work 21 November 2014

Notes from workshop 2 – leader Judith Davey

Problems

- Insufficient savings – KiwiSaver (KS) as a government response to this.
- People coming up to age 65 (in very large numbers) and receiving large lump sums from KiwiSaver, find it hard to decide what to do about money management, given uncertainty and risks (possibility of another GFC). They have to change their approach to investment, moving from accumulation to management and decumulation.
- Rising expectations of living standards in retirement and longer periods in retirement linked to increased longevity.
- Decline in annuity market linked to increased longevity, also low interest rates.

Needs

- Middle income people will need a supplement to NZS to achieve desired lifestyles, probably double NZS.
- Ensuring that money lasts out over a longer life. In retirement people are not able to replace money spent or lost.
- More variety in options available for management of income and assets in retirement. Inertia leads people into bank term deposits, also for safety as a reaction to the GFC. Money should be made to work harder than this to meet income needs.
- Lack of knowledge about options, especially annuities.
- More people entering retirement with housing and other types of debt. Need to address this situation.
- **Advice** – major need – who will provide it? Not enough people to meet the need and a question of credibility. People do not want to pay for advice, but requirement to disclose commissions will increase cost if people want totally independent advice. Up to now focus for financial advisers has been on accumulation.

Suggestions:

- Likely that KS providers will encourage people to leave their money in the schemes – moving into investment programmes. These providers may also become the main sources of advice for people.
- Robo-advisers – robots are becoming acceptable in many situations e.g. rest homes and medical diagnosis.
- Web-based advice – SORTED well respected.
- Sharing advice – apparently done in retirement village situation. One person pays for advice and then shares.

Role of government

Government acted on accumulation stage by creating KiwiSaver, now action needed in the decumulation stage.

- There is concern about the future of NZS – age of eligibility, indexing, adequacy. Government needs to reassure people.
- Increasing age of eligibility for NZS will encourage people to stay in paid work longer – useful income supplement. But there is a question of whether this is by choice or of necessity (precarious work).
- Taxation settings will affect decisions about where to invest, this must be recognised and analysed.

Options

- Government not seen as an annuity provider apart from NZS.
- Buying an annuity at age 65 using KiwiSaver lump sum likely to be acceptable.
- Deferred annuities useful to come in at older ages after investment for accumulation in early years of retirement.
- Collective defined contribution scheme (Dutch pension yacht – mentioned by Jeremy Cooper) now being considered in the UK.

Annuities cannot solve all problems.