

Decumulating retirement savings: making the options work

RPRC Auckland University, 21 November 2014

Plenary notes

Chair: David Boyle

Managing income in retirement:

NEEDS

- There was a degree of consensus. Emphasised that it's the middle that we're talking about.
- Middle income decumulation group – in addition to savings they have many other assets e.g. housing, family, aspirations, distributions of health ie diversity.
- More people entering retirement as renters or with mortgage or other debts.
- A risk of no returns to Government on their contribution to KiwiSaver.
- Potential for the cost of residential care falling entirely on the tax payer.
- Problem of people having insufficient saving, and middle income earners want/need to add to their accumulation after age 65.
- Once people come to retirement they have to change their viewpoint from accumulation to decumulation – and that is difficult.
- Stress on income in retirement, health, housing
- Plus: increasing demand for higher standard of living in retirement, and receiving lump sum from KiwiSaver.
- Ageing tends to an increasing lack of cognitive capability, a potential vulnerability.
- Concern over ability to manage risk eg Is there going to be another GFC?
- Need to ensure the money lasts over a longer life, without knowing how long ie uncertainty
- Lack of knowledge in this group. Want information to come from a trusted source.
- Want or need advice, so how do they receive it, eg internet, and from whom?
- There is a shortage of Financial Advisors, there is no guarantee of their credibility, and people don't want to pay for advice.
- Retirees have no way of replacing money at risk.
- Need security, peace of mind, flexibility, financial literacy
- Advice through work place, financial literacy programmes in schools, on the internet.
- How to reach the right people with this information to create a sense of security.

BARRIERS

- Lack of access to trusted advice, although numerous advisers at fee for service
- People with low amounts of net worth.
- Lack an active market for annuity and other decumulation products
- Suggestion of instituting a default annuity scheme.
- Question regarding portability of annuities.
- Family trusts not seen as a good source of managing funds
- Inflation risk, credit risk, longevity risk etc
- Tax treatment uncertain, and this can effect where people invest.
- Lack of tax breaks on savings for retirement.
- Government needs to provide more certainty eg around increasing NZS eligibility age
- Intergenerational equity: fewer young workers.

SOLUTIONS

- General feeling more investment in education required.
- Dilemma: is the state the only feasible provider of annuities; or, should we rely on the market to provide products and services, and innovation.
- Is compulsion to annuitise retirement savings required?

- Little support for a State-provided annuity scheme.
- People can continue with KiwiSaver provider to a draw-down product
- Support for a deferred annuity scheme, but this won't solve all problems.
- Example: Netherlands collective scheme. Managed fund with no guarantor, no individual accounts. The pooled sum provides an average income plus 2% for the rest of life. Australia and UK are discussing a similar scheme.
- Example: UK also has a 'defined ambition' scheme, a new category of risk sharing pensions with more certainty for individuals regarding pension income, and less variation in costs for employers than DB pension schemes.
- Financial literacy option: pre-retirement, automatically deposit pay rises into savings.

General comments:

- We should be proud of NZS and Kiwisaver
- General belief is that people are not saving 'enough', but the evidence is conflicting.
- Wider recognition of resources available. There is a genuine change in outlook eg draw on housing asset to pay for own long term care; multiple forms of equity release.
- Canada scheme since 2004: rental income from sharing own property is tax-exempt.
- Advisors are needed to assist middle income earners in managing their financial situation.
- Sources for advice: combination of face to face, work place, on line, schools.
- Need for improved consumer knowledge on where to access reliable advice and information, useful strategies and options for decumulation, understanding of their changing needs over the different phases of retirement.