

**TOR**   
Financial Consulting Limited

# Acting Local Thinking Global: Pension Reform Findings and Lessons for New Zealand

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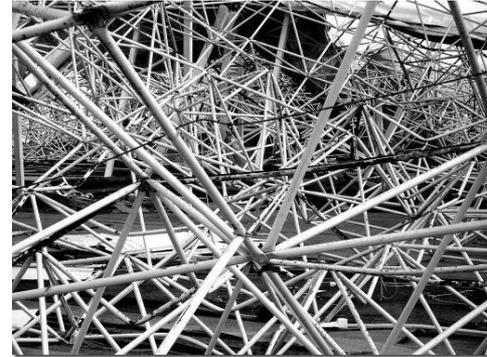
Retirement Policy Research Centre

University of Auckland, New Zealand  
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# Outline

- New Zealand – State of Play
- Nordic Countries – Denmark and Sweden
- UK and Irish Pension Reform Experiences
- US Trends – Trump Presidency
- Brexit – Implications for Pension Reform
- Housing and Long Term Care – Pension implications
- Some references for New Zealand's Future Pension Reform

Frontier



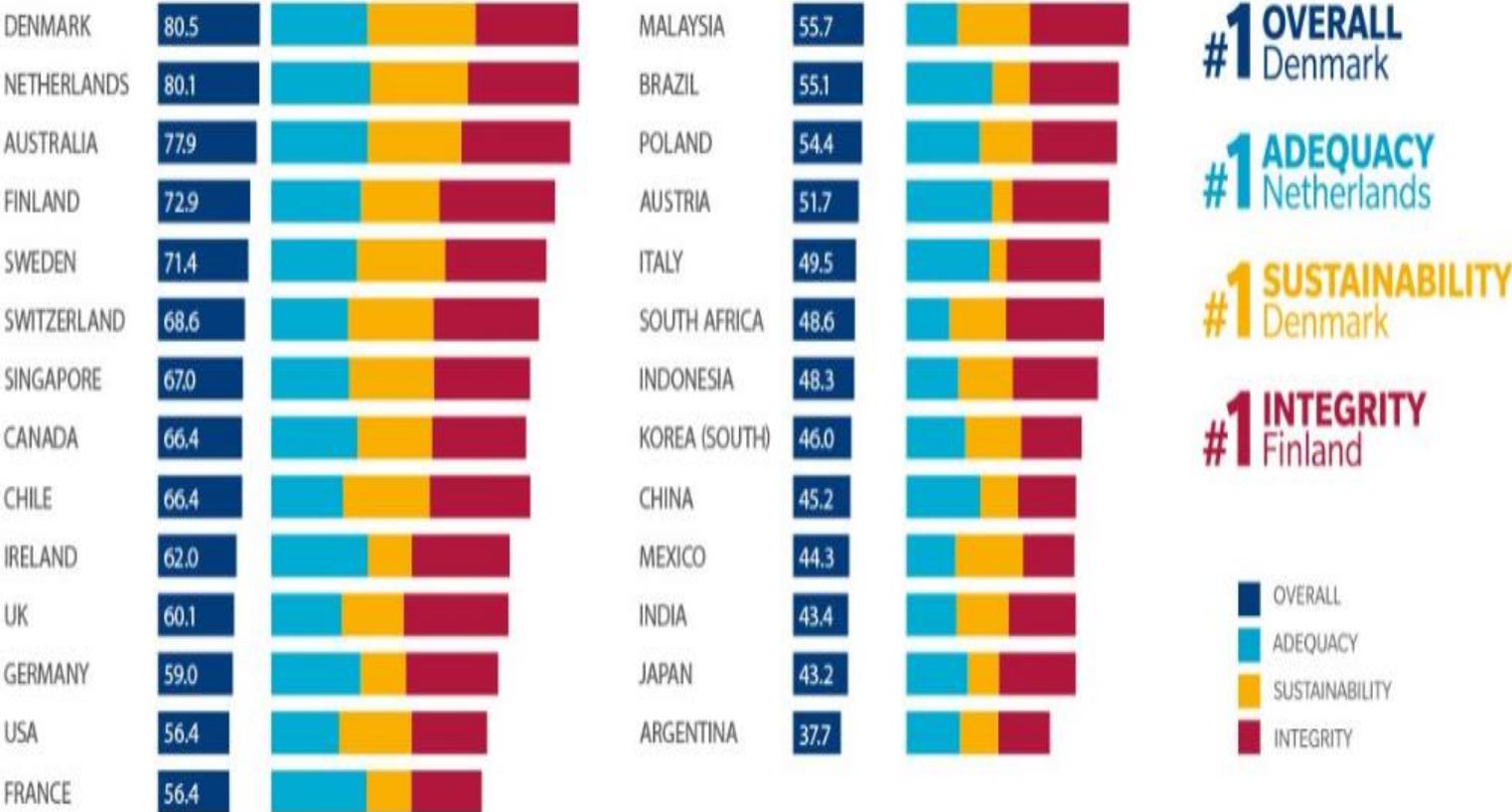
# New Zealand Retirement Framework



- New Zealand's retirement framework – 'satisfactory for the current generational profile' – fit for purpose NOW.
- New Zealand's future generations – ageing and immigration: less certainty
- New Zealand Superannuation – Comparatively Generous First Pillar
- KiwiSaver – second pillar: contribution and coverage > opt out
- Pillar 3 – Mutual Fund and Individual Savings Products
- Taxation approach – level playing field: reward for deferred consumption
- Comparatively high fees and charges – investments: Vanguard as a Case Study passive investment
- Retirement Income Policy – recognition of longevity risk – living too long rather than dying too soon
- Housing – Pillar 4 (p4) – enormous growth in buy to let/investment property
  - Housing Affordability
- Medical Treatment – Collective vs Individual > Social Equality and Fairness
- Long term care – sharp growth in Dementia and Public/Private Sector Funding – Budget Blow Out
  - Quality of Care
- External forces – Political, Economic and Defence Considerations

# Mercer Global Pension Index 2016

2016 Rankings: How Did Each Country Fare?



# The Danish Pension System – 3 Pillar System

## Pillar I



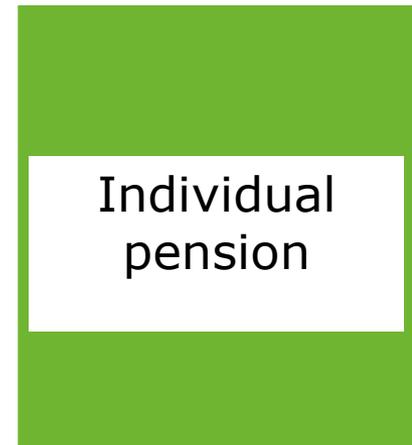
- Means-tested
- **Pay as You Go**
- No freedom of Choice

## Pillar II



- **Collective bargaining**
- mandatory
- **DC**
- Fully funded

## Pillar III



- **Individual needs**
- Self-financed

# Danish Dashboard Screenshot

OVERBLIK

PENSION

SYGDOM OG DØD

SE ALLE AFTALER

HENT RAPPORT



## Dine pensioner

### Nuværende pensionsopsparinger

Industriens Pension		323.190 kr.
PensionDanmark		507.324 kr.
Danske Bank		72.000 kr.
ATP	<a href="#">Se forklaring</a>	
Folkepension	<a href="#">Se forklaring</a>	

[? Se forklaring](#)

Udbetalinger det første år  
hvis du går på pension, når du er

67 år

335.156 kr.

Før skat

[FÅ DET FULDE OVERBLIK →](#)

[?](#) De viste pensioner er et skøn baseret på bl.a. dine fremtidige indbetalinger og den fremtidige rente

# The Nordic Countries - Sweden



- 1990s Government Inquiries - recognition that the generous, post war, PAYG model was unsustainable economically and socially
- National Retirement Pension: 16% contributions diverted into Notional PAYG pension in the first pillar. 2.5% contributions into individually managed DC retirement accounts – Premium Pension Account
- Since 1999 revised system has seen growth in partially funded and PAYG system – public acceptance/high default rates post Tech crash: 2001
- Second pillar Nationwide Collective Bargains – compulsory 4.5% contributions into Blue Collar, Government Workers and Municipal Workers and White Collar occupational pension schemes
- Private Pensions – Tax incentivised voluntary arrangements
- Dashboard development – snap shot of complete pension position for Swedish workers
- Transition away PAYG First pillar solutions to more fully funded, replacement rate orientated, compulsory occupational solutions
- Acceptance of longevity risk – annuities and hybrid solutions
- Need to maintain economic competitiveness
- Education and engagement in support of these pension solutions



# UK Pension Reform Progress

- Auto Enrolment – now staging smaller employers – late payments and compliance rates – increasing and deteriorating: 1% employer and 1% employee
- Contribution rates need to increase to 4% employee 3% employer and 1% government contribution by 2019
- Broadly speaking a 10% opt out rate with 3 year re-enrolment
- Replacement rate generated is inadequate – accelerated decline in DB > BHS
- Complexity and emphasis on payroll providers and limitations – no central IRD like hub
- Soft compulsion > Pension Freedom/Measure of Success – What is Success?
  - Cars, Caravans, Conservatories and Cruises
  - Increases in tax revenues
  - Sharp decline and slight increase in annuity sales
  - LISA – non pension solutions: HMT vs DWP
- Growth in Humanoid/Roboadvice and HMT argument for a Fintech Dashboard
  - Financial Wellness



# Irish Pension Reform Progress – NZ References

- First pillar PAYG – arguments that it is unsustainable in the long term
- Sharp decline in DB schemes – movement to DC solutions
- Legacy of the Global Financial Crisis – 12% pension assets in cash
  - Dublin property surge
- Only 30% coverage of occupational pensions in the private sector 50% including the public sector
- OECD Report 2013 – awaiting a government response. The report recommended hard compulsion – Australia and Switzerland or soft compulsion – UK and NZ
- Industry preparedness for a likely operating framework – Minister favouring AE and learning from international experiences
  - NZ – Hub solutions, default considerations, public acceptance
- 148,000 pension funds – similar overall population to New Zealand
  - Pension Simplification before reform

# US Trends – Trump Presidency



- Popularism and unfilled political appointments limiting reform options - Election White House vs Public Policy White House
- Vague on social security reform – need for Medicare and Health Care reforms
- Regulation – starved of resources and budgets
  - Self funded entities – SEC
- Fiduciary rule – advisory disclosure (at retirement) > retreat from the Obama regulations
- Dodd Frank Act – repeal
- 401(k) growth and continued tax incentives
- State Retirement Funds – relaxation in ERISA being challenged
  - Growing coverage for Small Business on a State and City Level
  - Auto Enrolment - IRA

# Brexit – Pension Implications



- UK has called Article 50 and Election for June 8<sup>th</sup> – Mandate for Brexit
- EU still dealing with the implications of Brexit – deter other members from following > GBP60 Billion, GBP35 billion or GBP5 billion for the UK
- Cross Border Pensions – Pan European Pension being rethought for multinationals
- Greater exchange rate and investment risk – global trend
- Bilateral trade with Commonwealth countries – Hard or Soft Brexit
- UK nationals and EU citizens – First pillar pension impact
- Division between PAYG, unfunded European solutions – solidarity and Anglo-Saxon: more fully funded solutions
- Enormous work on financial services regulation - realignment

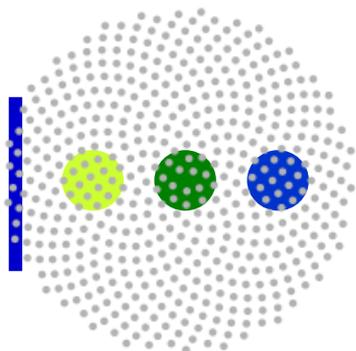
# Housing and Long Term Care



- Strain for younger workers to afford housing – need to borrow from retirement accounts
- Other cohort – women, middle aged divorce and large houses having lower average occupancy – need to rethink housing structures and communities
- Synthetic annuities – investment properties by affluent Baby Boomers and Generation Xers responding to low interest rate returns - prolonged
- Poor wage growth in major OECD countries
- 'Elephant in the Room' – Long Term Care and growing deaths associated with Dementia - UK Mortality rates
- Insurance market is unwilling to participate again in LTC solutions – high risk/genetic therapies – longevity risk
- Community based LTC projects seen in The Netherlands and Sweden that bring together young families – property ladder, retirees and low, medium and high dependency elderly
- Need for Government dialogue and creative initiatives

# NZ Future Pension Reform Frontier

- Global comparisons in detail, with econometric modelling, on the future of the overall retirement framework – fit for purpose for younger workers
- Dashboard development to allow consumers to view their complete retirement outlook
  - Modelling
  - Tools
- Growth in robo or humanoid advice
- Housing and Long Term Care – consideration for all aged cohorts
- Brexit and US Trump uncertainty – economically and financially
- Innovative retirement income solutions to offset longevity risk
- Replacement, Contribution and Coverage Rates – ideal level for the medium and long term
- Economic performance, solutions and composition of society - immigration



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