Acting Local Thinking Global: Pension Reform Findings and Lessons for 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?

Denmark: 80.5
Netherlands: 80.1
Australia: 77.9
Finland: 72.9
Sweden: 71.4
Switzerland: 68.6
Singapore: 67.0
Canada: 66.4
Chile: 66.4
Ireland: 62.0
UK: 60.1
Germany: 59.0
USA: 56.4
France: 56.4

Malaysia: 55.7
Brazil: 55.1
Poland: 54.4
Austria: 51.7
Italy: 49.5
South Africa: 48.6
Indonesia: 48.3
Korea (South): 46.0
China: 45.2
Mexico: 44.3
India: 43.4
Japan: 43.2
Argentina: 37.7

#1 Overall: Denmark
#1 Adequacy: Netherlands
#1 Sustainability: Denmark
#1 Integrity: Finland
The Danish Pension System – 3 Pillar System

Pillar I
- Old age pension
- Means-tested
- Pay as You Go
- No freedom of Choice

Pillar II
- Occupational Pension
- Collective bargaining
  - mandatory
- DC
- Fully funded

Pillar III
- Individual pension
- Individual needs
- Self-financed
Dine pensioner

Nuærende pensionsopsparinger

<table>
<thead>
<tr>
<th>Pension</th>
<th>Opsparen (kr.)</th>
</tr>
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<tbody>
<tr>
<td>Industriens Pension</td>
<td>323.190 kr.</td>
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<tr>
<td>PensionDanmark</td>
<td>507.324 kr.</td>
</tr>
<tr>
<td>Danske Bank</td>
<td>72.000 kr.</td>
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</tbody>
</table>

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

Se forklaring
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 8th – 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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