

Retirement incomes

What should we be talking about?

Michael Littlewood

Retirement Commissioner's reviews

- The latest in a long line:
 - 1992 Task Force on Private Provision
 - 1997 Periodic Report Group
 - 2003 Periodic Report Group
 - 2007 Retirement Commissioner's Review
 - 2010 Retirement Commissioner's Review
 - 2013 Retirement Commissioner's Review
 - 2016 Retirement Commissioner's Review
- The government's March announcement

My road to Damascus



New Zealanders' under-saving?

- No more saving needed by:
 - “majority of people in the lower income brackets”
 - wealthy individuals and couples
 - Overall 60% of individuals and 33% of couples
 - On “more ‘realistic’ assumptions” proportions rise to over 70% of non-partnered individuals and one half of couples
- More saving needed by “about one third of the population”

Source: *Are Kiwis saving enough for retirement? Evidence from SOFIE (2007)* by Trinh Le, Grant Scobie and John Gibson, New Zealand Economic Papers

Is KiwiSaver 'working'?

Year	Total financial assets	KiwiSaver	KiwiSaver as % total
2009	\$454 bn	\$2.6 bn	0.59%
2010	\$482.3 bn (+\$28.3 bn)	\$5.9 bn	1.22%
2011	\$503.2 bn (+\$20.9 bn)	\$9.2 bn	1.83%
2012	\$543.6 bn (+\$40.4 bn)	\$12.7 bn	1.43%
2013	\$561.3 bn (+\$17.7 bn)	\$16.6 bn	2.96%
2014	\$594.3 bn (+\$33.0 bn)	\$21.4 bn	3.60%
2015	\$618.0 bn (+\$23.7 bn)	\$28.5 bn	4.61%
2016	\$629.3 bn (+\$11.3 bn)	\$33.8 bn	5.37%

Sources: Reserve Bank household balance sheet data; FMA KiwiSaver reports

Too much in housing?

- Data limited and dated
- 2006 NZ SoFIE:
 - Primary residence - 40.1% of gross assets
 - Other real estate – 11.2%
- 2006 Australia HILDA:
 - Primary residence - 42.6% of gross assets
 - Other real estate – 18.0%
- 2007 UK – around 40% of net is ‘housing wealth’

Note: RBNZ household balance sheet data show 54% of gross assets in housing and land (December 2016)

Home-ownership falling?

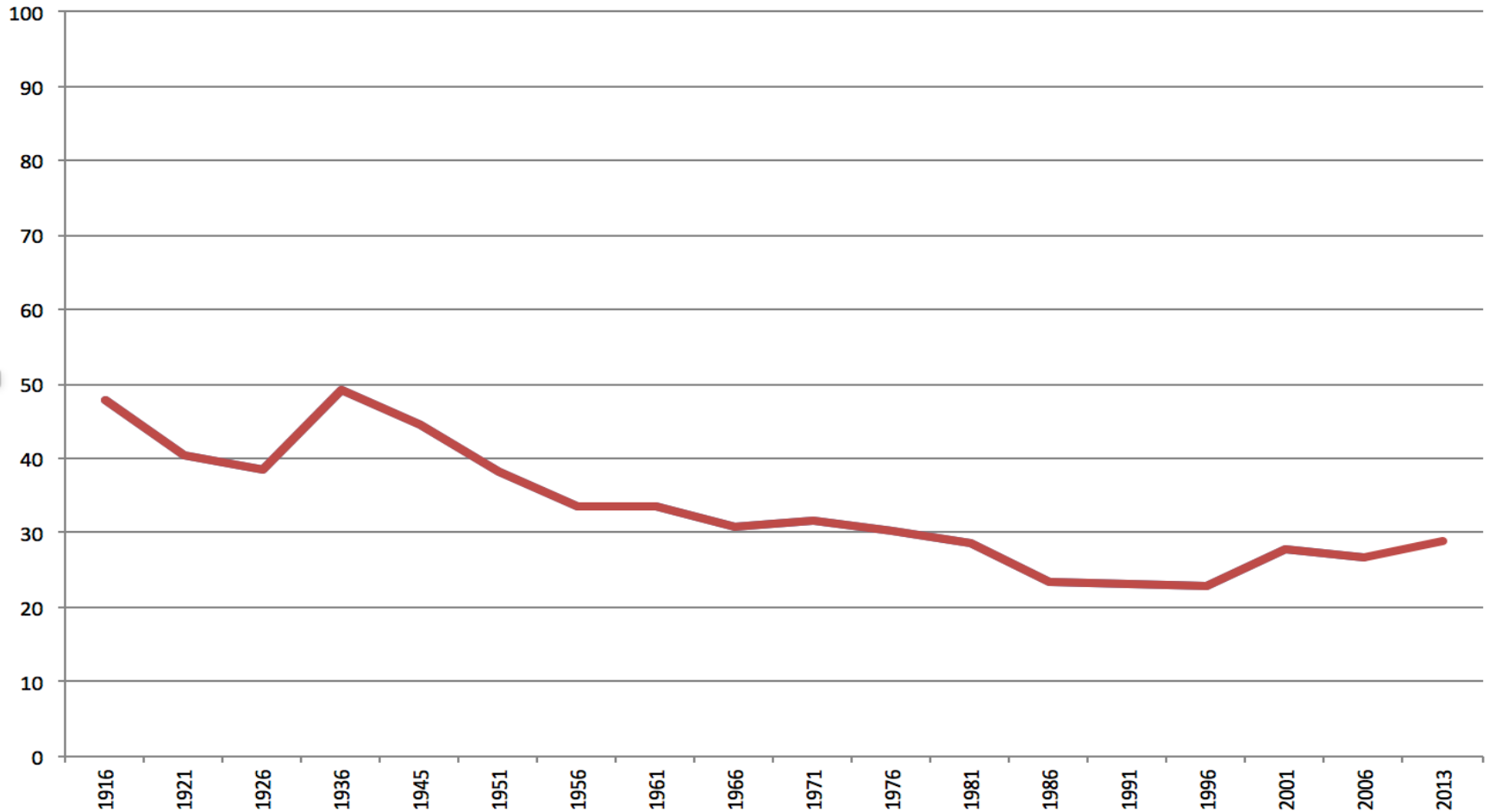
Census 2013 most recent data

1,756,143 dwellings

- 10.6% unoccupied (185,448)
- 10.2% DNA (178,305)
- Total DNK = 363,753 (20.7%)
- Of the 1,392,390 that answered (79.3%), 60% said they 'owned' the home
- 'Peak ownership' – 1991: 73.6%, but:
 - Only 3.4% DNA

Renters - an alternative view

Proportion paying rent 1916-2013



Source: Census 2013

New Zealanders have too much debt?

September 2016

Households' net assets: \$1,214 bn

Households' total liabilities: \$173 bn

Households' gross assets: \$1,387 bn

Debt to gross assets: 12.5%

Source: Reserve Bank's *Household balance sheet, Table C22*

NZ Superannuation unsustainable?

- Before 2037 changes:
 - Current net cost 4.2% GDP
 - 2060 net cost 7.1% GDP
- After 2040, net cost about one tenth less
- OECD average today (2011): 7.3% of GDP

Source: New Zealand Treasury NZS Fund Contribution Rate Model, 2016;
Pensions at a Glance 2015, OECD;

NZ Super Fund helps?

- The cost of any retirement benefit scheme, public or private; lump sum or pension; defined benefit or defined contribution is....
- The benefits paid
- The NZSF will not change the cost of NZS by \$1
- The NZSF will slightly alter the **incidence** of that cost
- Average contribution across period 2036 to 2116 (80 years) is about one tenth of NZS

Littlewood's lessons

(what I have learned)

- Governments can't force/encourage citizens to save more than they want
- So, tax breaks don't work
- Compulsion really doesn't achieve much
- The more rules there are, the more will be needed
- The 'law of unintended consequences' rules
- 'Cui bono' – who benefits?

So what should governments do?

- Reduce or eliminate poverty in old age
- Regulate to enforce codes of conduct (disclosure; tax)
- Produce impeccable, deep data
- Run information and education programmes (school, work-based, public)
-and then, stand aside

How does New Zealand rate?

- Poverty levels amongst the old are amongst the world's lowest
- New Zealanders seem to be saving enough for retirement
- KiwiSaver was a costly, probably unnecessary intervention
- The New Zealand Superannuation Fund has done passably well, but is fiscal window-dressing

The government's March decisions

- State pension age increases from 65 to 67 between 2037 and 2040
- 10 years' residence for NZS will be 20 years
 - Average in OECD is 26 years
- “...to improve its long-term fairness and sustainability.”
- NZSF contributions will resume in 2021
- Review in 2030
- It's about politics, not superannuation

New Zealand Superannuation

- Universal or means-tested?
- State pension age, currently 65
- Minimum residency period, currently 10 years
- Couple's rate
- Revaluation basis
- Pre-funded or PAYG (the role of the Superannuation Fund)?
- Single rates – living alone and sharing
- Overseas pension deductions (section 70)
- ACC relationship
- 'Approved' absences overseas
- 'Hospital rate'
- Pensions to overseas residents
- Review process
- Transition period to new arrangements

If I had the policy tiller

- Dismantle the NZSF and repay debt (\$34 bn)
- Free-up KiwiSaver restrictions – early access; no compulsory employer contributions; more default providers
- Tax all ‘income’ appropriately (eliminate PIEs and other ‘final’ tax payers such as trusts, super schemes)
- Start a longitudinal study of household wealth
- Improve labour-market data
- Improve poverty data
- Change the review process

These are all things only a government can do

Things I wouldn't worry about

- Citizens behaving 'sensibly'
- Governments telling employers how to pay employees
- 'Inter-generational equity'
- The 'silver tsunami'

What should we talk about?

- We must discuss NZ Superannuation – that hasn't happened
- Today's savers need the clearest possible picture of tomorrow's NZS – we don't have that
- We need more and better information about how citizens are responding
- ...not to say that NZS will or needs to change but to allow savers to assess the risks of a lower (or higher) amount

In the end...

- The annual amount of NZS in 2037 will be:
 - The total amount that 2037 taxpayers decide to spend on income for the old in 2037
 - Divided by the total number of old people entitled to receive it in 2037
- Nothing that today's savers, taxpayers or politicians do or promise will have any effect on that calculation
- The same will be true in 2066, 2086 and 2106

In summary

“A politician is an animal which can sit on the fence and yet keep both ears to ground.”

H.L. Mencken