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RPRC Update

Retirement Policy and Research Centre

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NZ Dementia Summit 2015

Te Papa, Wellington

RPRC's Dr M. Claire Dale and Associate Professor Susan St John presented in a session with David Grimmond of Infometrics and Laurie Hilsgen of Carers New Zealand on 'The Economics of Care' at the NZ Dementia Summit 2015, 5-6 November. Jointly hosted by the NZ Dementia Cooperative, Alzheimers NZ and Carers NZ, the Summit drew together health professionals, service providers, government officials, educators, researchers and people affected by dementia to share their experience and expertise. Participants discussed local and national initiatives, and identified enablers and barriers to better outcomes for people affected by dementia. All Summit presentations are available here.

New Zealand's population is ageing significantly with rapid increases in the younger group aged 65+ as the baby boom generation (born 1945-1965) enter retirement. Dale and St John's presentations explored the implications of the ageing of the population for the care industry. The need for care services, both paid and unpaid, will increase dramatically. The supply of trained caregivers is on track to fall well short, while on the demand side the willingness to pay adequately for care services or to support unpaid care will be constrained by fiscal considerations.

A 2015 report from the Ministry of Health shows independent life expectancy has not kept pace with the increase in life expectancy. The incidence of dementia increases exponentially with increasing age, doubling with every 6.3 year increase in age, from 3.9 per 1000 person-years at age 60-64 to 104.8 per 1000 person-years at age 90+. The Ministry of Health estimates approximately 48,000 dementia sufferers in New Zealand currently, of whom the vast majority are in the community assisted by formal or informal careworkers. By 2026, the number of people suffering from dementia is projected to increase by more than 60% to over 78,000.

Over recent years, the health care and social assistance industry has overtaken manufacturing to become the largest industry by employed numbers in New Zealand, employing one in ten workers or nearly 192,000 people. This industry growth has been driven primarily by the increasing numbers of children attending child care and by population ageing. Careworkers of the aged are themselves an ageing cohort. Whether under-paid or not paid at all, they are unlikely to be well prepared financially for their own retirement.

There is little national debate about ageing pressures and how to pay for them in the future. Both major political parties have ruled out changes to NZS. Fiscal policies to improve the scenario include more austerity for working age people as services are cut, costs of tertiary education are pushed more onto the loans scheme, Working for Families is scaled back and welfare benefits fall further behind. Long-term fiscal projections sound warnings that demographic change will drive the need for increased government spending. A reluctance to increase the tax/GDP ratio may force more cutbacks for the working age population. As Brian Fallow said recently in NZ Herald *No time for the tight-fisted*: "The longer term threat to the Crown's finances lies rather in the off-balance-sheet item it refuses to do anything about - the entitlement parameters for New Zealand Superannuation."

Susan St John's and M.Claire Dale's presentations are here.

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FINANCIAL TIMES 3 December 2015, UK Financial Advisor Article by M.Claire Dale: 'Let's talk about how money works'

In 2008, New Zealand was one of the first countries in the OECD to adopt a National Strategy for Financial Literacy. The Strategy was revised in 2014 after wide consultation and became the National Strategy for Financial Capability, supported by over 100 organisations. In July 2015, Commerce and Consumer Affairs Minister Paul Goldsmith stated "Building the financial capability of New Zealanders is a Government priority".

Like most OECD countries, New Zealand has a rapidly ageing population. Retirement Commissioner Diane Maxwell uses the metaphor of a perfect storm when this profound demographic change is combined with the aftermath of the global financial crisis, declining home ownership, easy access to high-cost credit and low financial capability. She is adamant: "We've got to start talking about money."

The big question remains: will promotion of a National Strategy for Financial Capability and a shift in the Commission's strategy from provision of tools and resources to more face-to-face engagement make a measurable difference to the nation's financial capability? We won't know the answer to that if we don't measure it.

See the full article here.

Australian Social Policy Association and Brotherhood of St Laurence, Melbourne, Seminar October 15: Spotlight on Retirement Incomes Policy

Brotherhood of St Laurence
Working for an Australia free of poverty

Susan St John: *The unique New Zealand system for retirement income: Too simple or simply genius?*

New Zealand's PAYG first tier: New Zealand Superannuation, is universal, taxable, very simple, adaptable, *potentially* sustainable, integrated and coherent. While Australia and NZ are often lumped together in one antipodean model of pensions, they are in fact very different. The Australian Age Pension has a problematic joint means test that involves an asset and an income test. Exclusion of the family home creates opportunities for over-investment in housing. On the other hand the only clawback in NZ is the taxable nature of the gross payment. With not very progressive tax rates this results in only a slight degree of targeting of NZS.

An issue for NZ is the growing fiscal pressures of the ageing population and the squeezing of public expenditure on the work-age population. St John suggests there is scope for NZ and Australia to come closer together by an adaptation in NZ to a basic income approach. This also offers the potential for useful savings to help with other growing demands.

For the supplementary private saving arrangements, NZ's KiwiSaver with its modest incentives has appeared to be a good approach. Its relative simplicity and ease of administration is in sharp contrast to the complex supplementary mandatory savings plan in Australia. But has it all become too simple with the removal of the kickstart and the lack of attention to decumulation?

John Daley of the Grattan Institute examined the costly and inequitable nature of Australia's extensive tax concessions for private provision. "The numbers for superannuation tax breaks are dizzying. They cost the Commonwealth budget somewhere between $20 billion and $30 billion a year depending on how you count them."

Angela McCrae, of the Australian Productivity Commission and a major contributor to development of superannuation policy in New Zealand, spoke on the impacts of changes in the preservation age and the nature of drawdown behaviour, and implications this may have for policy.

There is scope for far more discussions between the two countries to see how retirement policy programmes can be improved. Susan St John's presentation available here.
The session in Melbourne available here.

Welfare Summit Proceedings

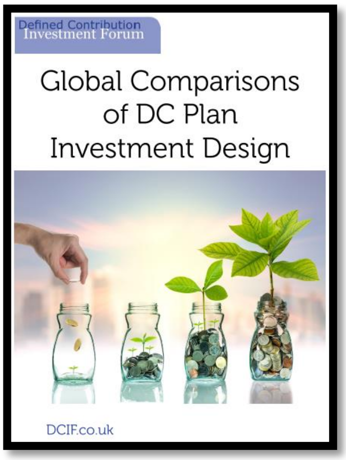
The **Summit Proceedings** from ***Welfare fit for families in a changing world*** are now available to download. Hosted on 8 September 2015 by Auckland University's Centre for Applied Research in Economics (CARE), Department of Paediatrics and the RPRC with Child Poverty Action Group, the summit explored the changes required for welfare policy to support all children and families with challenging changes in the social and work environments. The consensus from the forum was that basic principles of simplicity, equity, adequacy, neutrality, efficiency and generosity which underpin New Zealand Superannuation should also be applied to how we treat our children.

Recent and forthcoming publications

St John, S (2015), **Improving the Affordability of New Zealand Superannuation**, *Psychosociological Issues in Human Resource Management* 3(1): 81–100.
St John, S (forthcoming) Chapter 5 **Can older citizens lead the way to a universal basic income?** In Mays, J., Marston, G. and Tomlinson, J. (eds) Basic Income in the Antipodes: Perspectives from the 'Other Side of the World'.

Global Comparisons of DC Plan Investment Design

The Defined Contribution Investment Forum (DCIF) commissioned TOR Financial Consulting to better understand defined contribution (DC) plan investment design in five markets: United States, Australia, New Zealand, South Africa and Chile and their relevance to the UK. **Dr Susan St John, University of Auckland, contributed the section on New Zealand**



Tor Financial Consulting's research for the DCIF, *Global Comparisons of DC Plan Investment Design*, has been compiled with the help of experts in Australia, New Zealand and the US. The report provides insights for the UK in what the future may hold for DC members and retirees as pension freedoms and auto-enrolment become more of a reality

St. John says in the report that: "The decumulation phase of DC schemes, increasingly including KiwiSaver as that scheme matures, is underdeveloped. Drawdown arrangements are becoming common whereby members can leave their funds with the same provider and same portfolio allocation. There is however, no functioning annuities market in New Zealand.

"New Zealand has focused on the accumulation stage, leaving the decumulation phase largely to take care of itself. Pensioners may take a tax-free lump sum from KiwiSaver and must manage their longevity and other risks such as inflation. Drawdown products are more common from KiwiSaver providers but offer no longevity protection."

The report has been highlighted in the media on pensions internationally. David Harris writes in the *Financial Times Advisor "DC pensions around the world":* "The All Blacks won the 2015 Rugby World Cup, but unlike many of their opponents from around the world they may not be winning the odds on a comfortable retirement. New Zealand's annuity offerings are in decline because of market failure and taxation changes; none at all were sold in 2014.

Pension reform across the globe has transformed accumulation of retirement wealth in the past 20 years, but with wealth comes responsibility. Pensioners are not necessarily spending their pension pots wisely or seeking advice to help them do so. We question whether there are enough innovative products available to bring pension saving to a better conclusion. Australia and the US have placed more focus on the design of default funds. Target-date funds have received backing from policymakers in the US. The UK is picking up these trends through a growing interest in target-date funds and best practice, through governance overlay, in the development of default solutions.

All the countries have attempted to maximise the rate of contributions into DC schemes. Contribution rates of 9.5% or 10% of prescribed earnings in Australia and Chile and best practice employer and employee matching of 6% in the US mean that retirement pension pots are being directly shaped by government and industry product design in the accumulation phase. One problem with this is that pension savers (particularly in the UK and New Zealand) see the minimum contribution rate as generating the ideal replacement rates for retirement when this may not be the case."

Three broad retirement income or disbursement options have developed for plan members as they approach retirement: taking retirement savings in a lump sum and investing these funds in banking or managed accounts solutions; opting for an allocated pension or drawdown solution invested principally in conservative equity, bonds and cash solutions; and traditional and flexible annuities.

PensionBriefing 2015-1 Financial knowledge and capability: the plans

In 2008, New Zealand was one of the first countries in the OECD to adopt a National Strategy for Financial Literacy (financialliteracy.org.nz 2008), with the Retirement Commissioner reporting progress in implementing the strategy to the Minister of Finance twice yearly. The Strategy for Financial Literacy was revised (2014) and became the National Strategy for Financial Capability (2015), supported by over 100 organisations.

Retirement Commissioner Diane Maxwell is adamant: "We've got to start talking about money." (Retirement Commissioner 2015) To promote public engagement in this critical conversation, Ms Maxwell has broadened the focus of the Commission For Financial Capability, using multiple platforms to connect with communities.

This wider approach does not diminish the value of Sorted.org.nz, the website launched in 2001 as one of the first achievements of the newly created Retirement Commission. Many banks now provide online calculators that perform a similar range of services for customers. The great advantage of Sorted is its independence.

Over time, the Sorted site has been upgraded and functions added to the calculators. Since the launch of the KiwiSaver retirement saving scheme in 2007, more resources have been added, including the KiwiSaver fee calculator and a KiwiSaver fund finder. Another addition is the Investment planner, operated in partnership with the New Zealand Stock Exchange.

But financial capability is more than financial literacy: it is knowledge put into action, behavioural change. The Commissioner's goal is to understand the attitudes that bridge the gap between financial knowledge and enduring financial behaviour, then help to build those bridges. Significant value would come from repeating a Financial Knowledge and Behaviour Survey in 2017. It could reveal any changes in financial knowledge and more importantly, any changes in financial behaviour. It would show whether the National and Commission strategies were being effective. The population is ageing. The storm is approaching. We need to monitor our readiness.
PensionBriefing 2015-1 is available here.

New report from Salvation Army Social Policy Unit: *Homeless Baby Boomers*

The RPRC welcomes this timely Salvation Army report detailing the housing futures of the estimated 200,000 people who in 2030 will be aged over 65 years old and not own their home. In 1951, with State support, the home ownership rate was around 61%, rising to 70% by 1976, and to 74% by 1991. The 1991 budget scrapped home ownership programmes, and sold off the State's \$2.4 billion mortgage portfolio. Home ownership rates falling ever since now stand at around 64% - the lowest level in almost 60 years. While the RPRC has reservations about the accuracy of the homeownership figures see here, it is clear there is a serious problem emerging for a sizeable number of the late middle age and early retired people.

The report suggests that perhaps only 62% of those born in 1965 can expect to be home owners by retirement age of 65 compared with 77% of the oldest baby boomers who reached 65 in 2011. These trends of falling rates of home ownership prior to retirement for younger age cohorts, and the requirement for aged residential care in later old age create two sorts of housing demand. The first demand is for rental housing amongst 30% to 35% of retired baby boomers and the second is increasing demand for aged residential care from 2031 onwards as baby boomers reach 85. These two demands will strain the financial resources of the State and the housing stock.

The report finds it likely that more and more older people living on New Zealand Superannuation will require some form of income top-up to pay their rent. Already over 5% of those receiving NZS also receive the Accommodation Supplement, an increase of over 9000 people in the past five years. The numbers of people receiving both NZS and AS could rise from around 35,000 in 2015 to as many as 100,000 by 2025.

As the RPRC has also highlighted on page 1 of this Update, the report also raises alarms about the demands of the increasingly frail older population:

"The second area of housing demand amongst older people is that for aged residential care in institutions such as rest homes, geriatric hospitals and dementia care units. The real baby boomer tail is not expected to hit these institutions until 2031 and perhaps 2035 if improvements in life expectancy and aged care continue. However, demand is still expected to sharply increase around 2025. Between then and 2030 the numbers of people requiring some form of residential care will grow by more than 20% or by over 2000 people per year perhaps to 57,000 to 58,000 beds by 2030. Catering for this demand growth will require an additional 100 bed facility every two and half weeks for these five years."

The report, by Alan Johnson, Social Policy Analyst, with recommendations for Government action, is available here.

Despite such evidence of looming crises, Government's response remains dismissive.

RPRC's international guests

25 August 2015: **Jessica Carew,** Manager, Contributions and Accumulations Unit, Personal and Retirement Income Division, and **Darren Kennedy**, Manager, Insurance and Superannuation Unit, Financial System and Services Division, The Treasury, Australian Government. The purpose of their visit to New Zealand was to gain a better understanding of the overall architecture of New Zealand's retirement income system and recent policy changes. In addition to the RPRC, Jessica and Darren met with the Treasury and other regulators. "Our assumption is that both countries have similar policy objectives e.g. efficiency, adequacy, fiscal sustainability and equity. We hope to get a better understanding of the policy solutions adopted in NZ to achieve these objectives and what policy transfer opportunities may exist."

30 November – 4 December: Dr Ben Spies-Butcher and **Dr Adam Stebbing**, of Macquarie University, NSW, Australia, visited the RPRC to advance two proposed shared research projects for 2016 - 2017. The first of these projects explores how current Australian retirement policies are transforming the savings and wealth of younger households. By making comparisons with New Zealand, this project aims to chart policy developments, map the savings and wealth dynamics of younger households, and gather new data on how the receipt of tax and social benefits influences attitudes to policy alternatives in retirement. The second project would investigate the inequities in the Trans-Tasman bilateral Social Security Agreement in operation since 2002, due for renewal in 2016, and propose changes to increase fairness.

RPRC in the media and public presentations and contributions

29 October 2015, Journal of Human Development and Capabilities, peer review by M.Claire Dale.
1 December 2015, Dominion Post, Opinion, 'Rising Labour star Kelvin Davis' references Susan St John's retirement policy work.
1 December 2015, RadioNZ, Morning Report interviews Susan St John on Salvation Army report homelessness for babyboomers.
1 December 2015, RadioNZ, National Programme, Susan St John interviewed about homelessness for babyboomers.
3 December 2015, UK Financial Times, M.Claire Dale's article: 'Let's talk about how money works'.
7 December 2015, NZHerald, Property Report: Downsides of Reverse Mortgages quotes M.Claire Dale.
7 December 2015, KASPANZ PR, RPRC praised for contributions to highlighting retirement income issues.
9 December 2015, UK Financial Times, 'DC Pensions around the world' quotes Susan St John's research.

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Now based in the Centre for Applied Research in Economics (CARE)

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