RPRC Update

Retirement Policy and Research Centre

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Decumulating retirement savings: making the options work

The RPRC's forum on 21 November 2014 assembled local and international speakers on a topic that will be of increasing interest to policymakers, financial service providers and consumers as increasing numbers of New Zealanders move into retirement. Co-hosted by the RPRC and the Commission for Financial Literacy and Retirement Incomes, the Forum brought together consumer and sector representatives, actuaries, academics and other experts to discuss the issues. The RPRC aims to use the background papers, presentations and subsequent discussions to develop a report to the government on the viability of various approaches to the decumulation of savings.

The keynote speaker was Jeremy Cooper, Chairman of Retirement Income at ASX-listed Challenger Limited, a major annuity provider in Australia. The Forum also heard presentations from service providers with an interest in this area such as Heartland Finance on home equity release; New Zealand Income Guarantee, a group offering a new annuity-style service; the Retirement Villages' Association; and experts on geriatric medicine, financial services, tax, and actuarial issues. It also heard presentations on recent changes to the United Kingdom's annuity framework.

When discussing retirement savings, most attention is given to the *accumulation* phase – whether people will have enough to live on in retirement; whether they are saving enough; where to put those savings and how to manage investment strategy. KiwiSaver is proof positive of that attention. The RPRC's Forum addressed the other side of the retirement savings issue: having reached retirement, how might people reliably run-down those savings over the 15-30 years of their retirement? This is the *decumulation* phase of a retiree's financial life. There are no local annuity providers so older New Zealanders have few options for protecting themselves from longevity risk. They face risks of running out of money (spending financial savings too quickly) or unplanned bequests which means having a lower standard of living in retirement than they might have preferred, and high medical costs, especially long-term care.

KiwiSaver, as a lump-sum pay-out, does not help New Zealanders face those inevitable risks. New Zealand Superannuation and the means-tested Residential Care Subsidy look after the bottom group effectively while the well-off can arguably look after themselves. There is a large group in the middle that need help.

Afternoon sessions were three workshops to discuss the needs, barriers and potential solutions to decumulation issues. A final plenary session brought these themes together.

Background papers for the Forum are available here.

Presentations from the Forum are available here.

Thanks to John Fountain, a video of the presentations will be available online.

Commission for Financial Literacy and Retirement Income

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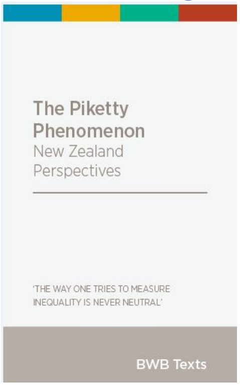
The Retirement Policy and Research Centre thanks its sponsors, close collaborators, and partner organisations. In particular, grateful thanks to the MSA Trust; and to our host, the Department of Economics at the University of Auckland.

The Piketty Phenomenon: New Zealand Perspectives, a BWB text, contains responses from many of New Zealand's economists and commentators to Thomas Piketty's text: *Capital in the Twenty-First Century*. **Susan St John, co-director of RPRC, contributed the chapter: *Recalibrating New Zealand***



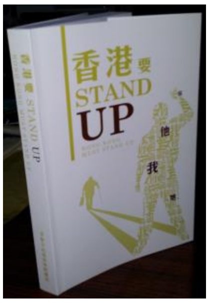
Background: Few books have had the global impact of Thomas Piketty's *Capital in the Twenty-First Century*. An overnight bestseller, Piketty's assessment that inherited wealth will always grow faster, on average, than earned wealth has energised debate. Hailed as 'bigger than Marx' (*The Economist*) or dismissed as 'medieval' (*Wall Street Journal*), the book is widely acknowledged as having significant economic and political implications.

Collected in this BWB Text are responses to this phenomenon from a diverse range of New Zealand economists and commentators. These voices speak independently to the relevance of Piketty's conclusions. Is New Zealand faced with a one-way future of rising inequality? Does redistribution need to focus more on wealth, rather than just income? Was the post-war Great Convergence merely an aberration and is our society doomed to regress into a new Gilded Age?

***SuperGuide*'s Trish Power reports on problems transferring KiwiSaver funds from New Zealand to Australia.**

As at 29 October 2014, WA Super was the only Australian super fund accepting transfers from New Zealanders' KiwiSaver accounts. Since 1 July 2013, it has been legally possible to transfer Australian and New Zeaalnd superannuation savings from one country to the other. Unfortunately, legal does not necessarily mean possible. Although "most APRA-regulated superannuation funds can accept a legitimate request to transfer Australian savings TO a KiwiSaver account, there is no compulsion for Australian super funds to receive super FROM a KiwiSaver account". Kiwis settled in Australia will find that if their KiwiSaver pot falls within the industry regulatory contribution cap of $180,000 pa, it will be tax-exempt at the point of exit and entry, and tax-free at the time of approved access and withdrawal. The member must transfer the full amount from the KiwiSaver account. See the full article here.

Hong Kong Must Stand Up, a recently published collection of essays, includes a chapter by **Michael Littlewood, co-director of the RPRC: *Ageing populations, retirement incomes and public policy: what really matters***



Abstract: When setting public policies on retirement incomes, governments should focus on objectives they have a unique capacity to influence. Only governments can reliably eliminate poverty in old age, level the tax and regulatory playing fields for financial service providers/savers and gather impeccable, deep data. They can also help citizens to understand the things that really matter to individual saving decisions.

Littlewood argues that governments should avoid trying to influence or direct private provision for retirement by tax breaks or compulsion ('hard' or 'soft'). That those common interventions seem not to work is only one of their many shortcomings. Then, citizens and employers should make their own decisions about financial provision for retirement.

Introduction: Populations everywhere are ageing. Some countries have become rich before they are old; others will be old before they are rich and probably face the greatest challenges. Those above the state pension age will about double in number, as will the annual cost of the pensions they expect to receive. Those under pension age may increase in number but will reduce as a proportion of the population. That demographic shift may see relative falls in real economic output, tax collections and growth prospects. Healthcare costs are expected to follow an even more marked trajectory than pension costs so that a perfect financial storm might unfold over the next two to three decades.

All this has encouraged what might be called age catastrophism. Now that the baby boomers are retiring, it seems like a downhill slide to national, even international penury. This chapter is about pensions and describes a policy framework that embraces public and private provision for any country wishing to install an equitable, sustainable retirement income system. Australia and New Zealand offer lessons on what countries should and should not use. New Zealand's framework offers more constructive lessons.

The chapter is available here.

RPRC welcomes Research Associate: Dr Ben Spies-Butcher

Dr Ben Spies-Butcher lectures in Economy and Society in the Department of Sociology, Macquarie University, Sydney. Ben completed his PhD in Economics at the University of Sydney while working in the non-government sector on issues of human rights. His research focuses on the economics and politics of social and environmental policy, and political participation. He teaches courses on economic sociology and political sociology at under-graduate and post-graduate level. He is a Fellow of the Centre for Policy Development, and a member of the Centre for Research on Social Inclusion.

Ben and his colleague, Dr Adam Stebbing, were research visitors at the RPRC from 28 – 30 October. They offered a seminar on their work-in-progress in the Economics Department, and again at Victoria University in Wellington on 31 October: *Changing provision for the elderly; a comparison of New Zealand and Australia*.

RPRC in the media and public presentations and contributions

2 October, www.financialit.net, Michael Littlewood quoted on the Financial IT website in *The Evolution of KiwiSaver*
8 November, New Zealand Herald, John Roughan references the RPRC and quotes Michael Littlewood in *Let working over-65s help ease the load*.
2 November, Women's Loan Fund Conference, Auckland, M.Claire Dale presentation: *Microfinance in New Zealand.*
14 November, New Zealand Herald, Letters to the Editor, Michael Littlewood replies to John Roughan.
13 November, www.scoop.co.nz, RPRC Press Release: *Ministry's concern for overseas state pensions welcomed*.
2 December, New Zealand Herald, Patrick Nolan's *Baby Boomers could drive us bust* references the RPRC.
6 December, New Zealand Herald, Mary Holm's Opinion, *Surviving on Super* draws on Susan St John's 'Option 1' for addressing income security in retirement at RPRC's Decumulation Forum.
15 December, National Radio, Michael Littlewood responds to recruitment agency SEEK's *survey of older workers*.

pensionreforms

PensionReforms in 2014 has added 46 new abstracts to the now 711, mainly international, reports summarised and reviewed on the site. Four recent reports are:

Reforming Pensions in Developing and Transition Countries (2014)
The UN has released a major publication on pension reform in "developing and transitional countries". Some lessons from eight countries and three regions are described but not all the options are explored.

Measuring Adequacy of Retirement Savings (2014)
A longitudinal study shows that Australians aren't saving enough to meet a national poverty measure. Despite the large Tier 2 scheme, Tier 3 savings are a very important part of the mix. Australians need to save harder.

Dynamics of Income and Deprivation in New Zealand, 2002-2009 (2012)
A New Zealand longitudinal study (SoFIE) looks at measures of poverty and deprivation. The results offer insights on the movement into and out of 'poverty' that escape the more usual cross-sectional surveys.

Matching Contributions for Pensions: A review of international experience (2013)
The World Bank looks at progress with 'matching defined contribution' (MDC) schemes. The aim is to improve coverage and raise retirement incomes at Tiers 2 and 3. The evidence is unclear – overall contributions are not markedly higher (forthcoming here).

Forthcoming RPRC publications:

Working Paper 2014-2 Turning silver to gold: Policies for an ageing population.

This Working Paper is based on a report prepared in 2013 with Professor Ngaire Kerse, Faculty of Medical and Health Sciences, the University of Auckland. It compiles the public policy-driven state costs of services and support for those aged 65+ and suggests policy options that could be applied in the future to 'turn Silver to Gold': to anticipate increasing numbers of older citizens with enthusiasm or at least equanimity rather than dread.

PensionBriefing 2014-5 Improving the affordability of NZ Superannuation.

Under existing policy settings, the costs of retirement income, health, and welfare for the increased older population increase markedly in relative terms. Whether this matters is contestable, but if there is no change to income tax rates, the three levers that may be adjusted to affect the affordability and arguably the equity of New Zealand Superannuation (NZS) are the qualifying age, the level, and the degree of targeting.

PensionBriefing 2014-4: Updating data on older workers

The number of New Zealanders aged 65+ who are in paid work continues to grow strongly. The 2013 Census shows nearly one quarter of older New Zealanders, about 130,000 people aged 65+, are now in paid employment for at least 1 hour a week. That proportion has more than tripled in the 27 years since the 1986 census. Today New Zealand has one of the highest rates in the OECD of participation in the paid workforce for those over age 65.

The baby-boom generation born 1946 to 1966 began to reach age 65 in 2011, so the 2013 Census is the first to begin to reflect this cohort's influence on the data. In 2013, 22.5% of all those over age 65 were still in the workforce and of those, more than half were working full-time, defined by Statistics New Zealand as 30 or more hours a week. The others were working at least one hour a week for pay.

Since the 1986 Census, the population aged 65+ has grown by 77%, while the population as a whole increased by only 30% (from 3.27 million in 1986 to 4.24 million in 2013). Had the participation rate remained constant, the 2013 figure would have been just 38,850.

Possible explanations for this remarkable increase include: the qualifying age for the universal age pension, NZS, was increased from age 60 to 65 between 1992 and 2001; and the 'surcharge' on other earnings introduced in 1985 was removed in 1998, so that there was no longer a financial penalty on earning extra income. Other factors are likely to include: better health and the recognition among older people of the benefits of keeping active; and technological changes reducing the manual intensity of some types of work.

The *PensionBriefing* is available here.

Overseas pensions: a fairer future

Forum: 5 December 2014, at the University of Auckland.

In *PensionBriefing* 2014-3 (here), and in an article in the New Zealand Herald (here), the RPRC challenged New Zealand's unjust treatment of overseas state pensions, giving particular attention to the so-called 'spousal deduction', affecting increasing numbers of married pensioners. Eligibility for New Zealand Superannuation (NZS) is celebrated as individual, requiring only reaching the age of 65 years; and 10 years' residency (5 of those years after age 55). However, if the individual has lived overseas and has a state-administered pension, the Ministry of Social Development will probably deduct that from NZS. If the overseas pension is large, the MSD will deduct any surplus from the spouse's NZS. Yet some of these overseas pensions closely resemble KiwiSaver.

Since 2009, the RPRC and the Human Rights Commission have explored these and other anomalies and inequities that affect increasing numbers of pensioners in varying ways. The Retirement Commissioner also notes the spousal deduction anomaly in her 2013 Review. This Forum built on the research on overseas pensions policy published by the RPRC, the two Forums held in 2010, and the 2013 Forum. Throughout, the work has been supported by the Human Rights Commission and Associate Professor Andrew Smith of Victoria University.

RPRC Working Papers have made recommendations for reform of the injustice that occurs in the treatment of overseas pensions under section 70. The RPRC argues that the greater mobility of the workforce demands fundamental, principles-based reform of a law that hasn't changed since 1938, but still determines the treatment of overseas pensions in New Zealand.

As in 2013, three options for resolving both the fiscal risk of easy access to NZS, and retention of overseas-accumulated age pensions, were debated.

Human Rights Commission
Te Kāhui Tika Tangata

The need for change is highlighted in the Ministry of Social Development's Briefing to the Incoming Government which states (p. 32) that the Direct Deduction policy: "*… is still unpopular with other countries and with those affected by it…. For example, one of the most unpopular aspects of the policy is that, where one partner of a couple has an overseas state pension that is more than their NZS, the excess amount is deducted from the NZS entitlement of the other partner. The growing movement of people between countries and immigration and emigration trends provide an opportunity to consider whether there are alternatives … that could provide better outcomes for people who have lived and worked in two or more countries during their working life.*"

As noted in the RPRC's Press Release, this recognition, and the Government's intention to re-write the Social Security Act, create an unprecedented opportunity for a first-principles discussion about the treatment of overseas pensions.

Background papers for the Forum are available here.

Presentations from the Forum are available here.

Audio from the Forum is available here.

Retirement Policy and Research Centre: www.rprc.auckland.ac.nz

Best wishes for the holiday season and 2015