

RPRC Update

Retirement Policy and Research Centre

September 2015 | Volume 8, Issue 3 of the quarterly RPRC Update

RPRC Seminar: Is New Zealand up with the play? Annuities around the world.



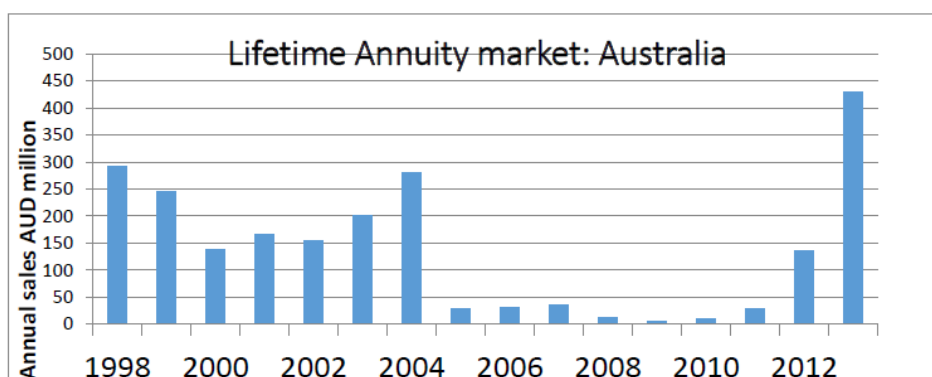
The Retirement Policy and Research Centre was pleased to host this seminar by David Harris, Managing Director, TOR Financial Consulting Ltd.

David is well known in the financial services industries in the UK, USA and Australia as an expert on pensions systems and reform. Prior to founding TOR, he was a senior consultant with Watson Wyatt & Co. in the UK and Watson Wyatt LLP in Washington DC. He has worked for the financial services and consumer protection regulators

in Australia and the UK, and with the OECD and the Irish Government to evaluate how the existing framework could be improved.

In this seminar on retirement income solutions around the world, David compared recent thinking and developments on annuitisation and pensions in the UK, US, Chile, South Africa, Australia and New Zealand to answer these questions: What are the accumulation and decumulation options? How effective are the incentives for saving? Given population ageing, should New Zealand rely on a voluntary retirement saving scheme to solve the challenge of decumulation?

David emphasised that globally, politicians, academics and regulators are grappling with the issues surrounding a fundamental social concern: 'People are worried about living too long rather dying too soon'. One of the interesting developments is the resurgence of the lifetime annuity market in Australia. Sales there are driven by demand for longevity risk, peace of mind and inflation protection (see figure below).



Is New Zealand ill-served by ignoring its annuity market? David noted that only three life annuities were sold in 2013 and none in 2014. He suggests New Zealanders ask themselves "is that something worth crying about?" The RPRC continues to work on this issue.

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23rd Annual Colloquium of Superannuation Researchers, 6-7 July 2015, UNSW Australia.



Abstract: A survey of decumulation options in New Zealand, Dr M.Claire Dale, Retirement Policy and Research Centre, University of Auckland.

This paper draws on industry expert presentations at the November 2014 Forum, *Decumulating retirement savings: making the options work*, co-hosted by the Retirement Policy and Research Centre and the (then) Commission for Financial Literacy and Retirement Incomes.

Products supporting realistic annuitisation of accumulated wealth all but disappeared following tax and other changes in New Zealand in the 1980s. There has been little progress since then on decumulation products that are

designed for middle-income retirees who face under-appreciated risks, including outliving their capital.

The poor are protected by the universal age pension, but many in the middle-income group, confronted for the first time with management of large lump-sums from KiwiSaver or other retirement savings, or from the sale of an over-large family home, are ill-prepared for the task. At the same time, they may be unable or unwilling to acquire the skills and knowledge necessary for safe financial management of their asset, and unwilling to seek expert assistance. Although there are some encouraging signs of change, the paper argues that New Zealand has fallen behind Australia in meeting this need of our ageing population.

23rd Annual Colloquium of Superannuation Researchers, 6-7 July 2015, UNSW Australia.



Abstract: Future proofing New Zealand Superannuation for a changing world, Associate Professor Susan St John, Retirement Policy and Research Centre, University of Auckland.

Under existing policy settings, the costs of retirement income, health, and welfare for the rapidly growing older population in New Zealand lift markedly over the next decades both in absolute terms and relative to other state spending. Society may be willing to bear the costs without policy change. But 'affordability' is a loaded term. While there may be debates about whether the increasing costs are manageable, they may entail the opportunity cost of other more desirable spending, at least at the margin. If there is a reluctance to tax or borrow for the growing cost, then the 'affordability' of New Zealand Superannuation may be improved by using one or more of three main levers: the qualifying age, the level of the payment, and the degree of targeting.

Lifting the age of eligibility for NZS has been the most discussed lever and is widely seen as necessary for fiscal

sustainability. Yet this is not the only policy lever available to improve affordability, nor is it necessarily the most equitable. Reducing the level of NZS for everyone is the least favoured option, carrying the likelihood of increasing poverty among the aged population.

This paper revisits the third lever of means testing. While the contemplation in New Zealand of such policy reforms is greeted in many quarters, including the political one, with suspicion if not outright rejection, there are good reasons to scrutinise potentially viable options. This paper suggests that the current modest degree of clawback provided through the tax system could be enhanced by taking a basic income approach. In doing so, better alignment of retirement incomes policies over time between Australia and New Zealand may be possible. By saving money with an increased clawback, the best features of a universal, adequate, unconditional retirement income floor are retained. Without recreating poverty among the old, the pressure on the working age population can be reduced, and perceptions of intergenerational enhanced.

Now available online:

Forum, 21 November 2014: [Decumulating retirement savings: making the options work](#), co-hosted by the RPRC and the (then) Commission for Financial Literacy and Retirement Incomes, now has video links to presenters, including [Retirement Commissioner Diane Maxwell](#), [Jeremy Cooper](#), [Andrew Ford](#), [Susan St John](#) and [Ralph Stewart](#).

RPRC's Working Paper 2015-2 Options for dis-saving 'safely' has been revised. It draws on the November 2014 Forum (above) that brought together consumer and sector representatives, actuaries, academics and other experts to develop a report to Government on the viability of various approaches to decumulation. The Paper updates developments since 2014 to offer a snapshot of New Zealand's situation in early 2015.

Debate, 10 July 2015: [Today's policy settings unfairly favour the baby boomer generation](#), hosted by the Government Economics Network (GEN) and the RPRC, now has links to the [ppt presentations](#) and [audio](#) of debaters Becky Prebble and Simon Chapple.

PensionRelease

RPRC 30 June 2015: [Ministry's concern for overseas state pensions welcomed](#) The Retirement Policy and Research Centre applauds the introduction of the New Zealand First member's bill: New Zealand Superannuation and Retirement Income (Pro Rata Entitlement) Amendment Bill.

RPRC 10 August 2015: [An examination of the entitlement to New Zealand Superannuation by migrants welcomed.](#) For many years the RPRC has highlighted the need for regular scrutiny of all aspects of the design and eligibility criteria for NZ Superannuation.



Overseas Pensions: NZ First members' bill debated, defeated...

RE: [New Zealand Superannuation and Retirement Income \(Pro Rata Entitlement\) Amendment Bill](#)

The RPRC commentary:

Opening the Parliamentary debate 16 September 2015, NZ First MP Denis O'Rourke made it absolutely clear that everything in his Bill is open to debate. The main purpose of taking the Bill to Select Committee was to have the urgently required conversation about NZS.

Speakers from Labour and the Greens displayed a real understanding that while this bill is not necessarily the answer to section 70 problems, a properly informed conversation is well overdue. Also overdue, as mentioned by several speakers, is much needed attention to the spousal deduction policy. This is not a difficult one to fix and is an obvious starting point for reform.

The bill was defeated 61 to 60. Disappointingly, David Seymour and Peter Dunne voted against it going to select committee. What power they have and how much they should now hear from their constituents!

Had the bill gone to select committee it would have been an opportunity to address the injustices carried out under section 70, and the looming fiscal threat of too-easy access to New Zealand Superannuation. Our current eligibility rules require only 10 years residency while ignoring private income and wealth from overseas unless it meets the definition of a state pension.

The debate last night rightly raised problems with a pro rata approach in New Zealand. Pro rata would give everyone a different pension and be very complex to administer; and it would be unfair to those whose time overseas did not give them access to an adequate state

pension or private pension. Women could be badly affected, as time out of New Zealand raising a family may not have resulted in any pension entitlements.

The RPRC has suggested possible policy directions to change the residency requirement as a subtle way of solving problems caused by section 70 and too easy access to NZS. See suggested alternative options [here](#).

We are pleased to report that the Office of Human Rights Proceedings is investigating the spousal deduction issue. This is a positive step forward.

It is critical to have all aspects of any suggested policy debated and any unexpected or unfair outcomes uncovered. Should the residency requirement be increased? If so, by how much? Who is affected? What about the implementation? If the residency is raised, there are options to debate for those who do not qualify. Are the protections and support we currently provide to those who do not qualify for NZS sufficient? Would ability to accrue residency beyond 65 be possible? These are just a few of the questions.

The RPRC is not funded to do the full policy analysis of the possible options but in the absence of the select committee opportunity such work is urgently required.

YOUTUBE videos of the debate are available: [Denis O'Rourke introduces the Bill](#) NZ First; [David Bennett \(Nat\)](#); [Grant Robertson \(Lab\)](#); [Jamie-Lee Ross](#); [Jan Logie \(Green\)](#); [Andrew Bayly \(Nat\)](#); [Ruth Dyson \(Lab\)](#); [David Seymour \(Act\)](#); [Dr David Clark \(Lab\)](#); [Alastair Scott \(Nat\)](#); [Denis O'Rourke \(NZ First\)](#) Right of Reply.



Child Poverty Action Group, and the University of Auckland's Centre for Applied Research in Economics, Department of Paediatrics: Child and Youth Health, and Retirement Policy and Research Centre

Welfare Summit 8 September 2015

Hosted by Auckland University's Centre for Applied Research in Economics, Department of Paediatrics and Retirement Policy and Research Centre, with Child Poverty Action Group, the summit, [Welfare fit for families in a changing world](#), explored the changes required in New Zealand for welfare policy to support all children and families in this time of challenging change in the social and work environments. The summit examined the direction and underlying basis of current welfare and child policy in New Zealand (Associate Professor Mike O'Brien), recent developments in Australia (Dr Ben Spies-Butcher), and the impact of policy changes on Maori (Dr Hirini Kaa). Mike O'Brien said "The basic principles of simplicity, equity, adequacy, neutrality, efficiency and generosity which underpin New Zealand superannuation have served older New Zealanders well. They should also be applied to how we treat our children."

International praise for 'sorted' website

UK-based Pensions Policy Institute's PPI Briefing Note 76, 29 September 2015, considers some international examples of financial education to illustrate approaches that could be adopted by the UK. The international examples included in the briefing note are: Financial education during accumulation (Denmark), Pensions Dashboard (Sweden), Sorted website (New Zealand), Three Pensions Days (Netherlands - similar to New Zealand's MoneyWeek), Auto-escalation (United States).

A 2006 PPI report outlined the following reasons for the *sorted* website's success: It provides guidance to help people make financial decisions, e.g. it provides individuals with a list of questions that they might ask; It provides advice around life-time financial planning rather than focusing on pensions; It is user-friendly, trusted and personalises information; and The website is complemented by other approaches. To download the PPI Briefing Note, please click [here](#).



Welcome to Siu-Yuat Wong, RPRC Researcher

RPRC Researcher Siuyuat Wong, BCom (Hons, First Class), BSc. His dissertation was an econometric examination of the impact of government expenditure on life satisfaction and well-being. Siuyuat's interest in the social impacts of public policy was triggered during his gap year in China on a martial arts scholarship. He saw the

outcomes of an almost non-existent social safety net, lack of retirement policy for the elderly, and the absence of government interventions to provide opportunity and choice for upcoming generations. His current post graduate mathematics and statistics courses are preparation for a PhD programme. Siuyuat's goal is to make a meaningful contribution to the public policy landscape in New Zealand. He has a particular interest in the economics of ageing.

RPRC in the media and public presentations and contributions

25 May 2015, New Zealand Herald, Audrey Young's '[Why axing kickstart is an act of bad faith](#)' credits Govt press statements and RPRC as sources.

1 July 2015, The Economic and Labour Relations Review, UNSW, Susan St John reviews submitted article.

2 July 2015, New Zealand Herald, Tamsyn Parker's tribute: '[Littlewood's lifetime of retirement planning](#)'.

5 July 2015, New Zealand Herald Brand Insight, Susan St John's '[How NZ can maintain equitable superannuation](#)'.

9 July 2015, DailyBlog, Susan St John's '[Another week of neoliberal economics](#)'.

10 July 2015, Blog, KiwiSaver changes: the sting in the tail of the Budget, by M.Claire Dale.

3 August 2015, Good Returns, Susan Edmunds interviews M.Claire Dale for '[Attitudes to advice must change](#)'.

5 August 2015, New Zealand Herald, Q & A: Susan St John explains '[How we can protect our world-leading superannuation scheme in light of rising costs as the population ages](#)'.

7 August 2015, Good Returns, Susan Edmunds quotes M.Claire Dale in '[ASB ditches reverse mortgages](#)'.

12 August 2015, New Zealand Herald, Simon Collins interviews M.Claire Dale: '[Pension funding planning falls short](#)'.

17 August 2015, Scoop, RPRC Press Release: '[An examination of New Zealand Superannuation welcomed](#)'.

23 August 2015, Stuff.co.nz, Rob Stock's '[KiwiSaver, cluster bombs, mines and nukes](#)' quotes RPRC Associate Dr Matheson Russell.

31 August 2015, St Matthews in the City, M.Claire Dale presented at *A Public Dialogue: Is Housing a Human Right?* With Paul Barber NZCCSS, Rau Hoskins Unitec, and Professor Paul Morris Victoria University.

25 September 2015, Indian Weekender.co.nz, Sandeep Singh quotes Susan St John in '[NZ First Superannuation Bill: where is the problem?](#)'

29th September 2015, PPTA conference, Wellington. Panel: *the student loans scheme 10 years on*. Susan St John argues that the student loans scheme makes it harder for women to save adequately for retirement.

Upcoming RPRC research:

Women disadvantaged by gender pay gap: ANZ Bank, the largest KiwiSaver provider, estimates that women on average are likely to retire with \$144,000, compared to \$203,000 for men. That is of real concern given that, on average, women are in retirement for longer than men, and median balances would show even greater disparity. See [NZ Herald 29.07.2015](#). This replicates research by [Association of Superannuation Funds of Australia](#) showing that male workers are currently retiring with an average

Superannuation Guarantee balance of \$197,000, but just \$105,000 if they're female. Statistics New Zealand showed in 2014 women earned \$300 less per week than men on average. The gender pay gap, a high level indicator of the difference between women and men's earnings, compares the median hourly earnings of women and men in full and part-time work. In 2015, the gender pay gap was 11.8%. [See more here](#).

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