

RPRC Update

Retirement Policy and Research Centre

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RPRC's International Forum 20 April: Retirement Policy in an Age of Uncertainty

There is much concern here and abroad about what the future holds for retirement policy. Brexit and the Trump election have profound implications for what is happening in the Ireland, England and the US. Australia has its own set of uncertainties and is in the midst of far-reaching reform. The muffled public discussion about the settings for NZ Super and retirement income generally over the past few years was given some volume by the Retirement Commissioner's triennial [Review of retirement income policies in 2016](#). The review, which received only a partial response from Government, included recommendations around NZ Super, KiwiSaver, and improving financial capability. The [5 page response](#) from the Minister of Commerce and Consumer Affairs, the Hon. Jacqui Dean, was delivered on 7 June 2017.

Two overseas experts brought an international perspective to [the forum](#) and outlined the best practice thinking on future uncertainties in the US, Ireland and Australia.

Hon Nick Sherry



- 1990 became a Labor Senator from Tasmania
- 1990-93 Chaired passage of the Superannuation Guarantee
- 14 years on the Labor frontbenches
- Australia's first Minister of Superannuation .
- 2009 Assistant Treasurer
- 2012 left parliament after 22 years
- Now on the international pensions circuit

The Hon. Nick Sherry discussed the ['Australian Retirement Income System: Change, Key Developments – Issues and Challenges'](#). In spite of the Australian age pension means test, Nick Sherry expressed concern about the forecoming costs of the ageing population. The Superannuation Guarantee scheme is a privately run compulsory second tier savings scheme, currently requiring a 9.5% contribution from the employer. In 2012, the government announced an increase to 12%

in compulsory contributions by 2019. The pension age will increase to 67 by 2024 from 65.5 years currently. In comparison to New Zealand's KiwiSaver pool of \$41 billion after 10 years, the total Superannuation Guarantee pool after 25 years is \$2.2 trillion, the 3rd largest in the world by size, sitting at 126% of Australia's GDP and growing at an annual rate of 8%. With lessons for New Zealand, Australia has a growing market for annuities.

David Harris

Managing director
TOR financial consulting
Background Watson Wyatt
AMP Churchill Fellowship to study "What influences public confidence in the life insurance and retirement industries".
Works with OECD, UK industry, Scandinavian countries, Consultant Irish reforms.



David Harris, Managing Director of TOR Financial Consulting Ltd, spoke to ['Acting local thinking global: pension reform findings and lessons for New Zealand'](#). In his discussion of New Zealand's retirement framework, described as 'satisfactory for the current generational profile', he noted the comparatively high fees and charges associated with KiwiSaver (a point also made in the Retirement Commissioner's Review), and the likely future budget blow-out in health costs as the population ages. He pointed out that the Nordic countries began

reviewing their pension systems in the 1990s in preparation for sustainability given their ageing populations, and the UK has introduced profound changes to their system. It is cause for concern that New Zealand has yet to confront the issues arising from an ageing population.

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Retirement Policy and Research Centre

www.rprc.auckland.ac.nz
The University of Auckland Business School
Owen G Glenn Building
12 Grafton Road, Auckland

Director:

Hon. Assoc. Professor Susan St John
s.stjohn@auckland.ac.nz
DDI (09) 923 7432

Research Fellow:

Dr M.Claire Dale:
m.dale@auckland.ac.nz
DDI (09) 923 6968



What will the future hold?

- More people reaching retirement with very little extra
- More facing high accommodation costs
- Higher care costs
- Work opportunities will be very different

Commission for an ageing population?

The RPRC’s speakers at the forum focussed on the possible lessons for New Zealand. **Susan St John** introduced the topic of [‘Retirement Policy in an Age of Uncertainty’](#), then welcomed the international speakers who delivered their presentations before **Michael Littlewood** delivered his critique of [‘The process of decision-making for pensions policy in New Zealand’](#).

M. Claire Dale followed with a short summary of [‘Ageing populations: health, care & support, housing’](#). Her analysis was based on the increase in life span since 1950, when Kiwis reaching age 65 lived, on average, another 14 years. Those reaching age 65 in 2013 can expect to live, on average, another 22 years. That is 7 more years collecting NZ Super.

Susan St John had the last word with [‘Some conundrums’](#). She highlighted the housing bubble and the lenient treatment of housing for tax purposes compared to saving for Retirement. Among other concerns, she was critical of the lack of attention to decumulation, and gender issues; and referred strongly to the unjust treatment of many overseas pensions. The final question: do we need a Commission to investigate and advice on the best way forward for our ageing population?

The RPRC supports **KASPANZ** - a voice for pension debate in New Zealand.

Kiwi Saver, Annuities, New Zealand Superannuation Protection Society Incorporated, known as **Kaspanz**, www.kaspanz.com is a Consumer organization, with a 4 year history. The focus of this incorporated society is retirement income issues.

Discussions on retirement income issues have previously been dominated either by industry groups, or economists, or on occasion, political parties seeking a tactical advantage. Kaspanz adds the voices of consumers to the discussion by a variety of commentators supporting evidence-based research on key topics, and disseminating information when and where possible.

‘Consumers’ are those in receipt of, or paying into KiwiSaver, New Zealand Superannuation, annuities etc.

Kaspanz adheres to the principles of transparency, fairness and reasonableness, attempting at all times to provide balanced commentary. Financial prudence and safeguarding of consumer rights is espoused.



Kaspanz updates their website weekly with new articles and commentary on Retirement Income issues.

For more information, go to www.kaspanz.com.

KiwiSaver: 10 years along and \$40 billion strong

KiwiSaver broke through the \$40 billion mark in the March quarter. According to data from Australian research house, Strategic Insight (SI), the KiwiSaver market grew 5.8% over the first three months of 2017 to hit \$40.65 billion compared to \$38.4 billion as at the end of 2016.

Total net KiwiSaver funds flow peaked at just above \$1 billion, plus investment returns of about \$1.2 billion. ANZ reached \$10 billion, ASB reached \$7 billion, and Kiwibank sister entity, Kiwi Wealth, hit the milestone of \$3 billion.

The BNZ KiwiSaver scheme reported the highest quarterly growth rate of 10.5% during the period, to finish with over \$1.16 billion under management. Currently the ninth-largest KiwiSaver provider, BNZ is closing in on Booster at \$1.2 billion, which added 5.5% in funds under management.

According to Inland Revenue Department industry statistics, there was strong growth in KiwiSaver membership in this quarter with a net 31,070 members



added to the savings pool since the end of December 2016, Month-on-month, KiwiSaver membership was up more than 11,000, the IRD data shows, ending March with close to 2.73 million members.

The RPRC believes that the abolition of the kiskstart was a backward step

Investment News NZ article available [here](#).

Financial Markets Authority KiwiSaver action



KiwiSaver trial targets decision-making 10 years before retirement: Recent [FMA research](#) shows that New Zealanders who started retirement planning at least a decade before they leave the workforce had the highest levels of confidence about funding their retirement. In 2016, the FMA published a [paper](#) outlining the value of behavioural insights in aiding good investor decision-making. An earlier [pilot](#), with Kiwi Wealth, focussed on decision making around default funds.

Since then, the FMA has worked with two KiwiSaver providers to explore how improved interactions with their KiwiSaver members could prompt more frequent and better decision-making. ANZ General Manager Funds and Investment Ana-Marie Lockyer said "Everyone is different and it would be good to see if we can encourage members to take a closer look at their retirement savings plan while they're still at an age where they can take steps to boost their savings."

See the [media release 8 May 2017](#).

Methodology for KiwiSaver fee disclosure: The Government has recently introduced regulations requiring KiwiSaver providers to disclose fees in dollars in members' annual statements from 2018. The FMA has been consulting on a methodology that will assist KiwiSaver

providers to understand the requirements of those regulations, and has now announced its decision.

The FMA will adopt the accurate but complicated CPU method (the investor's balance at the date the units of the funds are valued) as its preferred method and will also allow calculation of the dollar value using the investor's average balance or the total annual fund charge (TAFC) method. Both methods give investors the information they need: the fees they pay in dollars.

KiwiSaver providers are also strongly encouraged to disclose total fees as a percentage of the KiwiSaver members balance as well as fees in dollar terms. The fees in annual statements from 2018 will be personalised to each member. With the percentage value shown alongside the dollar value, members can compare their fees over time, year on year.

The FMA encourages KiwiSaver members to compare the fees they are paying for their chosen funds with those of other providers and they can do this by looking at the fund updates and the product disclosure statements.

See the [media release 8 June 2017](#).

RPRC meet University of Beijing Heads of School of Insurance and Economics 6 June 2017



The Dean, Professor Sun Jian, Vice-Dean, Professor Sun Jie, and lecturer Dr Li Jinqing, of the School of Insurance and Economics, University of Beijing, met with RPRC's Director, Associate Professor Susan St John and Research Fellow Dr M. Claire Dale, to discuss possible projects.

The Beijing School collaborates with Manchester and Kent Universities in the UK, and with Temple University in the US. Students spend 2 years at Beijing and 2 years at their home university to complete their Bachelors' degree.

Thanks to Dr Alan Rogers, Director of Undergraduate Programmes, for meeting with our visitors to explain more about New Zealand's system of post-graduate education, and some of the specific systems of the Economics Department. Thanks also to PhD candidate Sherry Li for

providing a first-hand version of the post-graduate experience at this University of Auckland Business School.

The issue of population ageing is critical in both New Zealand and China, and Beijing University plans to undertake research to develop ideas for coping with the ageing crisis. The possibility of research collaborations with these new colleagues is of great interest to the RPRC. One government-driven project of great interest is the 15-city pilot project setting up social insurance schemes for long term care. Based on the German model, the scheme involves employer and employee contributions.

We look forward to further discussion of the possibilities of research collaborations and creating and sharing new knowledge together.



RPRC meets Richard Klipin, recently appointed Chief Executive, Financial Services Council.

On 19 June, RPRC's Susan St John and Claire Dale met with Richard Klipin, Chief Executive Officer of the Financial Services Council. Richard comes to FSC after seven years as chief executive of Australia's Association of Financial Advisers. One early task is co-ordinating the FSC and Workplace Savings New Zealand national conference on 7 – 8 September: [Navigating Change](#).

The FSC represents the personal insurance and wealth sector to the Government and to consumers. The advocacy work focusses on the key themes of superannuation policy, insurance and investment & funds management. The FSC also works in the areas of regulation, tax policy, and professional standards, including developing a members' professional code of conduct.

As the FSC Chairman stated in a [media release](#) announcing Richard's appointment, a strong, united organisation representing financial services firms in New Zealand will facilitate meeting the increasing challenges of the demands of the proposed regulatory regime, digital products and digital distribution, and rising consumer expectations. As KiwiSaver accumulations grow, the need for sound financial advice for retirement option increases

The meeting between FSC and RPRC revealed a strong shared interest in some core issues: KiwiSaver, New Zealand Superannuation, Decumulation (pension phase), and Industry innovation. We look forward to future collaborations.



NZ Herald, OpEd, 15 May: *NZ-Oz situation dumps on Kiwis*, Susan St John, Director, RPRC

The Australian-New Zealand social security agreement is disturbingly stacked in Australia's favour, and Australia's proposal to make students from NZ pay higher fees is the latest of many unfair TransTasman policies.

Wealthy Australians can use their time in Australia to qualify in full for NZ Super in NZ, although their wealth disqualifies them for the Australian age pension. The cost of their NZ Super is carried entirely by NZ taxpayers.

On the other hand, retiring in Australia could be a bad idea for us. The MSD website states: "if you don't qualify for an Australian Age Pension based on income or assets, your NZ Super will stop from the date that we receive your application for NZ Super payable in Australia".

Under NZ law, all overseas state-administered pensions are deducted from NZ Super entitlements. What makes that both problematic and unfair is that many overseas state-run pensions are more like KiwiSaver than NZ Super and yet they are still deducted.

At the same time, tax-favoured, compulsory pension saving schemes run by the private sector, like Australia's

Superannuation Guarantee, are not used to reduce NZ Super. Australians benefit substantially from the anomaly.

While Australians are able to raid our cookie jar, woe betide others with a large overseas state pension. If there is any overseas state pension left after deduction for NZ Super, the excess can be used to reduce and even entirely eliminate the spouse's NZ Super. She may have lived and worked here all her life, but individual rights to NZ Super are overruled by the spousal deduction policy.

The 2016 Retirement Incomes Review was the three-yearly chance to explore these and other urgent policy issues of an ageing population. Government's response was muted with just two, highly simplistic proposals.

As angry public attention focused on the Government's intention to raise the age for NZ Super to 67 by 2040, the second policy slipped under the radar. This increases a new immigrant's residency requirement for NZ Super from 10 years to 20 years. Pushed out to the never-never, the residency of 20 years will affect only future New Zealand newborns who won't begin retiring until 2084. The full Op Ed is available [here](#).

RPRC in the media and public presentations and contributions

- 10 April 2017, U3A Remuera, Michael Littlewood presents '[Retirement Incomes: what should we be talking about?](#)'
- 3 May 2017, **Daily Blog**, Susan St John writes '[Let's have open slather on the 1990s](#)'.
- 13 May 2017, **Weekend Herald**, Sharon Stephenson quotes Susan St John in '[The New Age](#)'
- 15 May 2017, **NZ Herald**, Susan St John quoted in '[KiwiSaver hits \\$40b, but balances stay low](#)'
- 15 May 2017, **NZ Herald**, Susan St John's OpEd: '[NZ-Oz situation dumps on Kiwis](#)'
- 21 May 2017, **NZ Herald**, Tamsyn Parker quotes Susan St John: '[Budget 2017: Pressure to increase KiwiSaver saving rates](#)'.
- 22 May 2017, **Progressive thinking: Ten perspectives on tax**, eds R Thomas and K Windelov, PSA, Wellington, Susan St John contributes the chapter 'Tax and family assistance'.
- 22 May 2017, **UniNews**, Susan St John writes '[Tough love not working](#)'.
- 26 May 2017, **18th CPAG Budget Breakfast**, Mt Albert Hall, Susan St John presents '[Can this budget turn the tide?](#)'
- 26 May 2017, **NZ Herald**, Susan St John's top priority for the Budget: "[Removing the anomaly in the spousal provision is doable, cheap and urgent](#)."
- 26 May 2017, **NZ Herald**, Claire Trevett interviews Susan St John on [Government's \\$6.5 billion sweetener for voters](#).
- 26 May 2017, **NZ Herald**, Audrey Young's Comment "[Shrewd Budget makes English happy and life worse for Labour](#)" quotes Susan St John for Child Poverty Action Group.
- 26 May 2017, **NewsRoom**, Susan St John's Op Ed: '[Time to break open NZ's decades-long poverty trap](#)'.
- 31 May 2017, **Scoop.nz**, M.Claire Dale quoted in '[Consumer organisations help Commission catch crooks](#)'.
- 31 May 2017, **Stuff.co.nz**, Rob Stock quotes M.Claire Dale in '[Woman's financial crisis reveals plague of high interest loans](#)'.
- 31 May 2017, **AUT Policy Observatory**, Susan St John & Innes Asher write '[Child health and poverty in New Zealand](#)'.
- 1 June 2017, **CPAG Blog**, M.Claire Dale asks '[Would you buy your child's future from this man?](#)'
- 9 June 2017, **DailyBlog**, Susan St John writes '[Mean petty and wrong](#)'.
- 17 June 2017, **Kete Kupu** Issue 43, Paul Barber quotes M.Claire Dale in 'Communities under siege from predatory lending'.

Registration now open for Summit 2017: Beyond Social Investment



Retirement Policy and Research Centre | Child Poverty Action Group | Centre for Applied Research in Economics

8 September 9.30am to 4.30pm
 University of Auckland Business School,
 Lecture Theatre OGGB3, Level 0,
 12 Grafton Road, Auckland

Summit Speakers will examine the 'social investment' approach, and discuss what a social welfare system that genuinely put 'the well-being of children at the centre' would look like. What changes to policies and budgets would make the difference required for all children to thrive. **Information and registration details [here](#).**

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

Now based in the Centre for Applied Research in Economics (CARE)
 The University of Auckland Business School, Owen G Glenn Building, 12 Grafton Road, Auckland

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