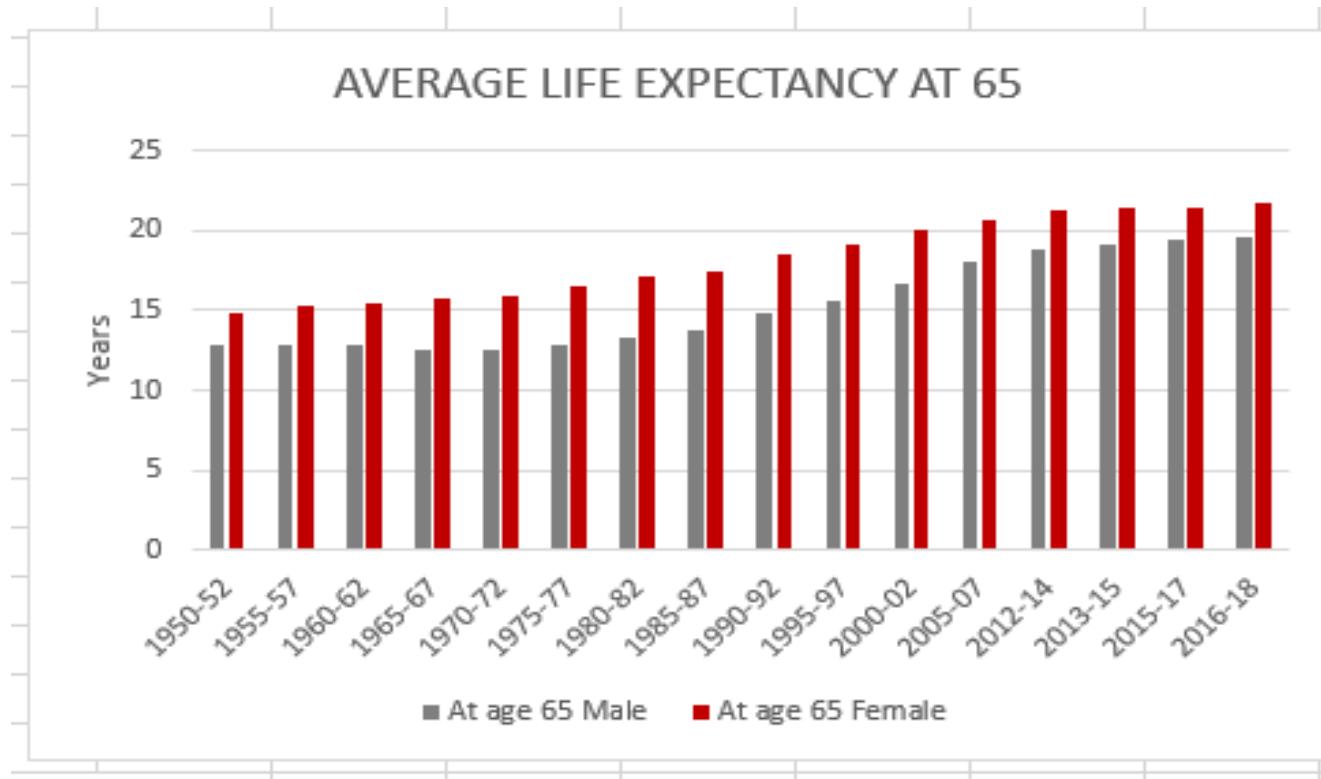


Ageing workers, workplace participation and KiwiSaver

Troy Churton

The “Longevity Economy”



Ageing workers and financial inclusion – OECD (G20 Fukuoka) Policy Priorities 2019

- Longevity allows new life trajectory, may include periods of training and employment.
- More longevity enjoyed means more financial needs to plan and manage in later life. As people age, the risk of hardship due to insufficient income and additional expenditure increases.
- Expenses related to medicine, health and dental care, long-term care, adapted housing or physical assistance, likely take an increasing proportion of the household budget.
- Older workers will generate demand for new or additional financial products and services as their working lives lengthen.

Ageing and financial inclusion – OECD (G20 Fukuoka) Policy Priorities 2019

- Societies face a ‘financing gap’ created by the misalignment of ‘life longevity’ and ‘asset longevity’ that may be mitigated, at least in part, by innovative financial products and services.
- Financial decision-making becomes harder as cognitive skills decline, making it increasingly difficult for older people to choose and manage financial products they may hold or stick to financial plans.
- Shift towards digital financial services continues, financial inclusion is increasingly driven by technological innovation.
- Low levels of financial and digital literacy can threaten financial security in old age.

Workforce participation of 65+

- a win/win/win to government, businesses and individuals?

- NZ second highest participation rate for 55+ workers in OECD
- In December 2017:
 - 169,600 65+ in labour force
 - 1.25m or 1/3 of all workers are 55+
 - another 525,600 of the 65+ cohort are not in workforce - i.e. were retired, volunteering, care-giving , studying..

Statistics NZ Household Labour Force Survey December 2017

- 65+ age group contributing 1.9% to GDP through tax currently, up to 8.9% by 2061

2015 The Business of Ageing - MSD

Make a significant contribution to tax revenue

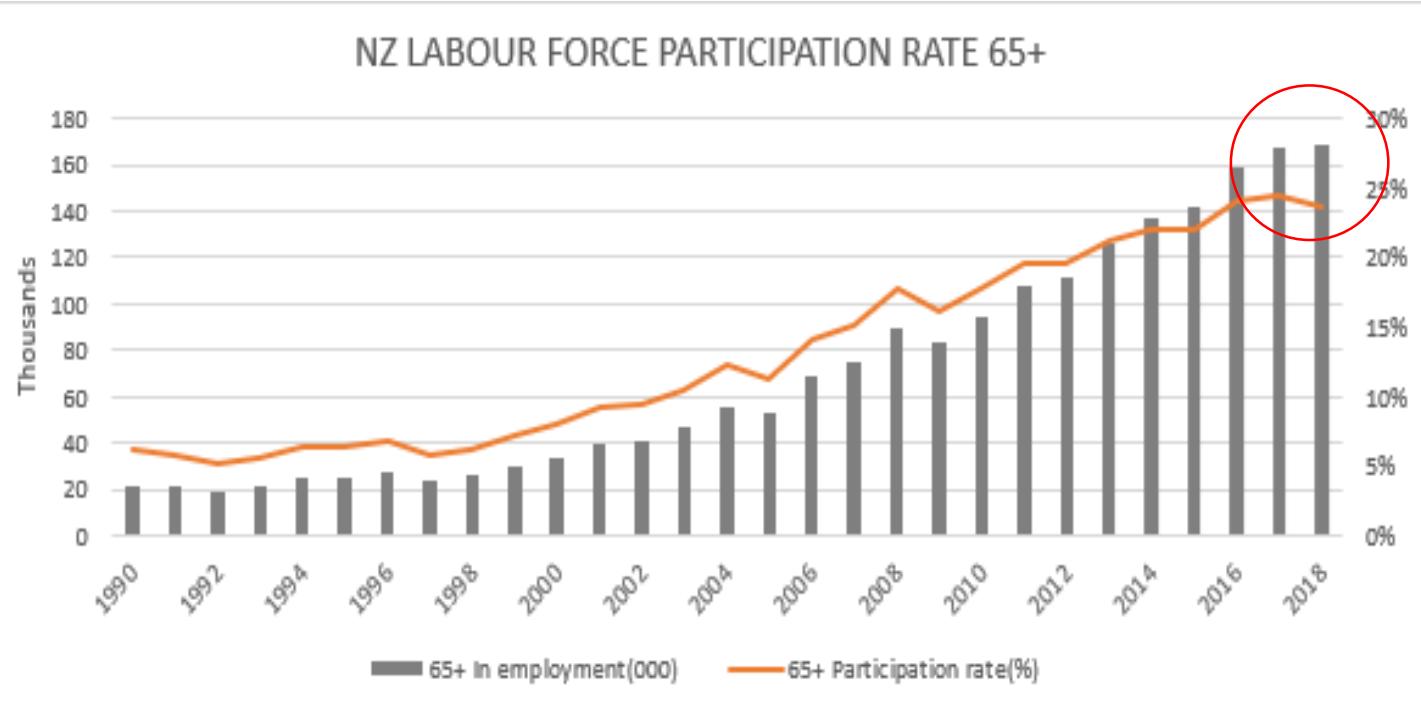
Pay income tax totalling

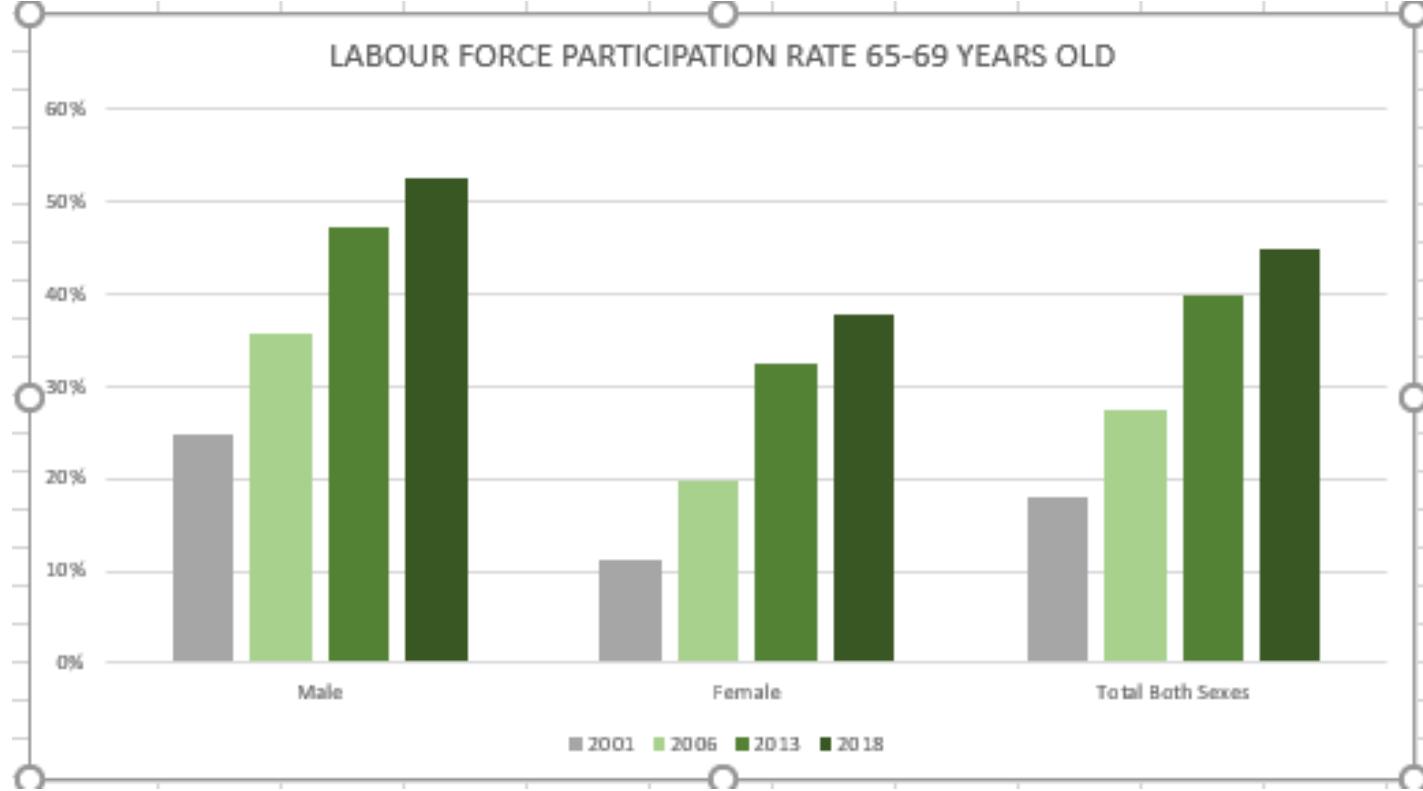


Pay total tax

(including payments on pensions such as New Zealand Superannuation, investments and GST)



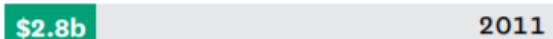




Workforce participation – The 65+ aim to...

Increase their earnings from paid work

Increase total work earnings



Earnings of those who are self-employed



Be valued for their voluntary work

Contribute through unpaid and voluntary work

(based on their earning \$16.10 per hour)



Have influence as a consumer group

Spend in total

(Most will be spent on groceries, clothing and footwear, followed by housing and housing-related items, health, transport and recreation and culture)



Source: 2015 The Business of Ageing - MSD

Key Benefits for Stakeholders

Government	Employers	Workers
<ul style="list-style-type: none"> • Less dependency of older New Zealanders on Government transfers • Increased tax revenue via PAYE • Increase Private Investor (PIE) tax revenues via KiwiSaver as older workers still contributing and not drawing down • Increased GST revenue with increased spending • A decrease in mental health costs • Greater contribution to overall GDP via greater business continuity and better planning • Life-long learning • Enhance social connectedness • Other allied benefits i.e. rural 	<ul style="list-style-type: none"> • Increase skills • Increase productivity • Increase knowledge • Employer contributions to KiwiSaver • Decouple contributions (work after 65 and have KiwiSaver employer contributions) subject to government agreement • Greater continuity of workforce supply • Improved business productivity due to better management of staff transition • Retention of skills and knowledge so these can be passed onto the next generation • Greater flexibility to meet specific business demands when the need arises • Engaged and more productive staff without the threat of having to retire • Retain, Retrain, Recruit 	<ul style="list-style-type: none"> • Increase financial income / ongoing cash flow • Increased financial security • Less dependency on Government transfers • Increase social engagement / social connection • Greater overall wellbeing • Improved lifestyle • Purpose • Retain employability • Better health outcomes



CFFC Business Survey - May 2018

a survey of 500 companies from Consumer Link's business panel

- **82% of companies have no specific strategies or policies relating to older workers – (No change from 2016)**
 - 76% do not carry out active retirement planning activities with employees – (77% in 2016)
 - 33% of companies are concerned about the impact of an ageing workforce on their business
 - 69% are concerned about skill loss as older workers retire
 - 65% report a shortage of highly experienced workers in their industry
- Being an older worker is a strong barrier to being hired in certain industries:
 - Information, media and IT: 80% of businesses say age is a barrier
 - Agriculture, forestry and fishing: 74%
 - Construction: 73%
- All sectors: 67% of businesses say 'age' is a barrier

Workforce Participation – choice or necessity?

- 54% of 65+ remain in workforce through financial necessity
- 36% of 65+ remain in workforce for satisfaction and value
- Others (around 10%) remain in workforce because of need by employers

2016 CFFC Workforce survey

CFFC Financial Capability Barometer 2018 - A sample of 276 aged 65+ who said they were not retired indicated:

- 76% said they enjoy using their skills and talents, keeps their mind and body active
- 56% said they choose to maintain their standard of living
- 46% like the social interaction
- 26% did not save enough earlier in life

CFFC Financial Capability Barometer 2018

Of 1077 **retired** people most of whom are 65+:

- 78% of 65+ retirees rely on NZS as main source of income, 1 in 5 of those struggle to make ends meet
- Around 75% of retirees have at least one other source of income
 - Common sources of extra income: savings (49%), investment income – bonds, shares etc (20%), KiwiSaver (18%)
- Around 49% of retirees 65+ use savings to supplement NZS
 - Those relying on NZS have a lower (58%) rate of home ownership than those with other sources of income(78%)

CFFC KiwiSaver Survey – April 2019 N=2000

What are the reasons you are not in KiwiSaver? By age group	Age Group			Total
Age Group	18-33	34-49	50-65	
Have never been employed	9.0%	4.3%	3.7%	5.2%
I have currently no income	15.3%	16.0%	20.7%	17.8%
I have an income, but I cannot afford KiwiSaver	18.9%	21.0%	24.5%	21.9%
I am afraid that the government may change the rules to the disadvantage of KiwiSaver members	9.0%	11.7%	13.3%	11.7%
Don't feel comfortable with the risk	13.5%	16.0%	11.7%	13.7%
I have other savings/investments that will secure a comfortable retirement for me	9.0%	14.8%	29.8%	19.5%
KiwiSaver fees are too high	2.7%	3.7%	6.4%	4.6%
My preferred investments options are not available in KiwiSaver	3.6%	3.1%	4.8%	3.9%
I do not know enough about KiwiSaver	28.8%	24.7%	8.5%	19.1%
Other	21.6%	11.7%	9.6%	13.2%

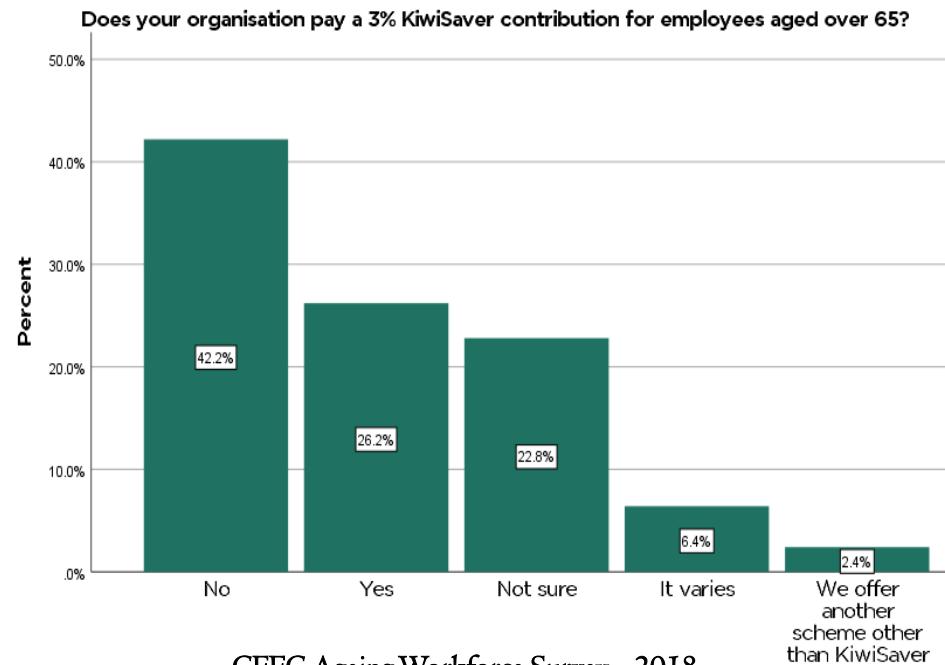
KiwiSaver – recommendations adopted

- People over 65 eligible to join KiwiSaver from 1 July 2019 -

Employer contributions not compulsory for 65+:

"We note however, that more than 80% of people over 65 who are members of a KiwiSaver scheme currently receive employer contributions even though it is not compulsory. On this basis we don't see a need to amend this clause."

– Taxation (Annual Rates for 2018-19, Modernising Tax Administration, and Remedial Matters) Bill – Commentary – page 8.



KiwiSaver – recommendations adopted

- Additional employee contribution rates (6%, 10%) – more options on how to contribute, positive incentives for saving
- ‘Contributions holiday’ now called ‘savings suspension’, with maximum one year suspension before member needs to renew it.
- Member Tax Credit also renamed Government Contribution.
- Providers to disclose total dollar cost of fees on annual statements – improved disclosure

Yet to be adopted:

Increasing minimum employer contribution rate from 3% to 4%

Adding an automated option to allow increased contribution rates over time

Kiwisaver

From 1 July 2019:

- People 65 and over will be eligible to join KiwiSaver
- New members 60-65 will no longer be locked in to the scheme for five years.
- Members between 60 to 64 who enrol on or after 1 July 2019 will be able to withdraw their KiwiSaver funds at 65.
- Anyone 60-64 joining before 1 July is subject to 5 year lock-in, so eligible for government / & employer contributions for that 5 year period

From 1 April 2020:

- KiwiSaver members impacted by the 5-year lock in period (i.e. members who enrolled before July 2019, and who were aged between 60 and 64 inclusive when they enrolled) can elect to opt out of this lock in period any time after they reach 65.
- If they opt out, they will no longer be eligible for government contributions and their employer can stop making employer contributions.

With no 5 year lock in from 1 July there is no compulsory government or employer contributions after 65 regardless of whether you joined in (after 1 July) – say in at 63

KiwiSaver - is it really lower cost?



Smart Investor compares the different costs between KiwiSaver and other managed funds
<https://smartinvestor.sorted.org.nz/>

Type	KiwiSaver average (highest)	Other managed funds average (highest)
Conservative	1.12% (1.65%)	1.22% (2.43%)
Balanced	1.40% (2.60%)	1.80% (3.49%)
Growth	1.49% (2.23%)	1.80% (4.36%)

- Arguably, over-65s had been stuck with higher-priced options by being excluded from KiwiSaver (depended on the individual fund chosen).

KiwiSaver: Default funds, regulation, fees and random thoughts

John Cliffe

Authorised Financial Adviser

Discretionary Investment Management Service Licensee

Cliffe Consulting

346 people died recently because two of these planes crashed



www.b737.org.uk

Regulator failure

6

FAA largely relied on Boeing to certify the new plane

Institutional failure

Insufficient testing by Boeing. Very faulty system.

Denial - Pilots at fault

Black boxes

Institutional failure



Royal Commission Report into the
Misconduct ...

Regulator failure

ASIC and APRA

Solution is what?

“We’re different over here in New Zealand”

Denial



Yeah, right!

In July 2018, a group of independent Authorised Financial Advisers wrote an open letter ...



**MEDIA OUTLETS
THAT REPORTED
ON THIS STORY
INCLUDED:**

NZ Herald
Stuff.co.nz
Scoop Business
Desk
Good Returns
Radio NZ
Newstalk ZB
Otago Daily
Times
Christchurch
Press
Manawatu
Standard
Southland Times
Sharechat
Taranaki Daily
News
Timaru Herald
Waikato Times
Voxy
Bay of Plenty
Times
Hawkes Bay
Today
Rotorua BOP
Daily Post
Wairarapa Times
Age
Wanganui
Chronicle
Indian Newslink
MSN
Newsie
NZ City
Insurance
Business Online
The News,
Westport
Uncensored
Interest.co.nz

- Conservative, when a member's objective is retirement
- Default providers fail to move members out of a temporary fund
- Default funds investing in each other's products
- Default funds wrongly marketed to the public as low risk
- Default members and any auto-enrolled KiwiSaver member being taxed at highest possible rate of 28% (final tax)
 - IRD deliberately not providing field for PIR rate on KS1 and KS2 forms
 - IRD not providing default providers with sufficient contact information
 - IRD website unhelpful - tax rates and wrong KiwiSaver balances
- Regulator not acting on non-performance of default providers
- Most recently, regulator failing to stop AMP's false radio advertising

Regulatory failure to act

- 2010 "... it is hoped that members with the help of providers will consider longer term investment option which are more suited to their risk and age profile ..."
- 2011 Copy and Paste
- 2012 "... there is ... a desire ... to adopt longer term investment options that are the most appropriate for their life stage ..."
- 2013 "FMA has an interest in working with Inland Revenue to ensure any issues ... are dealt with in a timely manner with minimal impact to members."

Regulatory failure to act

31

2014 Formal review. Massive support in submissions for a change to anything but Conservative Funds.

Result: **No Change**

2015, 2016, 2017 - More talk no significant action

2018 "... We have been reporting on this activity since 2016. (*Now termed financial literacy*) Last year we made our expectations and our concerns clear to the CEOs of default providers about the low levels of commitment demonstrated by their overall results."

Scheme	Total default members¹	Default members making an active choice within the named scheme number²					
		2018	2018		2017	2016	
Booster	18,308	2,797	15%	1,282	9%	2,205	22%
ANZ Default	72,443	7,615	10%	3,651	5%	4,868	6%
Mercer	81,861	6,263	8%	2,553	3%	5,033	5%
BNZ	22,172	1,112	5%	449	3%	355	3%
KiwiWealth	22,295	1,064	5%	624	4%	478	4%
Fisher Two	68,508	3,316	5%	3,462	5%	2,781	4%
ASB	90,456	3,766	4%	1,394	2%	1,441	1%
Westpac	22,492	660	3%	385	2%	440	4%
AMP	112,620	2,073	2%	2,286	2%	11,007	8%
	511,155	28,666		16,086		28,608	

1. The sum of contributing default members at the start of the reporting period, plus all new default members gained during the year, plus all non-contributing default members at the start of the reporting period.

2. Rounded to nearest %.

FMA's Unused Powers

33

“Under the KiwiSaver Act we are able to require any default provider to take remedial action to address breaches of their Instrument of Appointment. Further, if the remedial action is not done, or unsatisfactory, we can recommend the Minister of Commerce suspend new allocations of default members to the provider concerned, or even terminate their default status.”

Source: FMA KiwiSaver Report 2017

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2. Rounded to nearest %.

Impact of over-taxation verses fees

36

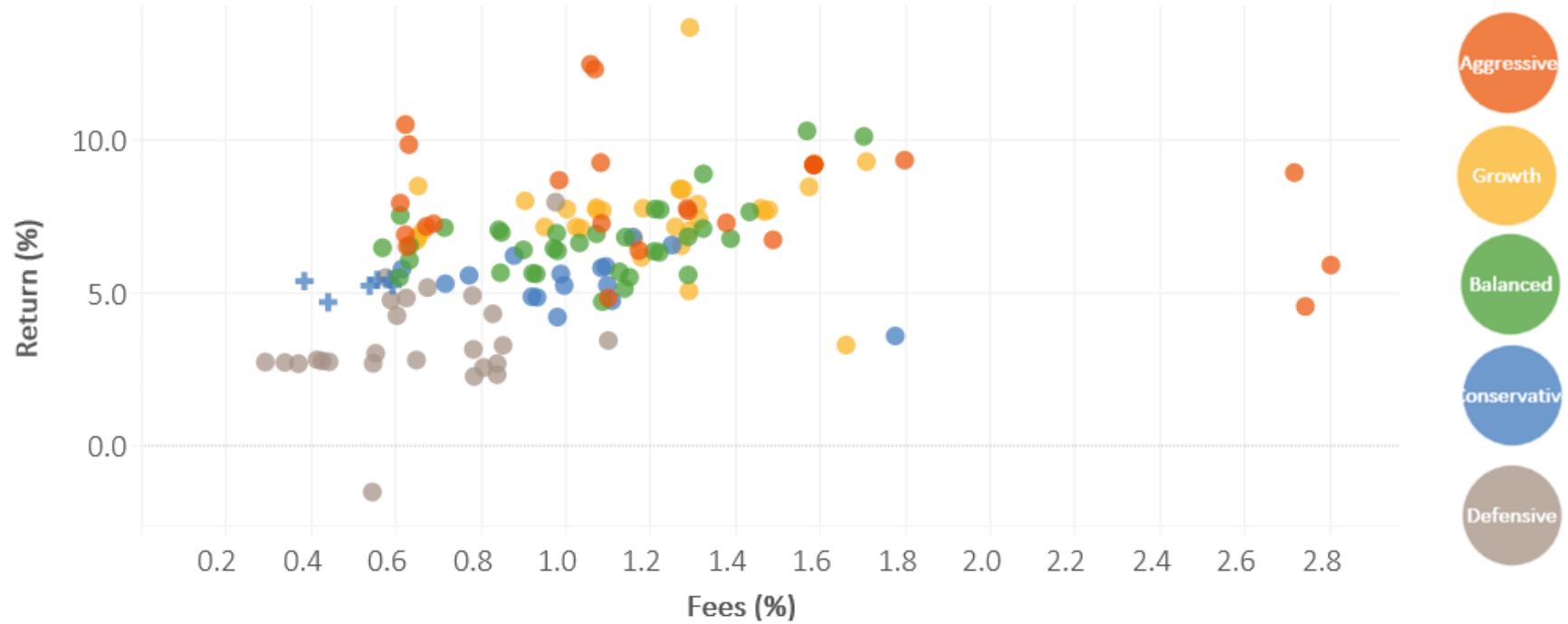
Average KiwiSaver balance, 2018	\$17,130	
Average return was 7%	\$1,199	
Less average fees \$162	\$1,037	
Tax at 28%	\$290	
Tax at 17.5%	\$181	\$109 over-taxed
Tax at 10.5%	\$109	\$181 over-taxed

Note: assumes entire investment return is taxable

Correcting over-taxation matters more than fees for many members

FMA KiwiSaver Tracker, 5-year returns (after fees) ending 31 December 2018

38



Fund type matters more than fees

If the FMA and IRD have not correctly managed nine KiwiSaver default funds then how can they manage hundreds of financial advice providers (FAPS) under the new Financial Services Legislation Amendment Act without radically changing their mode of operation?

The NZ regulatory and institutional approach needs a serious overhaul.

To conclude, I have 12 specific recommendations:

1. IRD and the FMA must fix the tax issue for default and all KiwiSaver funds immediately – and even pay back over charged taxes?
2. IRD needs a massive marketing campaign around myIR log accounts. Immediately stop providing wrong member balance information.
3. IRD must provide **ALL** contact details to KiwiSaver providers upon auto-enrolment, including correct PIE tax rate. Annually updated.
4. **Five (or six) of the current default fund providers need to be removed and, if practical, new ones added and/or a government default fund operated by a third party.**

5. KiwiSaver fund managers cannot be allowed to operate as Charitable Trusts and must meet stringent marketing and advertising standards.
6. Default providers must meet a minimum annual percentage target for transfers out with hard defined consequences if they do not.
7. Default funds must not have active choice members. The word “Default” is not to be used in conjunction with any other fund offered by provider.
8. **Anyone giving regulated financial advice must solely use the definition of their role in the new Act. The FSPR needs to identify all FAPs, financial advisers and nominated representatives. Specify their relevant competencies. All involved need consequences for bad behaviour.**

9. The default funds must be diversified and could be any of the following: Balanced, Growth or perhaps Life Stage funds.
10. Financial education courses need to be implemented in all secondary schools in New Zealand at a deep level.
11. Regulators need to have very defined requirements of all parties (keep it simple) and be themselves judged on meeting targets. Handle all issues promptly and decisively unlike the current processes. More action less talk. Forget self-promotion. Outcomes matter more than processes.
12. **Its business. Regulators need to use business strategies and leverage. Results matter, perform.**

FINANCIAL SERVICE ADVICE: IS ONLINE ADVICE THE ANSWER?

RICHARD KLIPIN, FINANCIAL SERVICES COUNCIL

SHAPING FUTURES

CLOSING THE KIWISAYER GAP



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24

Powered by
Horizon Research
LISTENING TO NEW ZEALAND

In partnership with
Trustees Executors

SUMMARY OF RECOMMENDATIONS

RECOMMENDATIONS #1: CONTRIBUTIONS

The research demonstrates that radical changes to enable flexible, controlled and automatic increase in contributions should be introduced.

RECOMMENDATIONS #2: TAKING CONTROL

The research demonstrates the need for consumers to shape their own futures and Government to mandate help and guidance for New Zealanders to ensure better savings outcomes. Political parties should be working together to enable a forward-thinking superannuation strategy and ensure that the most vulnerable in our society are protected.

RECOMMENDATIONS #3: GETTING THE MOST OUT OF KIWISAYER

The research demonstrates the need for the Government to review the rules on default fund allocation, incentives (including multiple retirement ages) and centralise hardship evaluations.

RECOMMENDATIONS #4: ADVICE

The research demonstrates the need for clearer information, easier switching decisions and integration of new technology to improve proactive and transparent advice.



KEY FINDINGS

Generation KiwiSaver think...

Average estimate means a weekly shortfall of NZ\$205 in retirement

Most are reliant on KiwiSaver as primary asset to fund homeownership and retirement

Over half fear home-ownership is out of reach, and two thirds are scared of being unable to afford retirement

Need help to plan and build sufficient wealth and are open to different ways of receiving advice

Great expectations experience...

An average gap of NZ\$218 in post-retirement income to live comfortably

Full reliance on KiwiSaver / superannuation pension income after 10 years of retirement

The family home is the main asset and decumulation advice still needed, especially as they look to sell to fund a savings gap

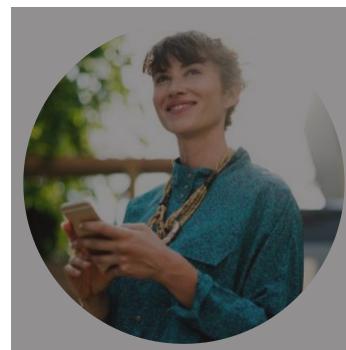
Almost half would have liked more financial advice

KEY FINDINGS

The fears of younger generations are a reality to retirees



"The cost of living is just going up and up. To live comfortably when older I would need to be employed at a good rate working full-time for many years and giving up things while young to afford a suitable lifestyle when in retirement if I can afford to when old."
(18-24 years, Wanganui)



"I am concerned because I think it is unlikely I will have saved enough. I also think that the government will probably not be able to afford to provide NZ superannuation at the current rates."
(25-34 years, Auckland)



"I have not been retired long, two months, but it is abit scary now that the till has stopped."
(71 years, Auckland)



"I am worried about my finances in retirement. I am trying to cut down my spending and have cut down, but not by enough. So I do fear the longer term future and whether what I have saved, will last long enough."
(65 years, Porirua)

THE VALUE OF FINANCIAL ADVICE

- Investing well
- Trust
- Cashflow
- Save \$\$
- Protecting Assets
- Manage Budget
- Buy a House
- Advice
- Peace of Mind
- Plan for Retirement
- Confidence in future
- Manage Debt

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REGULATING FINANCIAL ADVICE



AUSTRALIAN ROYAL
COMMISSION



THEMATIC REPORTS



CONDUCT AND
CULTURE

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FPB RESEARCH- HUGE LATENT NEED FOR ADVICE

- 19,000 consumers surveyed
- Worldwide research
- Key Findings
 - 22% of people are achieving their financial goals
 - 17% feel confident in their knowhow
 - 19% feel they can go the distance - focus & discipline
 - 68% said trustworthiness was the most important aspect
 - Huge gaps in literacy, confidence & knowhow



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TECHNOLOGY DRIVING CHANGE

- Advice will continue to be a focus of regulation.
- This will lead to an increase of ready-made solutions
- Wide range of products will develop from the simple for the mass market, to the complicated for the high-end and niche market.
- Technology will have a significant impact on the value chain and organisations specialising in underwriting, claims and operations will continue to form.
- The investment process will become digital and transparent. Aggregator digital solutions will be able to provide this

LOOK AROUND US

- The world's largest taxi firm, Uber, owns no cars.
- The world's most popular media company, Facebook, creates no content.
- And the world's largest accommodation provider, Airbnb, owns no property.

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THE RISE OF ROBO-ADVICE

Robo-advisers are essentially complex software programs that use algorithms to automatically perform many investment tasks done by a human financial adviser.

Pros:

- Easily accessible — you just need the internet
- Low fees
- Fewer conflicts of interest
- Low minimum requirements

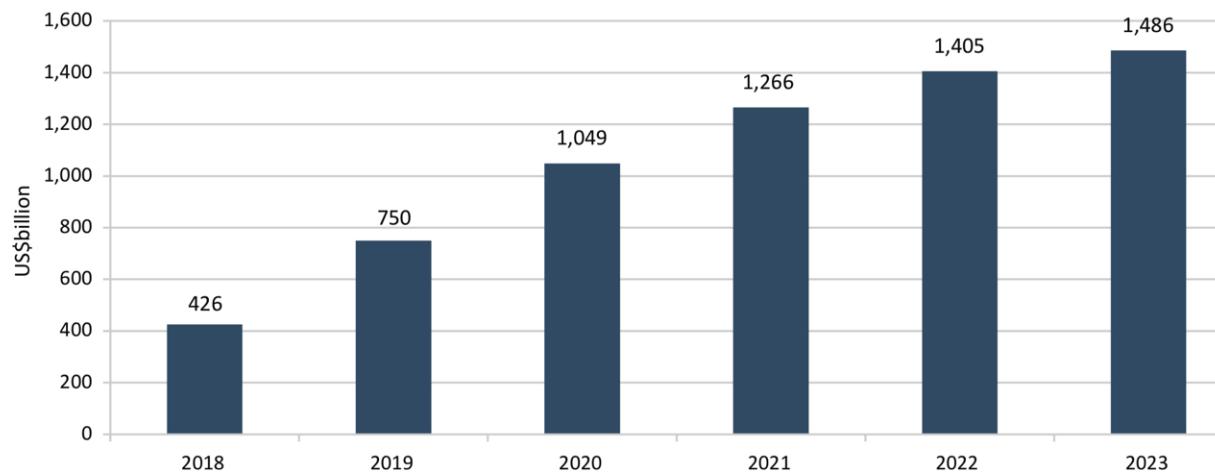
Cons:

- Most offer a narrow range of services
- They rely on information from a brief questionnaire and may not provide a complete overview
- They might not ask about other investments
- Could lead to consumer disengagement
- No comfort of human interaction
- Business models have not been tested. What happens if a robo-advice company fails?

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THE RISE OF ROBO-ADVICE

The value of assets under management by robo-advisors is expected to more than triple between 2018 and 2023.



Source: Statista 2019.

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INNOVATION CONTINUES A PACE

Innovation 1: Online end-to-end, omni-channel solutions will cause a shift in the model for client acquisition/engagement and advice delivery.

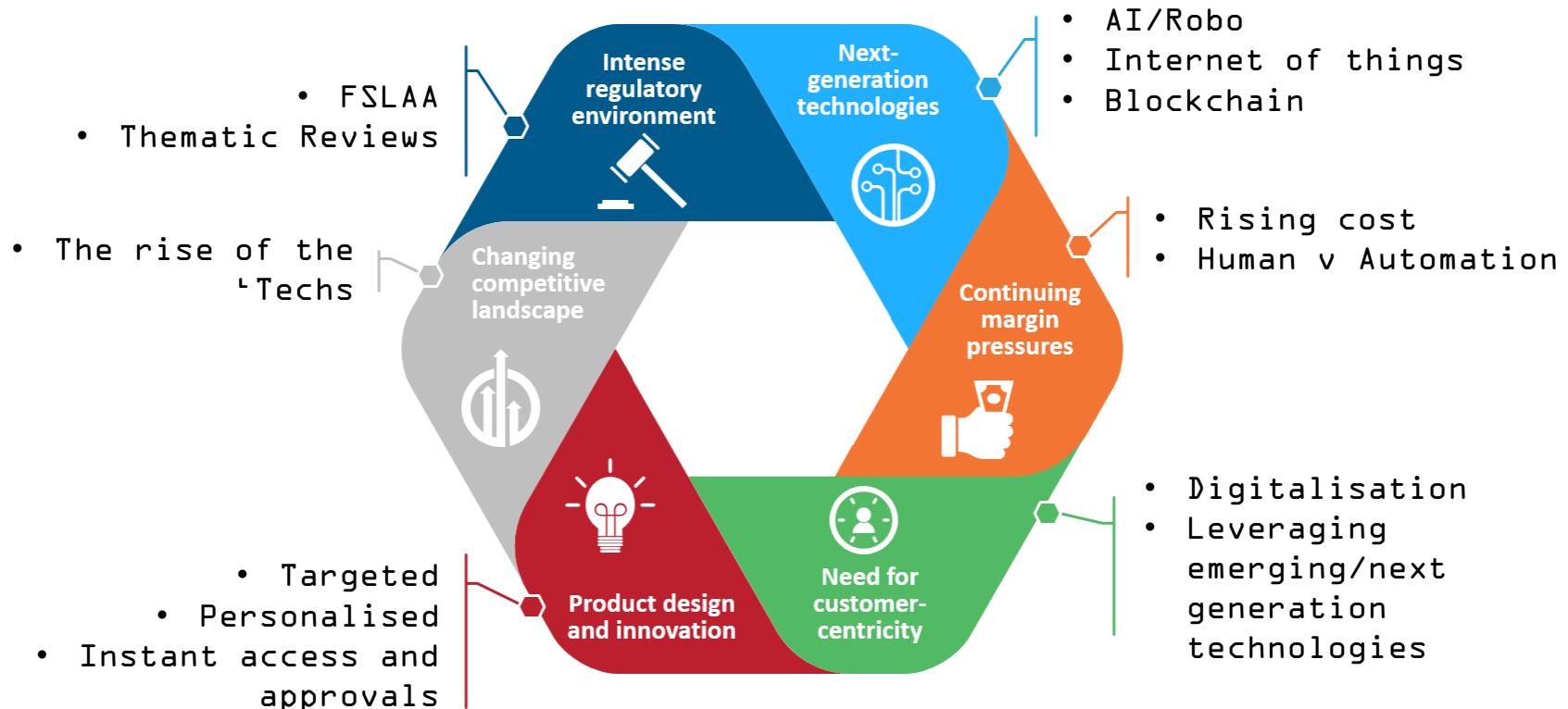
Innovation 2: Integration of “Big Data”/“Bio Data” from non-financial aspects of a consumer’s life (i.e., online social media, health, behavioral or job-related information) that will enable predictive modeling and the nimble execution of adjustments, in real-time, to a client’s financial plan.

Innovation 3: The shift to online/mobile/apps will erase physical borders, dramatically expand product and service options, re-invent advisory services, empower consumers, and increase risk.



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A BRAVE NEW WORLD OF ADVICE



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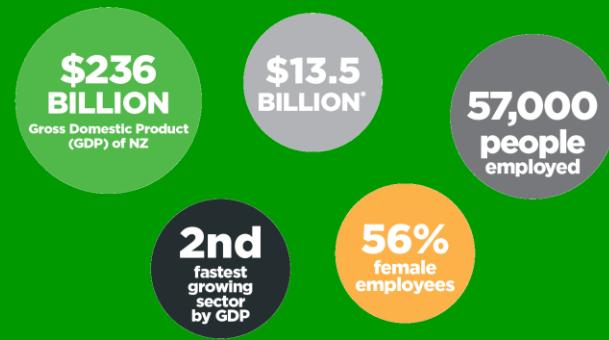


@FSC__NZ Financial Services Council New Zealand @financialservicescouncil

ANZ Centre, Level 33 | 23-29 Albert Street | Auckland 1010 | t: + 64 (0) 9 985 5762 | e: fsc@fsc.org.nz

THE FINANCIAL SERVICES INDUSTRY IN NZ

FINANCIAL SERVICES INDUSTRY CONTRIBUTION TO NEW ZEALAND

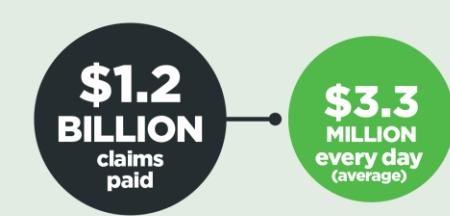


GROWING WEALTH: THE INVESTMENT INDUSTRY



* Financial and insurance services GDP

PROTECTING WEALTH: THE LIFE INSURANCE INDUSTRY



DISTRIBUTION AND ADVICE



THE FINANCIAL SERVICES COUNCIL



Sources: Stats NZ, LEED, FSC Statistics, RBNZ, Morningstar, FMA.

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BUSINESS SCHOOL

Summit:

2019 Retirement Income Policy Review and You

Retirement Policy and Research Centre | Public Policy Institute | TOR Financial Consulting Ltd

Decumulation

A major issue for the 2019 review?

Susan St John

New Zealand retirement system

Simplest in the developed world?

- **New Zealand Superannuation**

PAYGO, universal flat rate pension

- **KiwiSaver** *National Auto-enrolment*

lumpsum savings



Are we dangerously complacent?

Here we go again?

TERMS OF REFERENCE

“An assessment of decumulation of retirement savings and other assets, including how the Government can ensure New Zealanders make the most of their money in the decumulation phase.”

Past efforts

2012 Forum: *Spending the Savings: Decumulation & Middle-income Retirement*

2014 Forum : *Decumulating retirement savings: making the options work*



Decumulating retirement savings: making the options work

This forum was co-hosted by the Retirement Policy and Research Centre and the Commission for Financial Literacy and Retirement Incomes.

Date: 21 November 2014

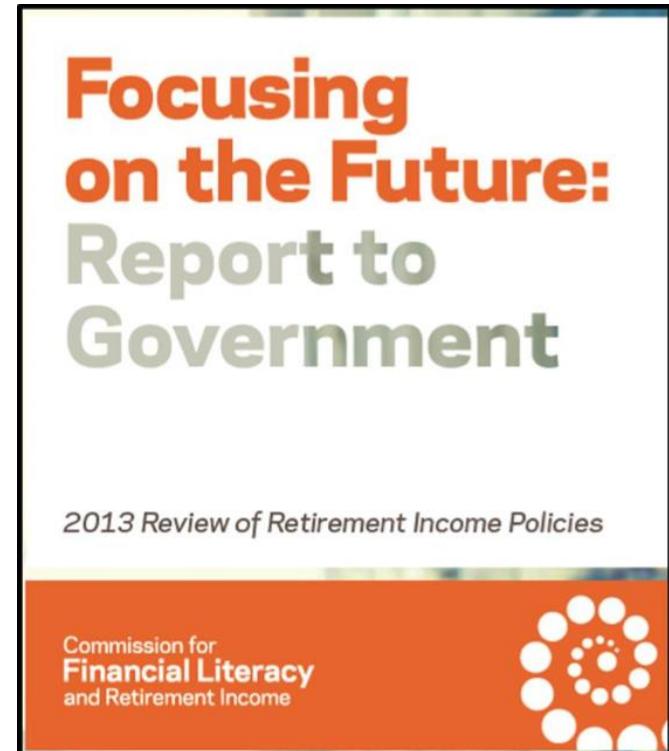
Time: 8.30am-5pm

Presentations

-  [Susan St John: Introduction on Decumulation](#)
(758.9 kB, PDF)
-  [Jeremy Cooper, Challenger: The rebirth of lifetime annuities in Australia –'like a retirement pay cheque'](#)
(903.8 kB, PDF)
-  [Andrew Ford, Heartland: Home equity release presentation](#)
(1.3 MB, PDF)
-  [Ralph Stewart, NZIF: Shaping the Retirement Income Industry - A Private Sector Approach](#)
(3.8 MB, PDF)
-  [Susan St John: Life annuity proposal with long term care insurance "KiwiSpend"](#)
(876.4 kB, PDF)
-  [Panel Session: consumer's perspective. Ana-Marie Lockyer: ANZ survey](#)
(583.6 kB, PDF)
-  [Margaret Owens, RVA: Retirement Village Perspectives](#)
(2.7 MB, PDF)
-  [Kathy Peri, School of Nursing, University of Auckland : Consumers Perspective](#)
(650.1 kB, PDF)
-  [Martin J. Connolly, Freemasons' Professor of Geriatric Medicine, University of Auckland: Making the options work](#)
(3.0 MB, PDF)
-  [Patrick Nolan, New Zealand Productivity Commission: Reform of the UK's decumulation market](#)
(784.9 kB, PDF)
-  [Michael Littlewood and Michael Chamberlain: Taxation, decumulation and annuities](#)
(696.3 kB, PDF)
-  [Alison O'Connell, Daniel Mussett, Mark Channon: NZSA: Income Streaming in Retirement](#)
(313.6 kB, PDF)
-  [Plenary notes](#)
(192.4 kB, PDF)

5 years ago

- Recommendation: That the Government agree to the Retirement Commissioner convening a broadly representative review to determine the viability of different approaches to the voluntary annuitisation of savings, including KiwiSaver balances on retirement



How well do we meet policy aims for income sufficiency.

- Poverty amelioration
- Poverty prevention
- Belonging and participation
- Income continuance

How much more income is needed to supplement NZS for a modest standard of living for middle income retirees?

Demise of DB schemes

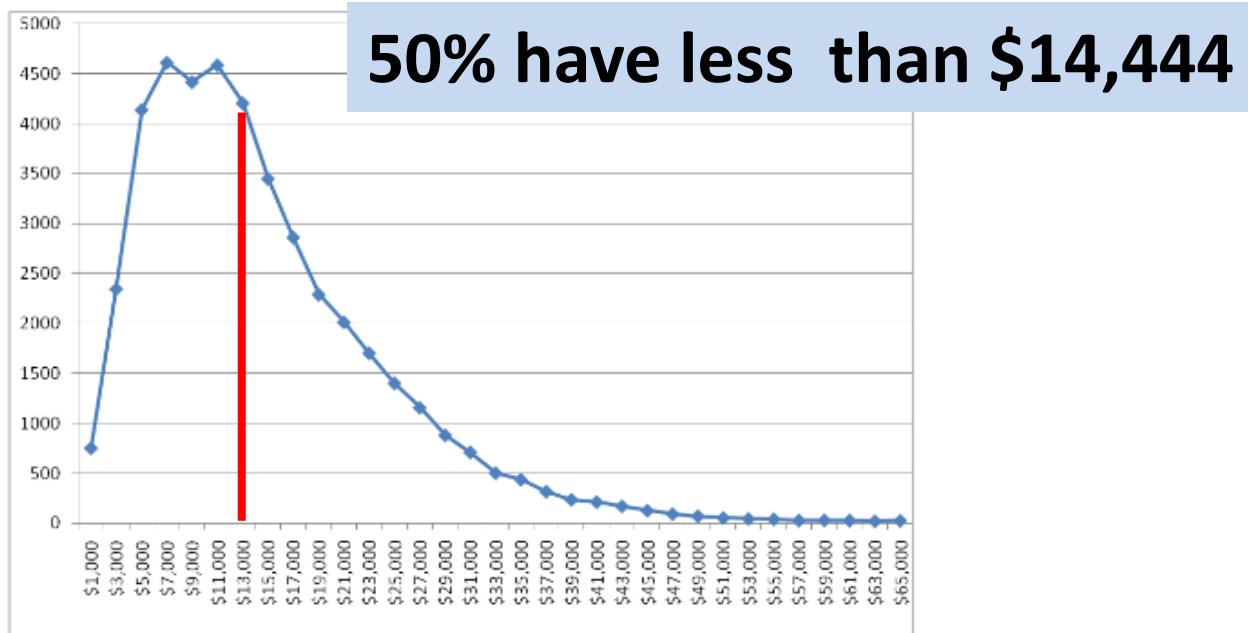
There are only around 50,000 of working age remaining in a defined benefit scheme including 7,700 in the GSF.

It is clear that there will be far fewer retirees with a supplementary private pension in the future.”

The lucky generation

- One in ten over 65 have a private pension
- Two in 3 pensions are Government Super Fund annuities

GSF annuities in payment 30 June 2013



What do we know about the annuitant population?

- Do they regret alienating their capital?
- Do their children regret it?
- How much difference has it made?
- Is inflation proofing important?

GSFA research is asking the questions:

“The choice to 'start' was almost arbitrary. When I resigned through health, with no income, GSF was a Lifesaver. The annuity I am now receiving is an important part of my financial security.”

Do we agree what the problem is?

NZS- *the perfect annuity*

But....

Middle income groups are on their own for income over and above NZ Super

- Lump sums may be used up too quickly
 - KiwiSaver
 - Other savings
- Barriers to drawing on home equity
- Longevity risk not insured
- Investment and inflation risk is real
- Risk of expensive healthcare- Long-term care costs
- Rental income –raft of problems
- Elder abuse and scams
- Dementia/cognitive decline

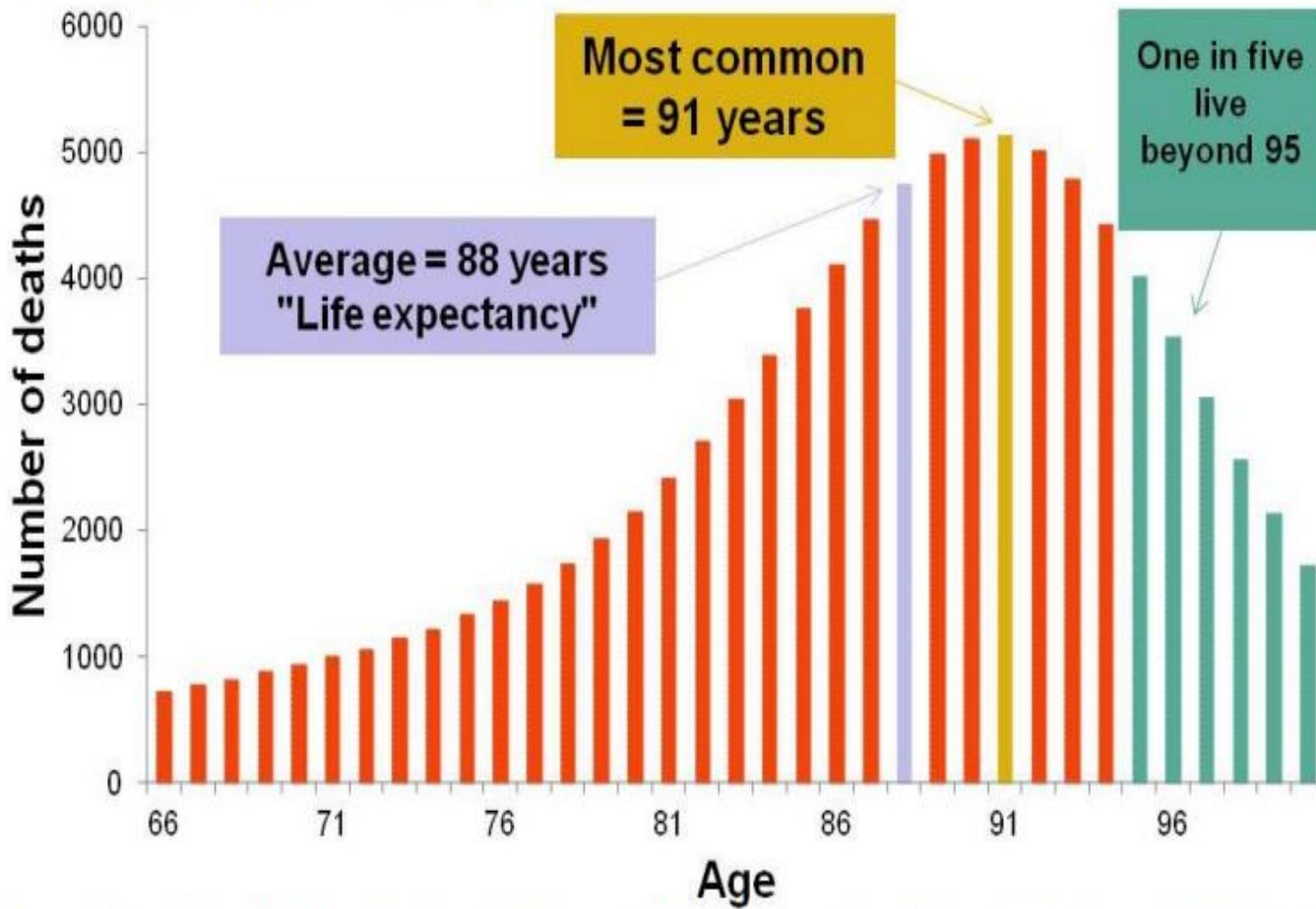
- Is the lack of action because the private market is suppose to solve it?

Insurance markets generally fail to provide for

- Uncertain longevity
- Investment risks
- Unexpected inflation
- Expensive end of life care

Uncertain longevity

Estimated number of deaths at each age (from 65 to 100) for 100,000 female New Zealanders who reach their 65th birthday in 2014



See O'Connell (2012) *Underestimating lifespans? Why longevity risk exists in retirement planning and superannuation policy*, Victoria University. Data from Statistics NZ cohort life tables using mortality assumptions in 2011-base population projections (median projection).

Inflation

My grandfather- stationmaster



Retired at 52 in
1932

35 years of
unadjusted
pension of £400

The value of inflation protection

A basket of goods and services
that cost \$3,000.00
in quarter 1 of 1972
would have cost

\$38,590.28

in quarter 3 of 2014

Total percentage change	1,186.3%
Number of years difference	42.50
Compound average annual rate	6.2%
Decline in purchasing power	92.2%
Index value for 1972 quarter 1 is	93.2
Index value for 2014 quarter 3 is	1199.0

Statement Last Updated: 19/11/2014 12:55:44 p.m.

Clear

Gender inequity

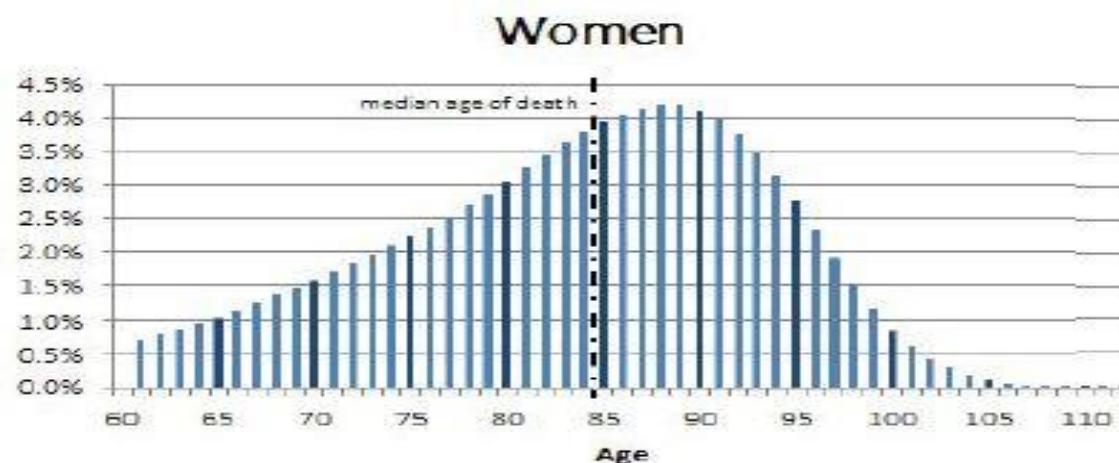
Fig 1.

Distribution of Projected Age of Death for Men and Women

Age 60 as of 2010



Insurers
differentiate on
gender because
they can



Other factors
better...

(Brookings 2014)

Uncertainty: Expensive end of life care:

Asset limits for Long term care subsidy

Years	Single person	Married couple with one in care	Married couple, both in care
2019 CPI adjusted	\$227,125,	\$124,379, + house +car <i>or</i> \$227,125 total	\$227,125

We could wait for the private sector to develop life annuity products and Long-Term care insurance but...

Yes there is a bright spot NZ's fledgling annuities market

A guaranteed income for life

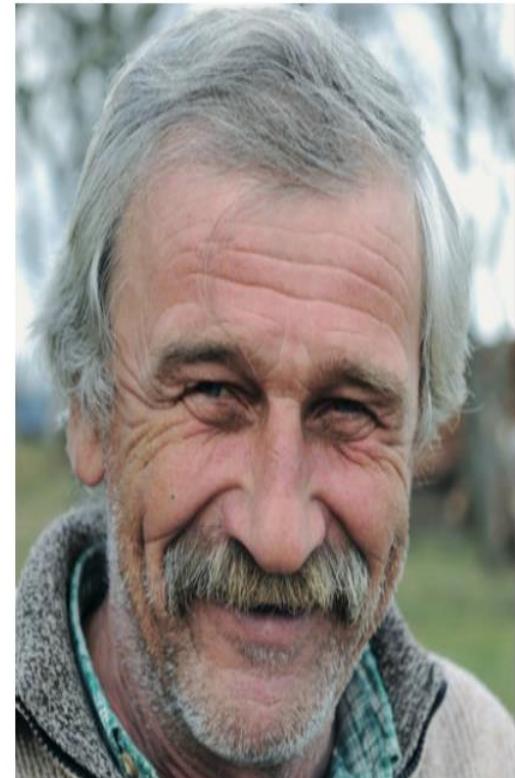
Your retirement's a new adventure. It's the reason you started saving all those years ago. But now that you're finally here, how do you make sure your savings last as long as you do?

Your pay cheque may have stopped but the bills haven't, so how do you make a lump sum last a retirement that could span 30 years?

Lifetime can help you turn your savings into a fortnightly income that's insured to last the rest of your life, no matter how long you live.

Regardless of what happens to interest rates or financial markets, the income you get from Lifetime is insured and guaranteed for life.

**“I love knowing my pay cheque will arrive every
fortnight for the rest of my life”**



Australia miles ahead

Retirement Income Covenant Position Paper

Stage one of the Retirement Income Framework

May 2018



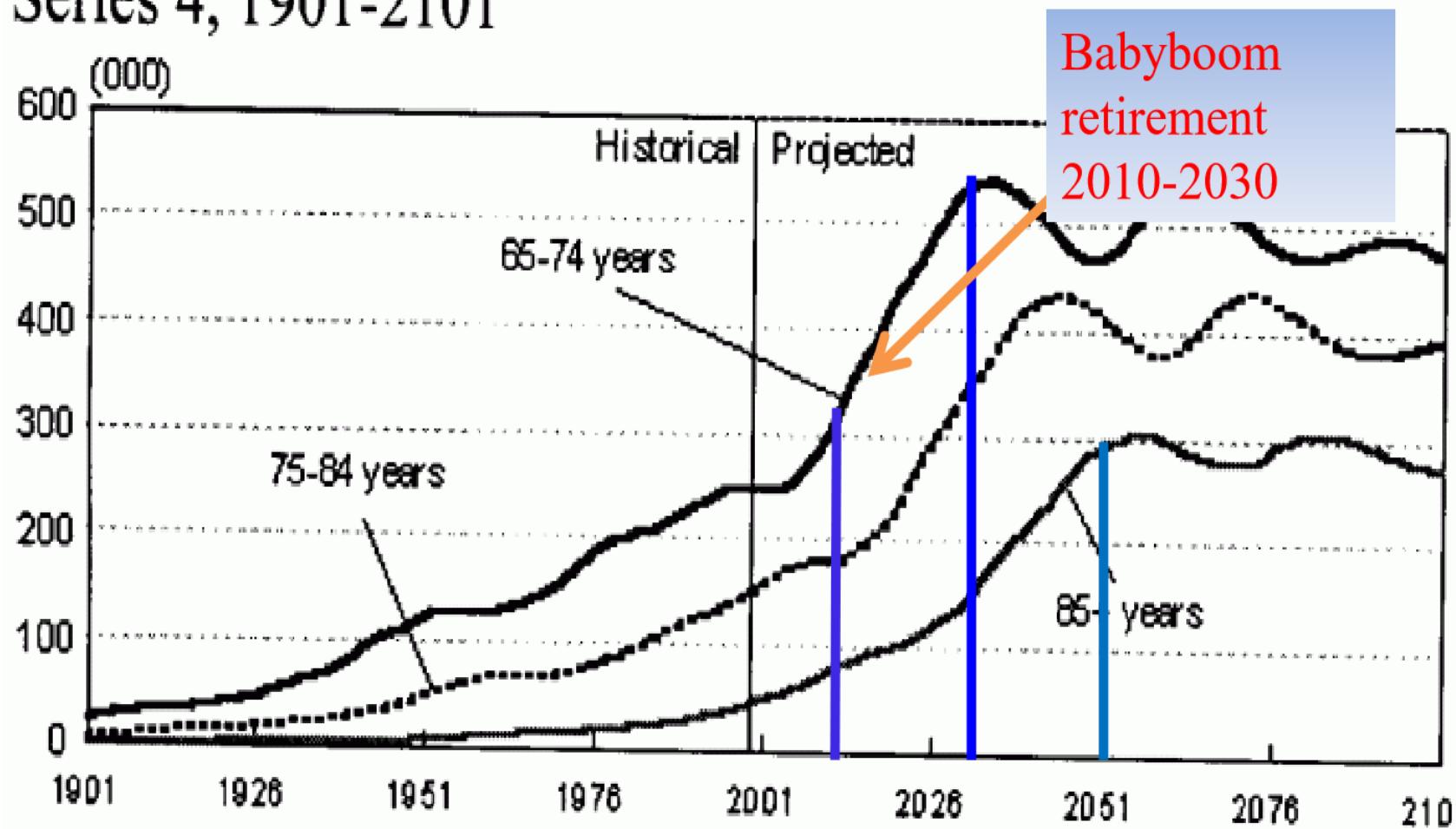
Comprehensive Income Product for Retirement

CIPR is designed to provide:

- efficient, broadly **constant income**,
- longevity risk management (**income for life**);
and
- some **access to capital**.

Time is marching on

Population Aged 65+ Years by Age Group
Series 4, 1901-2101



We could grasp the issue with urgency as a public policy issue

A generic **KiwiSpend** product

- Paid for with **KiwiSaver plus other saving**
- Mimic the clever advantages of KiwiSaver- branding, oversight, management
- May offer choice **but aim for max of \$12,000 at age 65**
 - Limits subsidy

Question

Should there be a state agency to manage these income streams or should KiwiSaver providers manage KiwiSpend?

New Zealand retirement system

- **New Zealand Superannuation**

PAYGO, universal flat rate pension

- **KiwiSaver** *National Auto-enrolment*

lumpsum savings

plus

- **KiwiSpend default** *Life annuity with Long term care insurance option*

at age 65-74

inflation-proofed,

max \$12,000

government guaranteed

Backed by NZSF

Gender neutral

Paid for at age 65 with cash and if suitable, equity share in housing

Treble on going into care

Final observations

- This is long term policy and requires
 - Huge policy development
 - Political accord and long term stability
 - Isn't suited to 3 yearly reviews
 - Have we got our framework right?