



BUSINESS SCHOOL

Summit:  
**2019 Retirement Income  
Policy Review and You**

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

# Thoughts and aspirations

**A snapshot of the speech  
by Hon Kris Faafoi**

Minister for Commerce and Consumer Affairs,  
Broadcasting, Communications and Digital Media  
Civil Defence, Customs

# Talofa, Malo e leei, Tena koutou,

Helping kiwis plan for retirement is key to ensuring lifelong wellbeing. Fundamentally, we want to see all New Zealanders reach retirement with choices and flexibility. But unfortunately there are barriers for some that prevents them realising this goal and causes financial stress.

As a Government we are tackling many of the issues that contribute to financial stress. Part of this plan in reducing inequalities is to build a strong and inclusive economy that delivers for all New Zealanders by growing and sharing our prosperity more fairly.

In my area, as the Minister of Commerce and Consumer Affairs, I want to see New Zealanders well informed, and equipped with the best tools to navigate all the financial decisions that come their way.

To realise this, we need to ensure the policy settings are right so that all New Zealanders have the best opportunities available to them.

The three-yearly Retirement Income review gives us the opportunity to take stock and consider changes in the financial environment. We need to have frank conversations about these and the Review is one way for you to get involved in that conversation.

Government alone can't solve these issues. But, we can work together with the private sector and non-government organisations. I see government's role as helping great work to take place and facilitating collaboration between organisations working in this area.

From a policy perspective, you have my commitment that we will do what we can to help people cope with life's uncertainties and prepare for retirement through savings and wise financial management.

I will look forward to working alongside you to make that happen.

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# Overview and reflections

Len Cook

# Approach to the 2019 Retirement review

- *Todd task force model seen as gold standard so far*
- *Recognition of periodic policy renewal*
- *Need to invest in information base to better inform future reviews*
- *Need to look at assuring the integrity and trustworthiness of processes in both private and public sector*
- *Enrich the quality of analysis from the existing databases*
- *Commission evaluations of KiwiSaver and NZ Superannuation Fund (NZSF)*
- *Analyse cohort differences in lifelong wealth accumulation*

# Predominant themes of the presenters and discussion at the forum

1. There is a large spread of matters relating to retirement policy on which there needs to be more coherence.
  - *Eg how Tier 1, Tier 2 and other investments (housing) fit together*
2. Opportunity for policy advances remain
  - *Rainy day accounts (perhaps up to \$50,000) - Inflation bonds possible through modified KiwiSaver model*
3. Importance on investing in a sound information base
4. Instruments of retirement policy need to invest where possible in the productivity of oncoming generations. [RPRC says: "how to make New Zealand more productive should be at the centre of discussions about the economic implications of an ageing population."]
5. Financial management
  - *The nature of NZ Superannuation (NZS) is that it takes the form of an annuity the level and form of which enables integration with workforce and financial assets*
  - *Need to start young, to gain the benefits of compounding of investment interest.*

6. Processes to audit for the inequity in financial systems increasingly recognised as important, as highlighted by the findings of the Australian Royal Commission on Banking and recent credit costs review in New Zealand.

- *Power imbalance between consumers and finance sector*
- *Other forms of inequity can arise through state administration of means tested benefits*

7. Weaknesses of NZ finance sector remain

- *Lack of annuity markets -NZS effective as floor level annuity*
- *Fund management fees*
- *Limited reverse equity options for housing*
- *Decumulation remains a major concern*

8. Strong concerns about KiwiSaver remain

- *For whom is it a solution? - continued absence of any quality evaluation*
- *KiwiSaver funds management fees issues obscured by tax subsidies*
- *What is the relevance/ benefit of where the pension funds invest?*
- *Defined contribution schemes have shown little innovation for 30 years*
- *With one exception, absence of annuity market*

## 9. NZS form issues

- *Non-qualifying partners*
- *Residency period*
- *Accommodation supplement*
- *Single person rate*
- *Spousal deduction for overseas pensions*

## 10. Vulnerability in the viability of retirement provision arrangements in NZ

- *NZ model appears top of class, but has vulnerability*
- *Note that the NZ arrangements were seen in other countries as an ideal*
- *Since the introduction of NZS in 1977, elements of the retirement provision system have been continually changing*
- *Future affordability of NZS will be determined generation by generation*
- *NZS has been associated with strong increase in labour force participation of those aged 65 and over in NZ*
- *NZS has none of the complication of means tested arrangements regarding living arrangements (but does have differing rates)*
- *The level of benefit is not earnings related and is therefore less affected by life expectancy improvements of many European schemes.*
- *Large minority of those who move on to NZS now move from an existing income tested benefit*

# Important contextual information

- Stability of public provision important for enabling personal provision to adapt
- Public benefits of different retirement provision options will stack up differently to comparing just fiscal impact but need better measures of well-being to judge.
- Compression of morbidity not eventuated
- Large differences (ethnicity, social class) in disability free life years
- Disability is a lifelong issue
- Economic segmentation of retirement villages
- Expectation of retired to mix with younger generations
- Importance of the place of work in older ages
  - *High workforce participation of retired*
  - *Social benefits of employment with longevity*
  - *Working mothers*
  - *Expectation of flexible working*
- Cohort differences
  - *Importance of demography, as well as social and health characteristics*
  - *Impact of 1980s restructuring on wealth accumulation*
  - *Impact on Maori workforce*
  - *Ethnic diversity increasing*
  - *Age ratios changing due to volatility in birth patterns*
  - *Fertility decline (production/reproduction)*

# What received surprisingly limited attention

- ***Effect of shift in social protection model over past 3 decades***

- *Trends consistent with Shipley Code of Social Responsibility/ Social investment/ Predictive modelling*
- *Public housing narrowed to become social housing*
- *Significant social and demographic change altering family, whanau and household forms that are key to policy delivery and funding*
- *Requirement in means test benefits to run down personal capital before income support kicks in*

- ***Public Debt Management***

- *Worthwhileness of the NZ SF*
- *NZSF (& ACC \$40 billion) not included in financial assets - opportunity cost - these funds are at risk of equity failures*
- *Crude incomplete, inconsistent measures of public debt, assets and financial liabilities create policy constraints*
- *Debt targets comparatively flaky compared to the political significance that we give them, because of classification of NZSF, ACC, sinking funds for public assets in hospitals, schools, prisons and public housing.*
- *Public transfers (NZS) compared to GDP in order to relate to wealth creation, but they are not part of GDP.*