

# RPRC Update

Retirement Policy and Research Centre

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## Decumulating retirement savings: making the options work

**Forum: 21 November, 9am – 6pm, the University of Auckland**

**The Forum** builds on the RPRC Forum 2012: [Spending the Savings](#).

**The Forum** will bring together consumer and sector representatives, actuaries, academics and other experts to develop a report to the Government on the viability of various approaches to the decumulation of savings, including home equity release, drawdowns from savings, and different types of annuities. The needs of retired consumers are revealed by an ANZ survey, and discussed by representatives from the health sector, retirement villages and the CFLRI. Keynote speaker is Jeremy Cooper, Chairman of Retirement Income at ASX-listed Challenger Limited, an investment management firm, and a major annuity provider in Australia.

**The Forum** supports Recommendation 7 in the Retirement Commissioner's 2013 Review of Retirement Incomes: *Retirement Commissioner to convene a broadly representative review to determine viability of approaches to the voluntary annuitisation of savings, including KiwiSaver balances, on retirement.*



This Forum is supported by the Commission for Financial Literacy and Retirement Incomes.

**Registration now open [here](#).**

## Welcome to New Zealand, but perhaps farewell your overseas state pension

In *PensionBriefing* 2014-3 ([here](#)), and in an article in the New Zealand Herald ([here](#)), the RPRC challenges New Zealand's unjust treatment of overseas state pensions, giving particular attention to the so-called 'spousal deduction', affecting ever-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 in New Zealand (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 state pension is large, the MSD will deduct any surplus from the spouse's NZS. Sometimes these so-called state pensions closely resemble KiwiSaver. Many of those affected are not wealthy, but have spent years fighting their cases with officials and appeal authorities and through the courts.

For the past five years, 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.

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.

**Diary note: RPRC Pensions Policy Forum, 5 December, the University of Auckland.**

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## 22nd Annual Colloquium of Superannuation Researchers, 7-8 July

Hosts: CEPAR and School of Risk & Actuarial Studies, University of New South Wales



Dr M.Claire Dale presentation: **Turning silver to gold**

**Abstract:** This paper models current total state expenditure on all aged-care services and support, including the costs of New Zealand Superannuation (NZS), and uses that as a basis for cost projections for 2017 and 2022. Current government policies around support of 'the Silver', the population aged 65+, are expressed in various Acts. The Ministry of Social Development's websites, including that of Work and Income, provide information about financial and other support available, and the qualification conditions and requirements. Calculations of total current state costs of those aged 65+ draw on Statistics New Zealand's projections; the Treasury's Budgets; agreements between service providers and the Ministry of Health (MoH) and District Health Boards' reports; information from the Retirement Villages Association; and other published research. Estimates of future demand for institutional services and support rely on the MoH's 'Aged Care demand model'. The paper gestures to changes to expectations, technology, labour demand and supply, and other endogenous and exogenous changes to costs over time. The vast range of aged-care services and support, only some of which is means-tested, is additional to the universal access to free hospital-based health and accident care. The paper closes with proposals of policy options that could be applied in the future to 'turn Silver to Gold'.

Associate Professor Susan St John presentation: **KiwiSaver**

**Abstract:** New Zealand's KiwiSaver success with the 'soft compulsion' of automatic enrolment is influencing the design of opt-out schemes in the UK, Ireland and the US. While it avoids many of the problems that beset reform in other countries, there are lessons from KiwiSaver on what to avoid in the design of a national retirement saving scheme. These may include: opening it to children; offering housing subsidies; allowing too many providers and privileging some of these as 'default providers'; ignoring the issue of decumulation; and obscure objectives. Our experience suggests that auto-enrolment and large incentives to entice people to remain opted-in may ensure initial take-up is high. It also suggests the incentives may be reduced significantly *ex post* with little impact on membership. The employer contribution may provide an addition incentive for employees to opt in or stay auto-enrolled. However it raises an issue of remuneration policy and unfairness for those who are not in KiwiSaver. The first seven years show that KiwiSaver is a firmly established part of the New Zealand retirement income framework. It has the potential to contribute to financial literacy and it reminds people of their need to prepare for retirement. Yet the fundamental questions around its purpose and design have not been resolved.

## U21 Graduate Research Conference: Celebrating Ageing Research

1 – 4 July University of Auckland.

**Keynote presentation** by Associate Professor Susan St John, Co-director, Retirement Policy and Research Centre:

### **Policy research and the economics of ageing**

**Abstract:** Population ageing is occurring rapidly with many resource implications for society. While there are behavioural changes such as increased workforce participation of older citizens that mitigate the pressures, the economic costs are real and will increasingly impact on younger generations. The old themselves face increased risks and private financial markets largely fail to accommodate these. These are the risks of outliving capital in a time of increasing longevity, the risk of poor investment decisions, and the destructive effect of inflation on fixed incomes and the need for expensive long-term care.

If policies are seen to be unfair and to support the old over the support of the young, intergenerational conflict is likely.

Can we better protect the old and spread the costs of ageing more equitably– for example, making those who are older, healthier and wealthier pay a greater share? If so, how? One approach being developed in the RPRC is the use of a life-time annuity that is combined with long-term care insurance. This funding approach encourages intra-generational cost-sharing and may lessen potential intergenerational conflict. New Zealand may be in a unique position to design new policies and products of this type which better share the costs of an ageing population.



## The Ballot Box Panel Series, the University of Auckland Business School, 22nd July. Susan St John: [Healthcare: How do we pay for it going forward?](#) [Wellness and healthcare for all New Zealanders.](#)



Over 65s have been increasing faster than the rest of the population, and now number 620,000. The factors are: reduction in childhood mortality in the first half of the 20<sup>th</sup> century, and reductions in mortality at older ages. With improvements in life expectancy and the ageing of the baby boomers, the 65+ group will itself age.

By mid-century we will have 2 times as many people over age 65 as we have today, so about 1.2m. The proportion of those aged over 65 will increase dramatically from one in 8 to one in every 4 of the total population. There will be about 544,000 aged 65-74: their numbers double. There will be about 436,000 aged 75-84: their numbers treble. There will be about 307,000 aged over 85, as their numbers increase by a factor of 7. Actually, one in every 4 older people will be over 85 years. And the number of

those aged over 100 years is expected to increase by a factor of 40: from 300 today to 12,000. In 2051, there will be almost 140,000 people aged 90+ years, nine times the 2001 total of 15,000. In 2051, 11% of the 65+ age group will be aged 90+ compared with 3% in 2001.

The 4.3% of GDP spent on NZS in 2010 (over \$10 billion) is expected to increase to 7.2% of GDP by 2050 (net of tax: 3.7% and 6.6% respectively). The 6.8% of GDP spent on Health in 2010 (over \$16 billion) is expected to increase to 9.9% of GDP by 2050. In 2012, although they comprised only 13.9% of the population, 33% of the health budget went to those aged 65+. There are decisions to be made, as the proportion of the population contributing to the tax base reduces.

## Welcome to RPRC Research Associate



Annie Zhang is a lecturer of Finance at the University of Auckland. Her research interests include behavioural finance, the improvement of financial literacy, retirement policy and New Zealand KiwiSaver. Her career includes Lecturer at the Auckland

University of Technology, financial plan writer for Westpac Banking Corporation, and corporate finance and advisory experience at PricewaterhouseCoopers. Her PhD topic was "Household finance and individual investor behaviour".

## RPRC in the media and public presentations and contributions

**3 June, Te Ara Signposts**, Ben Schrader, in [The joy and frustration of number crunching](#), quotes Michael Littlewood on the debate about home ownership rates in New Zealand.

**21 June, interest.co.nz**, Muriel Newman's [Opinion: Housing Affordability](#), quotes Michael Littlewood's analysis of Census data on home ownership.

**2 July, interest.co.nz**, [The RPRC looks at the new Labour Party KiwiSaver policy in detail, identifying the helpful aspects and calling out new problems they will cause](#), by S. St John, M. Littlewood & M.C. Dale.

**3 July, U21 Graduate Research Conference**, University of Auckland. Keynote: Susan St John, *Policy research and the economics of ageing*.

**4 July, Sustainable Business Network**, [2013 Awards video](#), M.Claire Dale's Nga Tangata Microfinance & Kiwibank.

**7 July, 22<sup>nd</sup> Annual Colloquium of Superannuation Researchers, UNSW**. M.Claire Dale presentation: [Turning silver to gold. Policies for an ageing population](#).

**8 July, 22<sup>nd</sup> Annual Colloquium of Superannuation Researchers, UNSW**. Susan St John presentation: [New Zealand KiwiSaver: Automatic Enrolment Experiences - Lessons for the UK, Ireland and US](#).

**15 July, Forum: Economic Inequality: Effects on Children and Families. Issues and Solutions**. St Columba Centre, Auckland. Susan St John [Panel contribution](#).

**18 July, New Zealand Herald**, Dialogue, S. St John & M.C. Dale, [Pension injustices tarnishing retirees' golden years](#).

**July/August, Public Sector**, Vol. 37, Issue 2. "Is it logical? Using evidence in developing social policies", by [Shelley Far Biswell](#), draws on S. St John & M.C. Dale's 2012 *Policy Quarterly* article, [Evidence-based Evaluation: Working for Families](#), to critique statistical methods designed for an idealised world.

**4 August, PensionRelease**, S. St John, [Policy must change on overseas pensions](#).

**5 August, Australian Financial Review**, [Compulsory Superannuation doing us damage](#), Brian Toohey reviews Michael Littlewood's paper: *Ageing Populations, Retirement Incomes and Public Policy: What Really Matters*.

**12 August, New Zealand Herald**, Online Op-Ed: [Michael Littlewood: Fair tax for savers? Unfair for everyone else](#).

**15 August, RadioNZ news** [Call to address ageing population](#) quotes Michael Littlewood.

**28 August, NZ Parliament**, the PM John Key [agrees with one aspect](#) of Michael Littlewood's analysis of Peter Dunne's Flexi Super scheme.

**12 September, The Wireless**, [Election issues](#), Michael Littlewood quoted on expected increases in the cost of New Zealand Superannuation.

**30 September, NewstalkZB**, Josh White interviews Susan St John on [Peter Dunne's flexible superannuation policy](#).

## **Winter Week on Campus 2014: Silver Tsunami or Golden Harvest? Policies for an Ageing Population. Presentation by Dr M.Claire Dale, 11 July**



As is the case with many developed nations, New Zealand's ageing population inevitably has implications for both social and economic planning. The lecture presented research that projected the future impact of changes in state expenditure, government policies, population and healthcare. Then policy options were proposed that could be applied in the future to retain an appropriate level of assistance for the aged,

while reducing the cost burden on the younger population. The proposed policy changes aim to transform the perceived 'silver tsunami' into a 'golden harvest'. The session was then opened for discussion. The audience of more than 100 people, mostly retirees, focussed on three topic areas: the development of 'fair' annuity options in New Zealand; the adjustment of employment conditions to enable older workers' participation; and the potential for social and economic voluntary contributions.

## **Book chapter and Journal publication**

**Elder Law in New Zealand** (2014). Susan St John and M.Claire Dale contributed the chapter on critical policy perspectives on the law regarding age pensions and benefits to this book published by Thomson Reuters, NZ, "written by contributors ranging from legal and medical practitioners to elder law advocates and scholars". Elder law is comprised of a range of distinct but often interconnected areas of law. Each part of the book explores different facets of elder law including New Zealand's "ageing in place" policy; entitlements to services from district health boards; retirement villages and rest homes; relationship property issues; and legal issues and rights.



**Susan St John:** [What Has New Zealand's Retirement Policy Framework to Offer the International Debate,](#)



**Policy Quarterly, v10:3, August 2014,** Institute for Governance and Policy Studies, University of Victoria.

**Abstract:** New Zealanders don't realise that they are regularly regarded in other countries as world leaders, not just in sport. Inaugural NZer of the year in 2010, Ray Avery, points to the 'never say it can't be done' attitude that has produced many astonishing results in science. In social policy too we have often been ahead of world thinking. One very under-trumpeted innovation is our retirement incomes policy, which, with ACC, is unique on the world stage.

## **PensionBriefing 2014-3: An update on New Zealand's treatment of pensioners whose spouses have overseas state pensions**

With average longevity and mobility among retirees continuing to increase, issues around age pensions and pension portability become increasingly critical as more people are affected for longer periods. The number of people living in New Zealand eligible for overseas pensions increased by 28% to almost 53,000 between 2008 and 2012. Of these, 73% were eligible for pensions from the UK, 14% for the Australian Age Pension, and around 6% for the Netherlands age pension. Retirees were also eligible for pensions from Canada, China, Germany, the US and 51 other countries.

Around 10% of the people eligible for NZS in 2014 are also eligible for at least one other state pension from abroad. There is a lack of clarity however around which overseas pensions are to be taken as 'equivalent' to NZS and thus offset against the pensioner's NZS entitlement, and which overseas state-organised pensions are more similar to KiwiSaver. For people who retire in New Zealand after working overseas for some years and contributing to a state-run superannuation scheme in that country, the lack of clarity can result in injustice and in some cases unanticipated hardship.

The *PensionBriefing* is available [here](#).

## **RPRC Forum: Decumulating Retirement Savings: making the options work**

**When:** 21 November 2014, 8.30am to 4.30pm, followed by refreshments. [Register here](#).

**Where:** Decima Glenn, level 2, University of Auckland Business School, 12 Grafton Rd

**What:** Hosted by the RPRC with the Commission for Financial Literacy and Retirement Income.

## **RPRC Forum: Overseas Pensions Policy - unjust for some?**

**When:** 5 December 2014, 2.00pm to 4.30pm, followed by refreshments.

**Where:** Case Room 3, level 0, University of Auckland Business School, 12 Grafton Rd

**What:** In [2010](#), [2011](#) and [2013](#), the RPRC, with the Human Rights Commission, investigated New Zealand's inequitable treatment of overseas pensions. In 2014, with a newly elected Government, is there hope for justice?

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