



# New Zealand Society of Actuaries

## New Zealand Superannuation: An actuarial view on reform

By the Retirement Income Interest Group  
of the New Zealand Society of Actuaries

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## Introduction

This report presents RIIG's latest view on the state of, and reform options for, New Zealand Superannuation (NZS). RIIG is the Retirement Income Interest Group of the New Zealand Society of Actuaries (NZSA).

The NZSA is the professional body for actuaries practising in New Zealand. Actuaries find insights by analysing past trends, estimating future outcomes and managing future risks. Actuaries provide advice in sectors including healthcare, superannuation and Kiwisaver, insurance, banking and investments.

Previous publications from the Retirement Income Interest Group of the New Zealand Society of Actuaries are available on the [Thought Leadership](#) section of the NZSA [website](#).

RIIG has investigated the state of current and future [KiwiSaver account balances](#) and has described [a drawdown framework](#), with a set of [Rules of Thumb](#) to help people draw down KiwiSaver in retirement. RIIG has also published on [longevity](#) in New Zealand, and on the principles that we believe should underpin [retirement income policy](#).

RIIG last published on longevity and its implications for the NZS age of eligibility in 2019. Since then, new data on mortality trends in New Zealand and globally and further research on other relevant aspects has become available.

**Current members of RIIG are: Alison O'Connell, Christine Ormrod, Dinushi Jayasuriya, Ian Perera (Convenor), Fraser McKay, and Kelvin Prisk.**

We thank Heather McLeod for her input to this paper.

Where views are expressed in this paper, they are the collective personal views of the members of RIIG. This paper does not necessarily reflect the positions of our employers or other members of the New Zealand Society of Actuaries. Any errors are our own.

The paper is intended for informed readers – policy makers, regulators, providers or advisers – and we hope it is also interesting for individuals who are considering how to prepare for their own retirement. Nothing in this paper should be taken as financial advice or as a recommendation for how any individual should manage their money.

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## Summary

In this report, we first review the context for retirement income policy and RIIG's principles by which policy should be assessed. We then show how the purpose of NZS should be considered, and why, followed by an update on longevity in New Zealand which further supports the rationale for NZS. In Section 4 we develop arguments for and against different reform options, and explain why we reach our conclusions, which are summarised below. Section 5 provides a brief backgrounder on indexing the age of eligibility.

### *RIIG's view on reforming New Zealand Superannuation (NZS)*

1. **Today's younger people may need NZS more than older generations.** Although younger people will be able to be in KiwiSaver for longer, they may have less potential to both own a home and save.
2. **Retaining NZS at current settings is one way every generation can have similar financial security in later life,** recognising there will be differences in work and savings potential over time.
3. **All proposed reforms to NZS are problematic, and none are simple enough to be "silver bullets" to any perceived problem with retirement income policy.** We see means-testing and flexible age of eligibility as particular fails when assessed against RIIG's principles for reform.
4. **If age of eligibility were to be increased, simply linking it to a longevity index is not a good option.** It would not take politics out of the decision; it would ignore inequalities and it would not work as intended as it could be highly sensitive to assumptions which can change frequently. **Instead, we favour a well-designed independent assessment of relevant factors including longevity trends.**
5. **If age of eligibility were to be increased, we believe there should be a reasonable lead-in time and a phased approach,** so people will have sufficient time to make changes to their financial situation. **Putting information on NZS including age of eligibility, on KiwiSaver statements,** would help to ensure people are not taken by surprise.
6. **Future mortality trends are not clearly positive.** Independent review of the age of eligibility should be repeated at intervals with planned increases cancelled if trends turn out worse than expected. The significant visible differences in lifespans in New Zealand suggest at least not increasing the NZS age of eligibility until there is evidence of the gaps closing.
7. **We are still of the view that it is not necessary to reform NZS.** Debate usually focuses on the "cost" of NZS, which is often portrayed wrongly as in crisis. Expenditure is a policy choice. Contrary arguments which stress the value and purpose of NZS are strong.
8. **Looking at KiwiSaver policy is more relevant than reforming NZS now.** On current policy and settings, KiwiSaver account balances are not going to be high enough to allow any painless reform of NZS.

## 1. RIIG's retirement income context and principles

We believe that retirement income policy is so important to all New Zealanders that any consideration of reform should be principles-based, in the light of the specific context in which retirement income operates.

This is not a new concept. In 1993, political parties in New Zealand signed up to shared principles in an Accord<sup>1</sup>, “to develop certainty, sustainability and security of policy for people in, or approaching, retirement”<sup>2</sup>. Te Ara Ahunga Ora Retirement Commission is guided by a Purpose Statement for New Zealand's Retirement Income System<sup>3</sup>.

Both these statements recognise that retirement income relies on both private savings and public funds.

Agreeing with the intent of these statements, RIIG developed its own set of Context and Principles<sup>4</sup>:

### *The context in which retirement income operates*

1. Retirement income policy operates in a **complex environment**.
2. Retirement income comes from **many sources**.
3. The New Zealand population is **diverse**; individuals' resources and needs are diverse.
4. The factors influencing future income requirements are **uncertain**.
5. **Needs change** throughout retirement.
6. There is a wide **range of financial capability** among New Zealanders.
7. Many different areas of **legislation** affect retirement income outcomes.
8. Once in retirement, retirees have **limited ability** to improve their financial position.

### *RIIG's retirement income principles*

Retirement policy should:

1. be **equitable**,
2. provide for an **adequate** level of income for retirees,
3. be **empowering**, by encouraging people to save for their retirement and enabling people to plan for their retirement with confidence,
4. be **sustainable**, and
5. be **understandable and easily accessed** by the majority of retirees.

## 2. Purpose of NZS

**RIIG's view is that the primary purpose of New Zealand Superannuation (NZS) is to protect the population against longevity risk (living longer than expected).**

**NZS will remain the most important tool for income in the near future and will always be important for managing longevity risk** – for ensuring that everybody has the backstop income in later life, even if their savings run out.

**The importance of NZS could grow** if younger generations turn out to have saved less than older generations, as seems likely.

In our dual public and private retirement income system, New Zealand Superannuation (NZS) gives a government-backed 'backstop' income base in retirement. To have more than NZS, New Zealanders need to:

- **build savings**, in investments, housing, business or other assets, to build the potential for income in retirement, and,
- **draw down savings**, managing longevity risk, so that income expectations are met throughout life.

**KiwiSaver** is the way in which most New Zealanders build investment funds for retirement.

Saving and drawdown are made more difficult as lifespans lengthen if the retirement phase gets longer while the working (and saving) period stays constant.

The increasing proportion of people working past age 65 shows one way in which people are responding to this reality.

- The labour force participation rate for New Zealanders aged 65 and older was just above 5% in the early 1990s but has more than quadrupled to over 26% over the past 25 years<sup>5</sup>.
- A little under half (48.6%) of people aged between 65 and 69 years are currently (as of September 2023) either employed in some capacity or are actively seeking work<sup>6</sup>.
- However, the work tends to be part-time, as a top-up, with 46% of those employed aged 65 and over working less than 30 hours a week in 2018<sup>7</sup>.

### ***NZS contributes to both savings and drawdown:***

- **NZS does not interfere with saving.** It is not means-tested, so there is no disincentive to save or gain income from any other source, including employment.
- **NZS does not interfere with drawdown.** There is no need to manage drawdown to avoid a means-test. NZS is taxable, but income drawn down from KiwiSaver or other PIE funds is tax-free. This makes drawdown easier in New Zealand than other countries (for example, Australia, UK) where tax and means-test avoidance introduce significant complexity<sup>8</sup>.
- **NZS is a foundation for any drawdown plan.** People can use RIIG's drawdown framework and Rules of Thumb<sup>9</sup>, informed by how long they might live from online longevity calculators<sup>10</sup>, to work out how to drawdown from KiwiSaver accounts or other funds. But the element of chance means it is still possible to live longer than expected. NZS is insurance against that longevity risk: it lasts however long we survive beyond our expectations.
- **NZS is New Zealand's lifetime annuity product.** Longevity risk can be mitigated in other countries by buying an annuity product, but none are available in New Zealand.

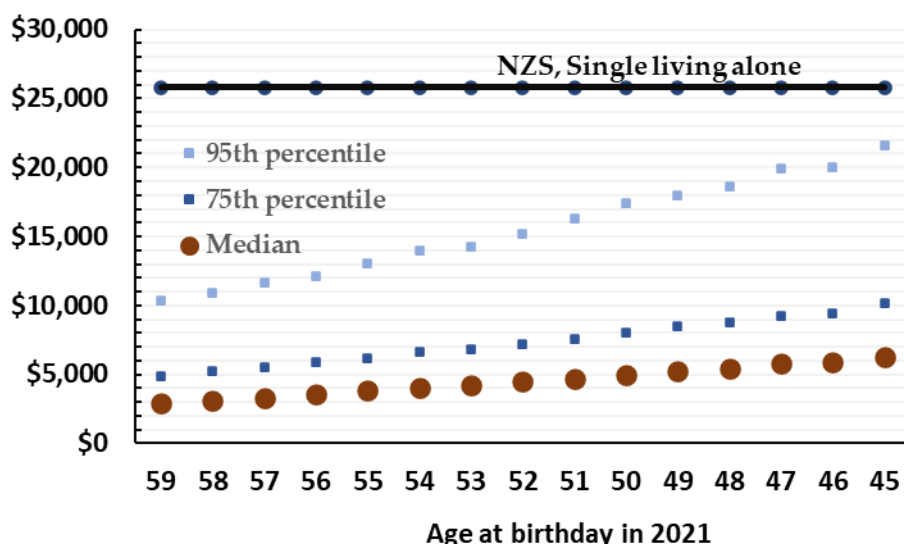
**KiwiSaver has the potential to add retirement income to NZS.** However, unless there is a meaningful change in policy and/or savings behaviour (both of which will take a long time to take effect), **KiwiSaver will offer only modest amounts of income.**

This is shown in **Chart 1** where the annual income expected to be available for today’s KiwiSaver members of different ages and across the wealth spectrum is compared to income from NZS<sup>11</sup>. Starting with account balances for actual KiwiSaver members aged 45-59 in 2021, from earlier RIIG analysis, we project forward for 6 to 20 years until they reach age 65 (arranging the chart so projection period increases from left to right). The estimated income assumes the member continues contributing until age 65 at their current rate, then uses RIIG’s “Inflated 4%” Rule of Thumb<sup>12</sup>. Unlike NZS, KiwiSaver income may not last throughout life.

**Chart 1** shows that **all but very few KiwiSaver members aged over 45 will find their KiwiSaver income more important than NZS.** KiwiSaver is expected to be a top-up to NZS of about a quarter to one-third for typical contributing 45-year-olds but will give less for older members.

- A contributing KiwiSaver member currently aged 45 with today’s median account balance of \$156,900 would be able to draw down annual income at age 65 of \$6,280 a year in present day terms. KiwiSaver is a top up to NZS of about a quarter.
- If both members in a couple qualifying for NZS of \$39,709 a year had KiwiSavers of the same amount, their combined income would top up NZS by about a third.
- Even KiwiSaver members aged 45-59 with the highest account balances at the 95th percentile, will find NZS provides more income for life than their KiwiSaver.

**Chart 1: Annual income expected in present-day dollars, from age 65, current range of KiwiSaver account balances for members aged 45-59 in 2021, assuming contributions continue at members’ current rates, using RIIG’s Inflated 4% Rule of Thumb, compared to New Zealand Superannuation (NZS) amounts (net of tax at M rates)<sup>13</sup>**



*Younger KiwiSaver members will still rely on NZS – perhaps more so.* Younger members are expected to have more in KiwiSaver than older people, as Chart 1 shows. This is a result of KiwiSaver not having been available throughout the career of current older working-age people. However:

- **Home ownership has reduced** steadily from a high in the early 1990s<sup>14</sup>. Many commentators, including the Retirement Commission<sup>15</sup> expect this to continue so that future retirees will not have been able to take part in the wealth generation that home ownership provides and that most current over-65s enjoy.
- **Today's younger people will only be able to increase their KiwiSaver account balances beyond what the older generation has if they continue to contribute and save throughout working life.** This assumption could be tested if housing or other costs take a larger than expected share of spending in future, if significant KiwiSaver funds are withdrawn early for housing or other reasons before age 65 and/or the economy offers fewer employment opportunities.
- **The drawdown from KiwiSaver in retirement may have to be faster for younger generations,** for the same reasons. If this transpires, the 'backstop' security of NZS will be even more important for today's younger generation than it is for today's retirees.

### 3. Understanding longevity in New Zealand

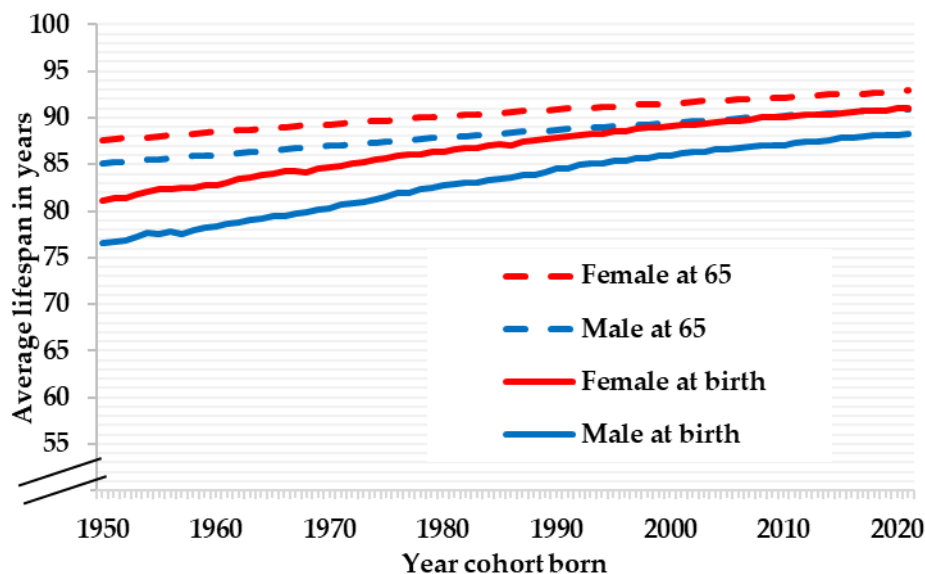
This section gives a brief overview of the key facts on longevity in New Zealand – essential background to understanding the drivers supporting the purpose of NZS.

#### 1. Lifespans are increasing at a slower pace than in the last few decades ...

**Chart 2** shows the change in cohort life expectancy in New Zealand for successive birth cohorts. It shows how lifespan prospects improved quickly in 1980s-2000s as specific public health and medical interventions worked well: people gave up smoking; surgery and pharmacy innovations reduced the incidence and death risk from cardiovascular conditions. The lines in Chart 2 are now plateauing, meaning that improvements are expected to occur more slowly.

**A slowdown in mortality improvement like this is happening across the developed world and is not surprising.** There is less gain to be had from medical interventions now. Future improvements are expected to come in “waves” from technologies such as advanced cancer diagnostics and personalised medicine<sup>16</sup>. COVID-19 does not appear to be a factor in the slowing down of mortality improvement, but it has introduced a small blip in the long-term trends and added to the increased uncertainty in future prospects<sup>17</sup>.

**Chart 2<sup>18</sup>: Estimated average complete lifespan at birth and age 65 (cohort life expectancy), for cohorts by birth year 1950-2021, New Zealand total population**



#### 2. ...but lifespans are expected to keep increasing for successive generations

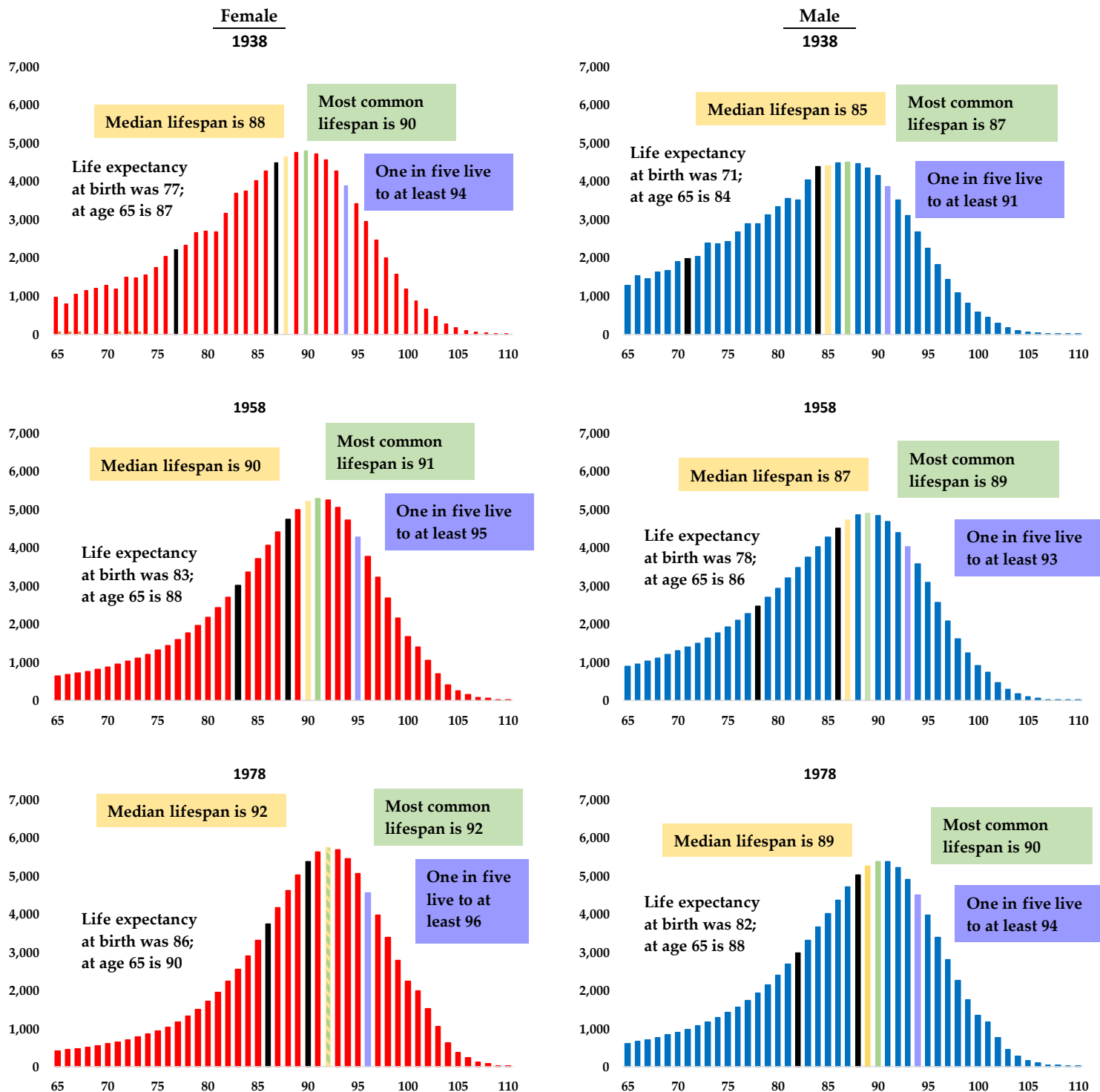
**Chart 3** shows the distributions of ages at death for 3 cohorts of New Zealanders representing the current oldest old (aged 85 in 2023), current retirees (age 65) and those who may be starting to think about retiring (age 45).

**All of the key longevity indicators increase with later cohort birth year.** That means younger generations are expected to live longer than older generations.



### Chart 3: How key longevity indicators are expected to change for 3 cohorts of New Zealanders, showing the extension of lifespan and the nature of longevity risk

Estimated number of deaths at each age from 100,000 New Zealanders born in year shown, who reached (or are expected to reach) age 65



Calculated using StatsNZ cohort life tables published March 2023, using the median scenario of the 2022-base National population projections

### *3. The people in any cohort will, of course, die at different ages*

**Chart 3** shows the variation in the ages at death for those who reach age 65 from each cohort. It shows that women live longer than men on average. But there will still be men who will have longer lives than women with all other factors being equal.

**Everyone has a multitude of risk factors affecting their own lifespan: lifestyle, socio-economic factors, genes, and the lasting influence from early life conditions.** However, association is not causality and there is still an element of chance<sup>19</sup>, meaning that everyone is at risk of living longer than expected, or conversely, dying too early.

### *4. Ages at death are becoming more similar, but uncertainty is increasing at older ages*

**Chart 3** shows the phenomenon known as “mortality compression”. The peak of the curve of deaths is narrowing as well as moving to the right over time. This is good news as it means the proportion of people in the population who die too early is reducing – generally, people are living longer.

However, the range of age at death is still wide, and extends to very old ages. This means that **uncertainty in age at death is more significant for older people than younger**. The probability of a person aged 90, say, living to 100 is a more significant longevity risk than for a person aged 60 because it is spread over only 10 years instead of 40<sup>20</sup>. This means that guaranteed lifetime income from an annuity of NZS becomes proportionately more valuable (because of the value of certainty) at the oldest ages.

### *5. How lifespans vary by ethnicity is a key concern in New Zealand*

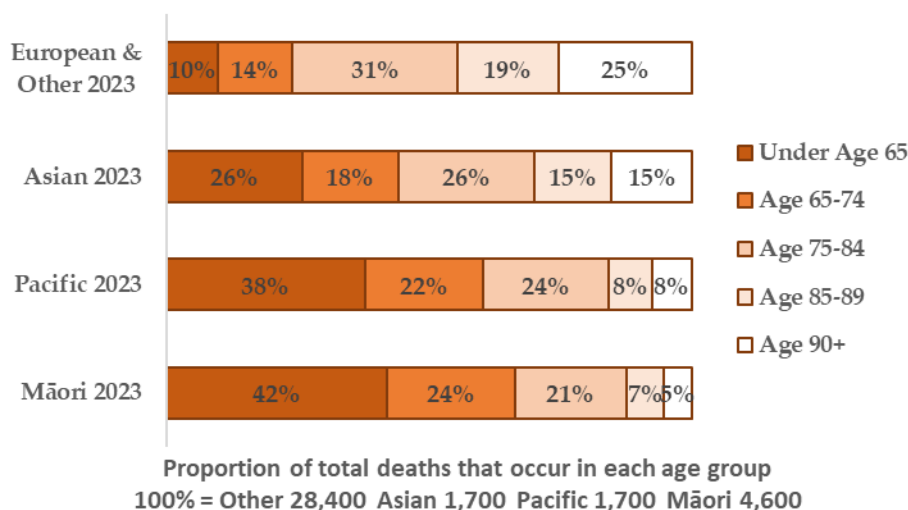
There are currently around 100 deaths a day in New Zealand<sup>21</sup>. By 2043, this number is projected to increase to around 150 a day, or 54,000 a year<sup>22</sup>. This increase reflects when there were large cohorts of births and the timing and age structure of immigrations.

Charts 4 and 5 show at what ages these deaths are projected to occur, in 2023 and 2043, for each prioritised ethnicity. These charts tell a story of fast change in age at death - equivalent to completed lifespan - in New Zealand:

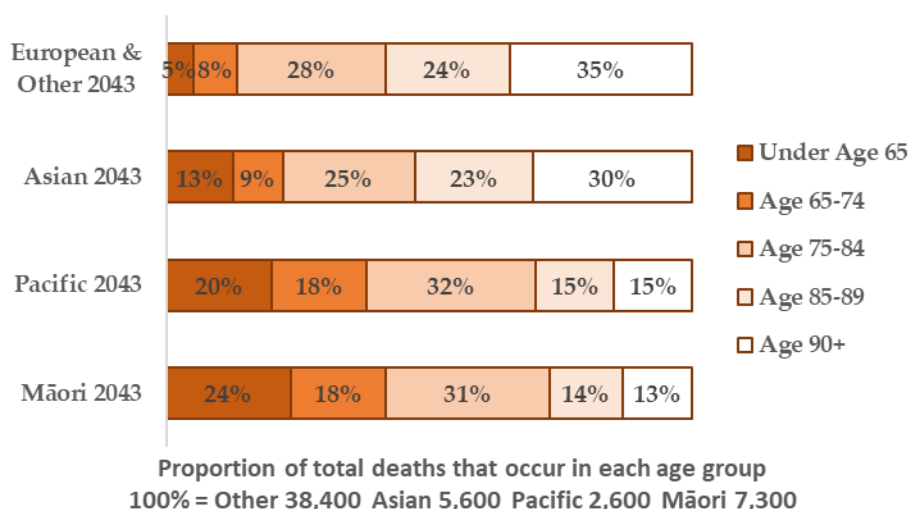
- **In all groups, deaths are shifting to higher ages.** This reflects both past reductions in the number of early (before age 65) deaths as population health improved, and future expected improvements in mortality.
- **Deaths in Māori and Pacific groups are disproportionately before age 65.** Although that is expected to improve over the next twenty years, there is still expected to be significant health disadvantage and shorter lifespans in those groups compared to others.
- **Short and long lifespans occur in all ethnic groups.** Life expectancy is not fixed by any one factor. Longevity risk affects everyone.

**Charts 4 and 5** show the expected impact of health improvements over the next twenty years. The most likely age of Māori and Pacific people who die in 2023 is under 65 but is expected to be 75-84 in 2043. However, the deaths of those in other ethnicity groups are already most likely to be at ages 75-84 and are expected to be at ages 90+ in 2043. While a large part of this is because of the younger age structure of the Māori and Pacific groups, it also points to **significant visible ongoing mortality differentials between ethnic groups**.

**Chart 4<sup>23</sup>: Estimated proportions of deaths in each age band by prioritised<sup>24</sup> ethnicity in 2023**



**Chart 5<sup>25</sup>: Estimated proportions of deaths in each age band by prioritised ethnicity in 2043**



However, these charts and the data supporting them do not tell us much that would be useful to know about mortality differentials by ethnicity:

- **The data do not tell us how long a person of one ethnicity may live compared to another, all other things being equal.** This is because the charts show an aggregate view of the population, mixing people of different ages with different risk of death. The individual lifespan view requires cohort life tables, which StatsNZ publish only for the total population, as used for **Chart 3** in this report. See **Box 1** for an explainer of why current available life expectancy data by ethnicity also does not tell us how long people may live.
- **Data grouped by ethnicity (or any other factor) does not show causation.** The data do not explain the variability between ethnic groups or within ethnic groups. For example, research has attributed up to a third of the mortality difference for Māori and Pacific people compared to non-Māori/non-Pacific to differences in smoking prevalence<sup>26</sup>. Mortality is probabilistic and a result of many influences. No single factor determines age at death.

Nevertheless, the imperfections in the data cannot mask the significant mortality and health differentials between people in New Zealand, and the most visible sign of this is when comparing data on groups defined by different ethnicities. The impact of this on peoples' lifespans cannot be ignored.

RiIG supports:

- **Investigations into policy reforms and new practices** that could help reduce mortality and health differentials between groups.
- **More data and analysis** to understand the current and future distribution of lifespans by ethnicity. The ideal would be cohort life tables to enable charts like **Chart 3** to be drawn by ethnicity. For this to be done, StatsNZ would have to make assumptions on, among other things, an expected rate of improvement in mortality rate by ethnicity. Transparency on these assumptions, and the drivers for them, would show how fast the gap between groups is closing.
- **Any reform of NZS to be cognisant of mortality disadvantages** where they occur. In New Zealand, the significant visible differences in lifespans suggest at least **not increasing the NZS age of eligibility until there is evidence of the gaps closing**.

**Box 1: Explainer on Life Expectancy as an indicator of how long someone might live**

Life expectancy by ethnicity in New Zealand is only available from StatsNZ *period* life tables. ***Period life expectancy*** (see glossary) does not give an expectation of how long people might live as it takes no account of how death rates at each age might change through a life course. It gives only a summary of the death rates at each age at a point in time. While this is useful to compare the general health of different populations at a point in time, it is not relevant to compare the average lifespan of real people, which depends on health improvements or declines over their lifetime.

This means that a difference of 7.5 years between Māori and non-Māori male life expectancy at birth (see **Table 1**) should not be interpreted as Māori men **have** 7.5 years less of life than non-Māori men on average. However, **Table 1** does show that Māori and Pacific people **are more likely to have** shorter lifespans than people in other ethnic groups. There is clearly **significant mortality and health disadvantage for those with Māori or Pacific as their prioritised ethnicity, especially men**. This disadvantage is long-standing.

Note there are also concerns that the definitions and data sources of mortality data by prioritised ethnicity have not been consistent over time<sup>27</sup>.

**Table 1<sup>28</sup>: Period life expectancy at birth and at age 65, from 2017-19, in years**

	At birth		At age 65	
	Male	Female	Male	Female
<b>Total population</b>	80.0	83.5	19.3	21.6
<b>Māori</b>	73.4	77.1	15.8	17.5
<b>Non-Māori</b>	80.9	84.4	19.6	21.9
<b>Pacific</b>	75.4	79.0	16.2	18.5
<b>Asian</b>	85.1	87.9	22.6	24.5
<b>European or Other</b>	81.0	84.5	19.6	22.0

**6. People tend to guess or expect their own lifespan to be lower than is likely**

Around the world, including in New Zealand, people are more likely to guess their own lifespan as lower than forecasts suggest, rather than higher. This seems to be because people take the age at which their parents and grandparents died as a guide, without allowing for the mortality improvements that have occurred since then<sup>29</sup>.

It could also be that cohort life expectancies which take account of likely mortality improvements are quoted in media and other reports less often than period life expectancies which are themselves an underestimate. Further, both period and cohort life expectancies are averages across the population and give no information about the range of likely lifespans.

A risk with poorly estimating how long you might live (and tending to under-estimate) is that savings do not last for the whole of life. NZS is an important defence against this longevity risk. Everyone is at risk, no matter what cohort, gender, or ethnicity as it is impossible to say with perfect accuracy how long any individual will live.

#### 4. For and against reform of NZS

Ideas for pension policy reform never go away. Longer-experienced members of RIIG can attest to most ideas having been seen before.

However, it is actuarial best practice to do a stocktake periodically, review the case for reform and change assumptions about ideas for change if facts have changed.

The Retirement Commissioner must review retirement income policy every 3 years. The last review was in 2022<sup>30</sup>.

This paper is about New Zealand Superannuation reform, not retirement income policy more generally. Having reviewed the current context for NZS in earlier sections, this section looks at reform options, and concludes by reviewing how NZS fares against RIIG's principles.

Below, tables summarise relevant facts organised by grouping arguments broadly in favour of reform in the "yes" column and arguments against in the "no" column. We summarise the implications after each table.

From this, we see that the arguments for reform of NZS are complex, and not one-sided.

##### *Does NZS need to change?*

Yes	No
<p><b>There will be more New Zealanders receiving NZS for longer under current settings, so NZS will cost more:</b> Expenditure increases from around 4.3% of GDP in 2024 to around 5.4% of GDP in 2045, net of tax<sup>31</sup>. The combined expenditure on NZS payments, contributions to and withdrawals from the NZ Superannuation Fund is forecast to increase from 4.8% of GDP in 2024 to 5.4% of GDP in 2045<sup>32</sup>.</p> <p><b>The money saved by reform, such as increasing the age of eligibility could be used for other social purposes,</b> for example, to address health disparities or the increasing costs of end-of-life care.</p>	<p><b>There is no cost crisis for NZS.</b> It is a policy choice to keep funding NZS at age 65, which can be afforded. The proportion of GDP that goes towards paying NZS benefits must be seen in proportion to other calls on government spending and wider economic trends.</p> <p><b>Any transition to a less generous system will cause hardship.</b> There will be focus on the many who will lose out, which may increase other welfare costs. From the latest available incomes data for those aged 65 and over<sup>33</sup>:</p> <ul style="list-style-type: none"> <li>• Three-quarters of single people receive more than half of their income from NZS.</li> <li>• NZS is virtually the only income for two-fifths of single people.</li> <li>• Most couples are also highly dependent on NZS, with just over half having more than half their income from NZS.</li> </ul>

**RIIG's view:** There is no need to change NZS. Change would be a policy choice. At least part of any cost "saving" made would need to be spent on addressing the impact on the considerable number of New Zealanders who would be hard hit by the change.

**Are there feasible NZS reform options?**

Yes	No
<p><b>Reform to the amount or nature of NZS is possible by:</b></p> <ul style="list-style-type: none"> <li>• Loosening or tightening the eligibility conditions for <i>everyone</i> (age or residency term required),</li> <li>• Raising or lowering the level of benefit for <i>everyone</i> in a one-off change or over time through the link with the price index or earnings index, or,</li> <li>• Changing the amount or eligibility for <i>certain groups of people</i> by changing the definition of categories (for example, single vs married), or,</li> <li>• Reducing the level of benefits for <i>some people for some of the time</i> by means-testing (income or asset)</li> </ul> <p><b>The NZS reform options most often commented on (from the point of view of reducing costs) are to means-test or raise the age of eligibility.</b></p> <p><b>Reform elsewhere in the system to affect NZS could be to:</b></p> <ul style="list-style-type: none"> <li>• Build up KiwiSaver with the aim of reducing the role of NZS in future</li> <li>• Increase taxes (or hypothecate a higher share of tax revenue) now to increase the prefunding of the higher future cost of NZS through the New Zealand Superannuation Fund.</li> </ul>	<p><b>Each NZS reform option causes problems:</b></p> <ul style="list-style-type: none"> <li>• Reducing eligibility or benefit level for everyone would leave more New Zealanders in financial stress in later life.</li> <li>• Raising the benefit level or loosening eligibility would require more tax transfer and/or prefunding.</li> <li>• Changing eligibility for certain groups of people would cause issues at the boundary of definitions.</li> <li>• Means-testing is highly challenging. Overseas experience shows that it creates complexity which prevents some people receiving what they should and/or disincentives to work or save<sup>34</sup>. New Zealand’s experience with the “surcharge” makes it an unpopular policy.</li> </ul> <p><b>Means-testing fails all RIIG’s retirement income principles:</b></p> <ul style="list-style-type: none"> <li>• Equity, as the boundary conditions for the means-test will be subjective.</li> <li>• Adequacy, if it reduces NZS too far for the poorest, especially if there are not straightforward ways to move in and out of the means-test depending on an individual’s current income or asset values.</li> <li>• Empowerment to save and plan, due to uncertainty of the future effect of the means-test.</li> <li>• Sustainability, because of unpopularity.</li> <li>• Simplicity, as means-testing will obfuscate understanding of what NZS a person will receive.</li> </ul> <p><b>Most KiwiSaver balances are small, so are not an alternative income to NZS.</b> Even for people currently in their 40s now, median KiwiSaver balances will provide only a modest supplement to NZS, as shown in <b>Chart 1</b> earlier.</p> <ul style="list-style-type: none"> <li>• Building up KiwiSaver will require funding from members, employers and potentially tax transfers now for the effect to come in decades’ time.</li> <li>• Increasing tax transfers would be contentious, but there is some willingness to raise taxes now as discussed below.</li> </ul>

Yes	No
<p><b>Giving some choice to what age an individual takes NZS is also sometimes discussed as a reform option.</b> A consultation was held in 2013 on a “Flexi-Super” proposal, which did not go ahead.</p>	<p><b>“Flexi-Super” is complex, unfair and costly.</b>  The NZSA submission to the 2013 consultation noted the prospect of people taking NZS as soon as possible at a reduced level then living longer than expected and falling back onto state benefits. Winners from the proposal include those on a higher tax bracket who can afford to defer NZS until they stop earning. There is the risk to the Crown of anti-selection and lost tax revenue as people stop working earlier. The actuarial factors required for early or late NZS would require regular updating and could turn out to be generous or not.</p> <p>Flexi-Super therefore threatens RIIG’s principles of equity, adequacy and simplicity.</p>

**RIIG’s view:** All proposed reforms are problematic, and none are simple enough to be “silver bullets” to any perceived problem with retirement income policy. We see means-testing and flexible age of eligibility as particularly difficult.

KiwiSaver balances are not expected on current policy settings to be large enough to make up for a diminished NZS for the vast majority of people.

### **Do New Zealanders want reform for NZS?**

The available research indicates that:

- **New Zealanders would prefer their current system to stay in place, unreformed.** Pension reform is a difficult subject which most people would rather not think about<sup>35</sup>. NZS resonates with New Zealand values<sup>36</sup>.
- **When forced to choose between options designed to make realistic trade-offs between desirable features of retirement income schemes, New Zealanders’ preferences are diverse,** and do not appear to line up with age, education, ethnicity or income. Preferences do not appear to have changed significantly between two studies in 2014 and 2022 which show, by order of prominence<sup>37</sup>:
  - Support for universal pensions, without means-testing.
  - Split opinions about whether the age of eligibility should be 65 or 67 years (although support for 65 grew between studies).
  - Willingness to increase taxes now to avoid even larger increases in taxes on the next generation.
  - Support for savings flexibility and little opposition to a compulsory saving scheme if it reduced taxes.

**RIIG’s view:** New Zealanders would prefer no change to NZS, appreciating its universality and lack of means-testing. When forced to consider trade-offs between distinct aspects of the retirement income system, higher taxes are preferred now rather than later, suggesting partial pre-funding through the New Zealand Superannuation Fund is valued. The stability of preferences, and the lack of distinct characteristics of each supporter groups, confirms that major change to NZS will be politically difficult.



**Does increasing age of eligibility make sense?**

Yes	No
<p data-bbox="204 293 778 539"><b>Increasing the age of eligibility directly responds to the lifespan gains which are partly the cause of increasing expenditure on NZS.</b> The same stress affects private retirement income, and raising the age is an important public indicator that could encourage people to plan for longevity.</p> <p data-bbox="204 792 762 898">Because of the link to increasing lifespan, <b>increasing the age of eligibility will make NZS more sustainable.</b></p> <p data-bbox="204 1397 778 1503"><b>An increase in the age of eligibility would keep NZS in line with other countries</b> including Australia and the UK.</p>	<p data-bbox="801 293 1375 752"><b>Although average lifespans are increasing, the rate of improvement has stalled, in New Zealand and globally.</b> This lull has been explained as being between ‘waves’ of medical technology innovation<sup>38</sup>. There is uncertainty as to future prospects<sup>39</sup>. Now is not the obvious time to ‘bet’ on future medical technology which would improve longevity for everyone. In a recent revision of its life expectancy forecasts, the UK found worsening longevity implied a delay of up to 16 years in planned state pension age increases, as discussed in Section 5.</p> <p data-bbox="801 792 1375 1361"><b>Age of eligibility is not the only driver to address sustainability of retirement income in New Zealand.</b> The Mercer CFA Institute Global Pension Index<sup>40</sup> benchmarks the retirement income systems of 47 countries using more than 50 indicators. New Zealand scores a B overall: B+ for integrity, B for adequacy, but C+ for sustainability. However, the <b>recommendations to improve New Zealand’s score are to improve and increase KiwiSaver and other household savings while reducing the level of household debt.</b> Sustainability of the system is seen to depend on more than just age of eligibility, and New Zealand’s ranking on this dimension is helped by other economic factors.</p> <p data-bbox="801 1397 1375 1608"><b>Most OECD countries are not planning to increase pension age beyond age 65.</b> Currently 70% of OECD countries have a pension age of 65 or lower and 60% will still have pension ages of 65 or below by the 2060s<sup>41</sup>.</p> <p data-bbox="801 1648 1375 2000"><b>Comparisons to other countries are misleading because pensions policy and associated expenditure varies hugely.</b> Some countries are increasing age of eligibility because their pension system costs more now than New Zealand’s will in 2050. Countries often have higher expenditure in total on pensions than New Zealand because of generous tax incentives for private pensions. See below*.</p>

Yes	No
<p><b>There would be added cost and complexity to NZS without changing age of eligibility to that of the countries to which the direct deduction policy applies.</b> The direct deduction policy means NZS is reduced by the amount of any overseas pension. Most of these overseas pensions are from Australia and UK where the pension age is or is being increased to 67. Increasing the NZS age of eligibility to 67 would simplify the deduction.</p>	<p><b>Any added cost and complexity are not significant.</b> Overseas pensions from many countries with various pension ages are deducted from NZS. Other countries may change their pension ages in the future. Any simplification from aligning pension ages would only apply to a subsection of overseas pensions and only last while the pension ages are aligned, so would have minimal effect. Overseas pensions in total are less than 3% of the expenditure on NZS<sup>42</sup>.</p>

\*For example, in the UK, State Pension related expenditure is forecast to rise from 4.8% of GDP in 2023 to 8.1 % by 2072, compared to 4.8% to 6.2% of GDP for New Zealand over the same period, inclusive of contributions and withdrawals to/from the NZ Superannuation Fund<sup>43</sup>. In addition, private pensions tax relief in the UK currently amounts to around 2.2% of GDP a year<sup>44</sup>. Tax relief for superannuation in Australia costs 2.1% GDP<sup>45</sup>. In New Zealand, the Government contribution to KiwiSaver amounts to 0.3% of GDP<sup>46</sup>.

**RIIG’s view:** Increasing the age of eligibility is not necessary. Comparisons with other countries do not add to the argument, but if anything, show New Zealand is not out of line. Looking at KiwiSaver policy is more relevant than reforming NZS now.

Raising the age of eligibility sends an important message about increasing longevity. However, future mortality trends are not clearly positive. Uncertainty about future longevity is an important reason to hold off for now. If a future increase is legislated for, independent review of the age of eligibility should be repeated at intervals with planned increases cancelled if trends turn out worse than expected.

**Would New Zealanders cope with an increase in the age of eligibility?**

Yes	No
<p><b>As people live longer, many are healthier, able and willing to work for longer.</b> Raising the age of eligibility would not be difficult for those people. For others, supplementary assistance including Jobseeker Support, Accommodation Supplement and Disability Allowance would be available.</p>	<p><b>About half of people between ages 65 and 69 are not working at all,</b> whether through choice or necessity, as shown in Section 2. Evidence from Australia is that 27% of retirements are involuntary<sup>47</sup>. There would be a cost of supplementary assistance for those in need if age of eligibility did increase.</p> <p><b>There is significant variation in lifespans.</b> Equity is put at risk if eligibility is based on the average of the total population when we know the distribution of lifespans, and healthy lifespans, in Māori and Pacific communities are skewed towards younger ages than in the non-Māori population.</p>

Yes	No
	<p><b>Charts 4-5</b> and related text show that while ages at death in the Māori and Pacific populations are increasing at a faster pace than in Asian and European populations, there are still too many early deaths of Māori and Pacific people.</p>

**RIIG’s view:** the variation of lifespans across the population is the most troubling reason against raising the age of eligibility – at least until there is evidence of a significant closing gap between life expectations by ethnicity.

*Is there an impartial way to decide on what a new age of eligibility should be?*

Yes	No
<p><b>An objective method of setting the age of eligibility, such as an index which keeps the average proportion of life receiving NZS roughly constant, is intergenerationally fair.</b> Chart 3 shows that younger generations will receive NZS for longer, and for a higher proportion of expected lifespan, on average, if there is no change in eligibility settings.</p>	<p><b>Intergenerational “fairness” depends on more than the average period for which NZS is received.</b> As discussed earlier, there are differences in work and savings potential for each generation. Retaining New Zealand Superannuation (NZS) at current settings is one way every generation can have similar financial security in later life, recognising those differences in work and savings.</p> <p><b>An index which uses any health or lifespan measure which is an <u>average</u> of the population will not take account of the significant variation in the population on such measures.</b> Variation is seen by gender, ethnicity and socio-economic position. Adapting an index to deal explicitly with these factors would be fraught, and would not account for variation <i>within</i> groups, which can be more significant than variation <i>between</i> groups.</p> <p><b>Indexing cannot be entirely impartial.</b> Any method to increase the age of eligibility must consider more than the simple calculation of the index, as the impact on distinct groups will depend on changing trends in the labour market or economy. The UK’s method of indexing specifically covers both objective and subjective considerations yet has not taken the politics out of the issue (see Section 5).</p> <p><b>Indexing is not straightforward.</b> The index output is highly sensitive to the choice of inputs and will change frequently with the inevitable changes in projection assumptions (see Section 5).</p>

**RIIG's view:** Indexing tries to be impartial but cannot be entirely so because a change in age of eligibility has a range of consequences which must be considered qualitatively. Indexing does not give a single answer, as the calculation is highly sensitive to the inputs, including forecasts which may or may not turn out.

However, indexing can be helpful as a guide to a wider debate about age of eligibility increase, as the UK method suggests.

Retaining NZS at current settings, including eligibility at age 65, is one way everyone can have similar 'back stop' financial security in later life. It recognises the differences in the work and savings potential over time. It recognises the uncertainties we face in future longevity trends, in the pace of closing the gap between life expectancy by ethnicity, and in how much savings younger generations may be able to make.

### *How much warning should be given for changes to NZS?*

**People need to be aware of how any reform will affect them.** There can be significant discontent if the intention was not signalled clearly. For example, the WASPI (Women Against State Pension Inequality) campaign in the UK arose as women born in the 1950s felt significant changes to the age they receive their state pension were imposed *"with a lack of appropriate notification, with little or no notice and much faster than we were promised"*<sup>48</sup>.

**The lead time from announcement to change should be reasonable so that people have sufficient time to make changes to their financial situation.** The WASPI women suggest at least ten or fifteen years as being required. They also called for 'cliff-edge' changes to be avoided<sup>49</sup>, and we agree a phased roll out is preferable so that change is gradual.

A longer lead time may exacerbate the problem of people forgetting that change is coming, so being unprepared. To avoid this, **personalised information on expected age of eligibility, and on future NZS expectations, should be easily available throughout life.** Such information could be added to annual KiwiSaver statements. A holistic view of forecast total retirement income should encourage saving.

**RIIG's view:** If age of eligibility were to be increased, we believe there should be a reasonable lead-in time and a phased approach, so people will have sufficient time to make changes to their financial situation. Personalised NZS forecasts including age of eligibility should be added to KiwiSaver statements.

### *In summary...*

Taking an overview of the above analysis, we see few arguments that are clearly won. We conclude that the current structure of NZS fulfils its purpose well. Compared to RIIG's retirement income principles:

- NZS is **equitable**, as it is based on individual entitlement. It does not distinguish by gender, ethnicity or socio-economic position.

- NZS broadly gives an **adequate level of income** for current retirees. Its indexation to inflation and link to average earnings provide some future protection. However, there are concerns over the future as more retirees have mortgages or are renters<sup>50</sup>.
- NZS is **empowering**. It encourages people to save for their retirement and enables people to plan for their retirement with confidence because it is not means-tested and currently enjoys a level of political consensus around the need for stability in NZS structure. Because of its annuity role, it also makes for simple drawdown plans which can be changed easily as required.
- NZS is **sustainable**, under current settings, both in terms of the share it takes of GDP and politically in that New Zealanders widely support it.
- NZS is simple, **understandable and easily accessed** by the majority of retirees.

**We therefore are still of the view that it is not necessary to reform NZS.** Debate usually focuses on the “cost” of NZS, which is often portrayed wrongly as in crisis. Contrary arguments which stress the value and purpose of NZS are strong. No reform to NZS is without difficulties.

**We need to recognise trends which argue against diminishing the role or restricting the value of NZS. Today’s younger people may need NZS more than older generations.** Although younger people can save in KiwiSaver for longer than older people could, they may have less potential to both own a home and save. KiwiSaver balances are not going to be high enough to allow any painless reduction in NZS. And **inequalities in length of life are significant and visible to the extent that they should be addressed before planning to make them worse.**

## 5. Indexing the age of eligibility

In this section, we consider in more detail how indexing the age of eligibility could work.

At first sight, indexing the age of eligibility to life expectancy seems appealing. It sounds like a way of making objective decisions, for example, “the age of eligibility should be set so that people are forecast to spend 31% of their life receiving NZS”.

Such a method is legislated in the UK, and RIIG has previously recommended a similar process be considered for New Zealand<sup>51 52</sup>. However, as the latest review carried out in the UK shows, this method should not be seen as giving a single answer, and needs care in implementation:

- **Inequalities are not considered** in the UK index calculation which uses cohort life expectancies for the total population by gender. StatsNZ also publishes cohort life expectancies for the total population. They are available by gender, but not by any ethnic or other factor.
- **The index calculations are extremely sensitive to the specific index formula.** In the UK review, very different answers are seen for an index targeting 30%, 31% or 32% of adult life spent after SPa. An index targeting 30% would suggest a phased increase in SPa from 67 to 68 in 2030. Increase the target by only one percentage point to 31% and the SPa increase would start eleven years later in 2041. A further percentage point increase in the target to 32% implies a start date a further twelve years later in 2053<sup>53</sup>.
- **The index calculations are extremely sensitive to life expectancy forecasts, which inevitably change between regular updates.** For example, in the UK 2022 Review of State Pension age (SPa), using an index targeting 32% of adult life spent after SPa, updated forecasts implied the increase in SPa from 67 to 68 should start from 2053. This would be sixteen years later than 2037 as suggested by the previous (2017) review<sup>54</sup>.
- **The UK legislates for a review of subjective issues to be considered alongside the calculation of indexation of expected lifespan.** This is necessary, as the decision to change the age of eligibility cuts across many issues for which there is limited data.
- **An index approach does not fully “take the politics out” of the decision, even with an independent review team.** The index formula would be a political decision, and the choice of any additional analyses and the interpretations would be subjective, as the sensitivities show. Planned increases would need to be announced in advance, leaving open the possibility of being cancelled if politically expedient<sup>55</sup>.
- **Using a measure of Healthy Life Expectancy as the index is not tenable,** as these measures are not uniquely defined and are even less stable year-on-year than life expectancy<sup>56</sup>.

We need to recognise therefore that “indexing” does not achieve the simplicity and objectivity claimed for it. We propose a **regular independent analysis of trends, inequalities and the implications of a change in the age of eligibility in areas including population health, health inequalities, work patterns, poverty levels and the economy, informed by indexing calculations such as an objective formula to keep the average proportion of life spent receiving NZS roughly the same for each cohort. The terms of reference for an assessment should include the ability to recommended mitigating measures for those who will be worst hit by any proposed change.**

## Some definitions

The term “**retirement**” is used in this paper for the phase of life when most people do significantly less or no paid work and need income from their savings, investments, or other sources. While some individuals may transition from full employment to being fully retired on a specific, pre-planned day, the reality is rarely this straightforward.

**New Zealand Superannuation (NZS)** is New Zealand’s public (tier one) near-universal pension, available to eligible residents from age 65 years.

**KiwiSaver** is New Zealand’s regulated private retirement investment scheme. KiwiSaver started in 2007 and has just over 3 million members, from a total population of 5.1 million people. KiwiSaver is not compulsory. Members choose, or are auto-enrolled into, a KiwiSaver account from one of more than 30 providers.

**Longevity** is a general term indicating long life.

**Longevity risk** for individuals is the risk of living longer than was assumed when planning retirement.

**Lifespan** measures how long an individual has lived or might live. It is equal to age at death. For example:

- The lifespan estimated to be achieved on average by female New Zealanders who were born in 1958 and lived to be aged 65 is 88 years (see **Chart 3**).
- The maximum verified lifespan for humans is 122 years<sup>57</sup>.

**Life expectancy** does not always mean the lifespan which anyone should expect<sup>58</sup>.

- **Period life expectancy is often used in analysis of the health of groups of people** as it measures average mortality between populations at a point in time. It is calculated as the average length of life left at a given age, assuming people experience the population’s age-specific death rates of a specific period from the given age onwards. For example, a baby born in 2023 will, sixty years later, experience the death rates of a sixty-year-old as they were in 2023, as if there had been no change in population mortality levels over those sixty years. This is of course completely unrealistic as an indicator of what might happen over real lifetimes.
- **Cohort life expectancy is a better measure of potential lifespan** because it uses information on how death rates change throughout life. It is the average length of life left at a given age for a **cohort**, that is a group of people born in the same year, based on their death rates over their lifetime.

Cohort life expectancy is only known when everyone from that cohort is dead, and the average lifespan of that cohort is confirmed. Cohort life expectancy for cohorts that are still alive must use estimates of future death rates.

Cohort life expectancy, as the average lifespan, is just one indicator of longevity for a cohort. Other indicators may be more useful to show potential lifespans and uncertainty in age at death, including:

- **Median lifespan** is the age for which half the lifespans of a cohort are longer and half shorter.
- **Modal lifespan, or the mode**, is the most common age at death.



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<sup>54</sup> <https://www.gov.uk/government/publications/state-pension-age-review-2023-a-gad-technical-bulletin/state-pension-age-review-2023-a-gad-technical-bulletin>

<sup>55</sup> Arguably, this has played out in the UK's 2023 experience FT.com "UK confirms delay in lifting of state pension age to 68" Josephine Cumbo, *Financial Times*, 30 March 2023.

<sup>56</sup> RIIG. (2019). "Longevity in New Zealand: Implications for Retirement Income Policy." Retirement Income Interest Group of the New Zealand Society of Actuaries. <https://actuaries.org.nz/wp-content/uploads/2019/11/2-Longevity-RIIG-FINAL-Oct-19.pdf>.

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