



11 October 2013

Flexible Superannuation
The Treasury
PO Box 3724
WELLINGTON 6140

by email flexi-super@treasury.govt.nz

Dear Sir/Madam

Submission on the Flexible Superannuation Discussion Document

The New Zealand Society of Actuaries wishes to make a submission on the above on behalf of the New Zealand actuarial profession. A number of our members work in superannuation, and our professional training includes the study of both retirement incomes and mortality, so we believe we are uniquely placed to provide comment.

The need to increase the age of eligibility for New Zealand Superannuation

Although we appreciate that this was not an aspect of the discussion document, we preface our submission by stating that the Society believes there should be a process towards an increase in the age of eligibility for New Zealand Superannuation (NZS), to reflect the improvement in New Zealanders' longevity, and the consequent escalating lifetime cost of NZS payments per recipient, relative to initial policy settings. Flexibility may be useful as part of a package to introduce an increase in the retirement age.

Views on flexible approach

As individuals, our members hold a range of views on the appeal and appropriateness of the proposed flexible approach. There are two main views:

- NZS is a social security income stream, as such it should be of an appropriate amount to support a decent but not excessive income for all recipients, and the current universal payment meets this goal well. Under the proposal, some people's income stream would be reduced and others' would be increased from this universal payment level.
- An individual has the right to make his or her own retirement decisions, and as long as the lifetime value of the pension is the same, the individual should be free to make their own choice.

Our submission therefore concentrates on matters of technical actuarial interest, and where members' views were aligned.



Maintenance of a minimum standard of living

NZS in its current form has been particularly successful in preventing poverty in old age. Members are concerned that the significant reduction in the benefit if taken at age 60, to give an equivalent value at age 65 would not provide an adequate level of income, particularly for those who have not been able to save, but are no longer able to work.

Further assistance in old age when the early takers find that the reduced level of benefit is inadequate is seen as “two bites of the cherry”.

Fiscal neutrality

We believe it would be difficult to achieve fiscal neutrality with this proposal. We see four immediate sources of increased payments:

- payments to those under age 65 who die prior to 65
- lost tax revenue from the deferral of receipt of NZS from working years to non-working years, when the marginal rate of tax may be less
- lost tax revenue from those ceasing work prior to 65 as they can now take up Flexi-Super earlier
- increased overall payments through individuals maximising their situation (information asymmetry or anti-selection).

The discussion document states “In order to compensate for these effects and achieve the principle of fiscal neutrality, the rates paid to those who choose to take NZS early or to defer could be further adjusted to account for these costs.” This is not the same as being neutral to those receiving a benefit, and would be complex to adjust for.

The proposal to allow either the early or late commencement of NZS, whilst appearing equal in nature in terms of time frame, are not equal in nature in terms of their potential effects on the viability of NZS and consequent taxation implications.

Complexity

The flexibility could add complexity to individuals' retirement planning, and they may or may not make the best decision for their personal circumstances, both financial and health. There would need to be clear advice available to individuals on the impacts of taking Flexi-Super early or deferring take-up.

Conversion rates

The conversion rates will need to be determined with professional actuarial advice.



International comparisons

Your table on international comparisons does not include entitlement for the benefit, which is highly relevant when ours is a universal pension.

Annuity market

The discussion document states "Flexi-Super may help address this market failure as it acts like an annuity by enabling people to forgo a few years of NZS to access a higher level of NZS in the future." We believe that the issues affecting the attractiveness of annuity provision should be more directly addressed by the Government, as decumulation of KiwiSaver balances becomes more critical.

The Society would be pleased to provide any further information on our submission. Please contact me by email society@actuaries.org.nz or by telephone directly on 462-7075.

Yours faithfully

New Zealand Society of Actuaries

A handwritten signature in black ink, appearing to read 'Paul Rhodes', written in a cursive style.

Paul Rhodes
PRESIDENT