



# Future Pathways

Fresh perspectives from actuaries of the future

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Fresh perspectives from actuaries of the future

## Superannuation

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# Agenda

- Introduction
- Background
- OECD Comparisons
- KiwiSaver
- Retirement Expectations
- Raising the Retirement Age
- Questions and comments





# Historical Background

- 1898 Old Age Pensions Act
- Means tested pension for those “...*of good moral character*”
- Key Features:
  1. General tax revenue “pay as you go”
  2. Flat rate not earning/contribution based
- Residential basis of entitlement.





# Historical Background

- 1938 Social Security Act
- Two tier system:
  - Payable at 65 with no means/income testing
  - Payable at 60; means tested, higher payment rate, designed for manual workers who were physically worn out by age 60.





# Historical Background

- 1977 Robert Muldoon's "National Superannuation"
- *"...the most generous universal pension scheme ever introduced in any country in any era."*
  - David A Preston *"The Compulsory Retirement Savings Scheme Referendum of 1997"*
- Payable at age 60 with no means testing
- 48% of the ordinary time wage before tax for a single person.
- 30 years of backing out and altering parameters by successive governments.





# Today

- Payable at age 65
- NZ citizen, and normally live in NZ at the time of application.
- Must have lived 10 years in NZ since age 20 with 5 of those since age 50.
- \$339.92 p/w single person living alone as at 1 April 2011.
- Approximately 40% of average ordinary time after tax wage.
- For a couple payments are set to be between 66% and 72.5% of average ordinary time after tax wage.





# OECD Comparisons

- The mean replacement rate for an average earner living in the OECD 34 is 57.5%. The replacement rate in New Zealand for an average earner is 40%.
- To reach the OECD average replacement rate, approximately 18% of our pre retirement earnings would need to come from some form of private savings.

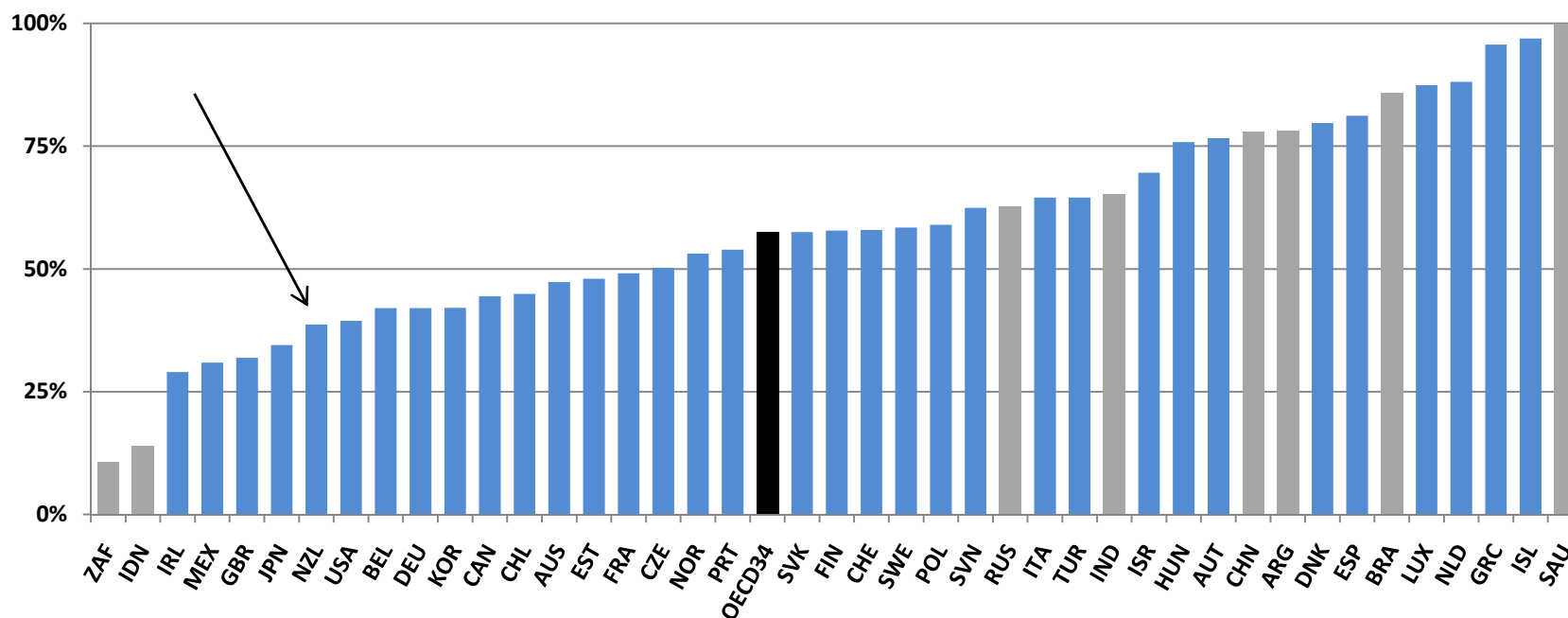
Source: OECD (2011), *Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries*, OECD Publishing.





# OECD Comparisons

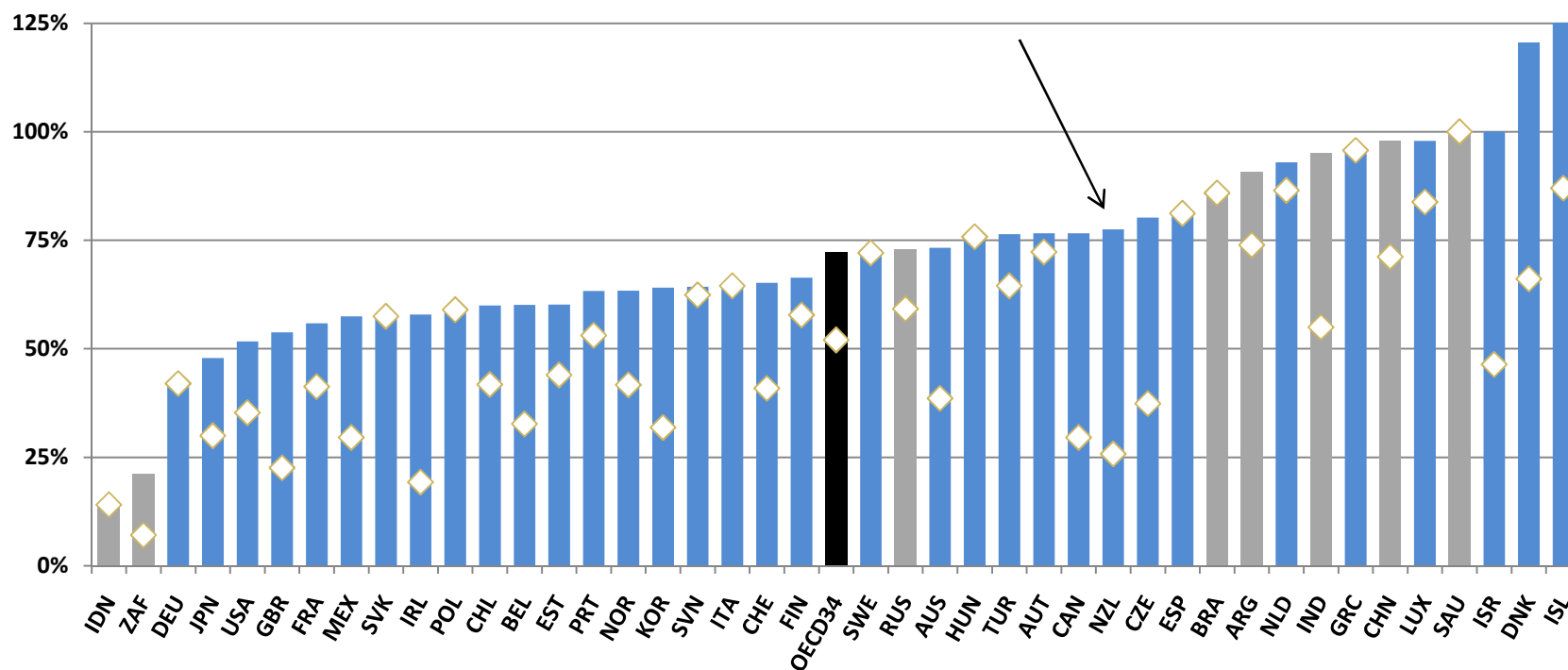
Figure 1 - OECD 34 Replacement Rates for Average Earner



Source: OECD (2011), *Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries*, OECD Publishing

# OECD Comparisons

Figure 2 - OECD 34 Replacement Rates for High and Low Earners



Source: OECD (2011), *Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries*, OECD Publishing



# KiwiSaver

- Fully funded DC scheme.
- Contributions of 2%, 4% or 8% are deducted from employee earnings, an employer contribution of 2% of salary is added.
- The accumulation is available as a lump sum from age 65 onwards.





# Combining KiwiSaver and NZ Super

- NZ Super net-of-tax replacement rate for an individual on average earnings (\$40K pa) is 41% of their pre-retirement earnings. (Based on data from *Pensions at a glance 2007*)
- A KiwiSaver contribution of 4% from age 35 on present earnings of \$40K pa gives 15% of pre-retirement earnings.
- Combined gives roughly 56% of pre-retirement earnings for someone on average wage – OECD 27 average was 70%.

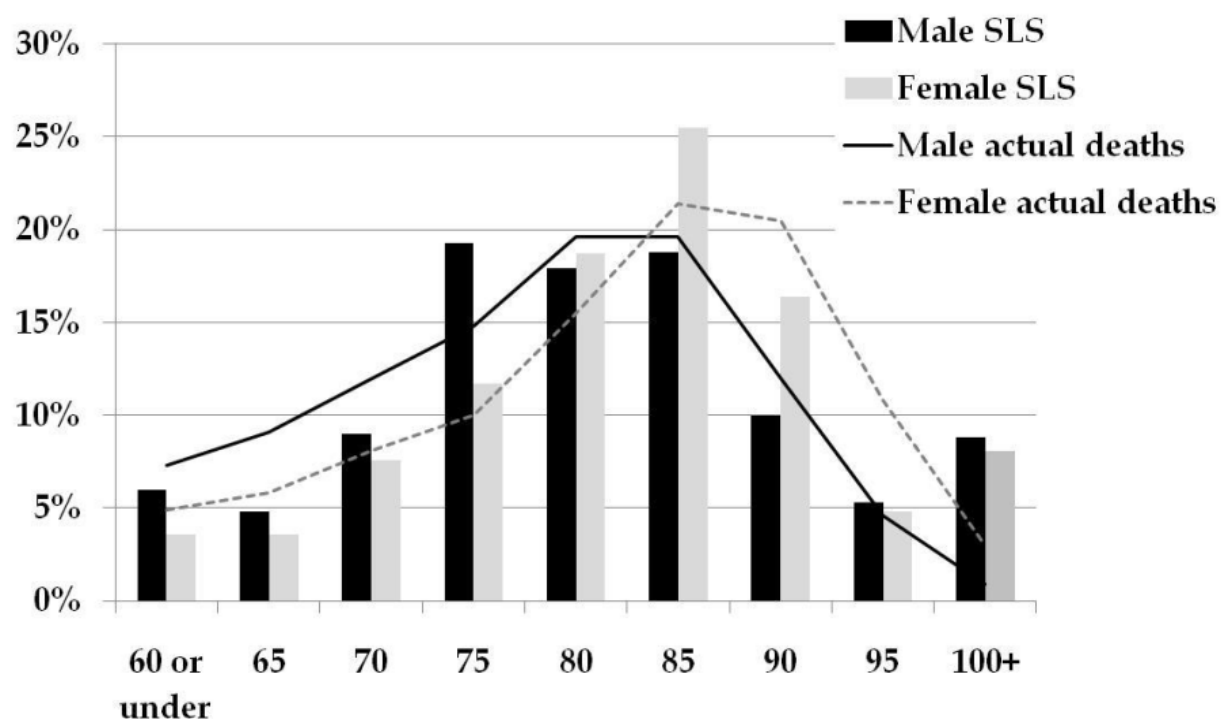
Source: *Simple, Effective and (Relatively) Inexpensive: New Zealand Retirement Provision in the International Context* Geoff Rashbrooke Social Policy Journal of New Zealand August 2009



# Retirement Expectations

- What age do you think you will live to?

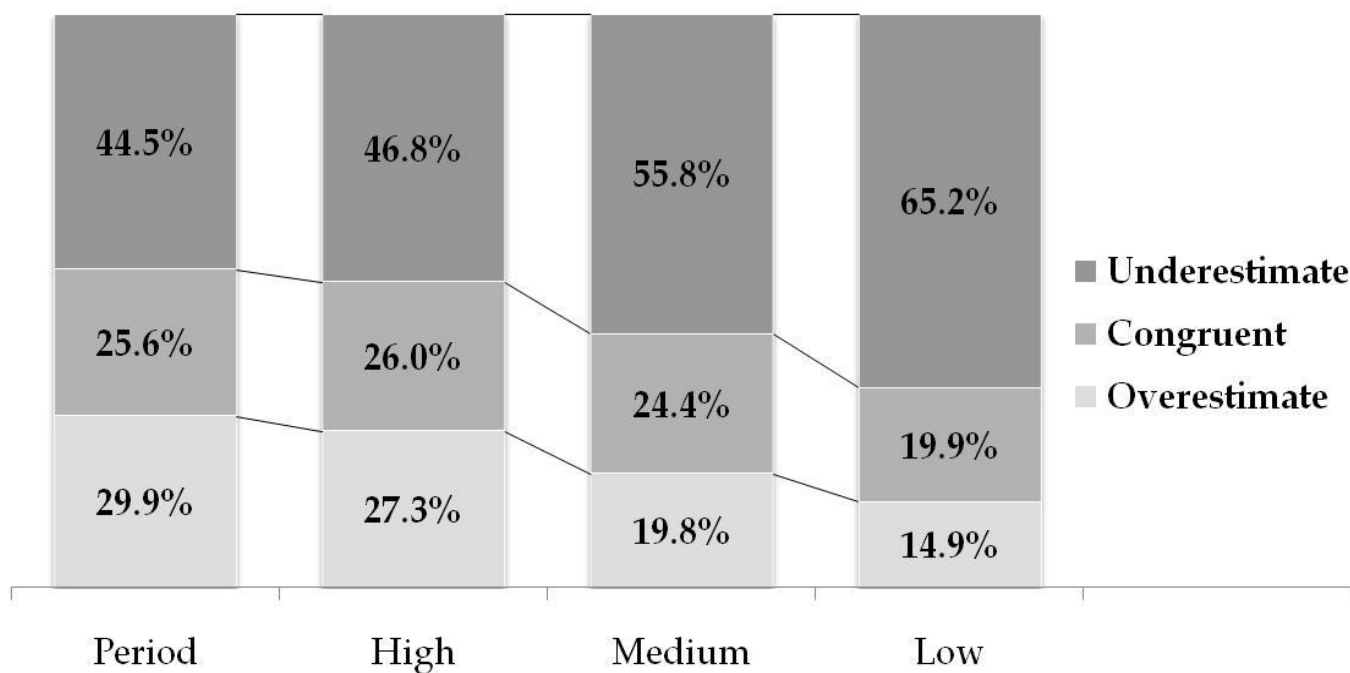
Figure 3: Subjective lifespan compared with actual deaths



Source: Alison O'Connell using data from the ANZ-Retirement Commission Financial Knowledge Survey in 2009.

# Retirement Expectations

Figure 4: Subjective lifespan compared with life table benchmarks



Source: *Retirement Expectations: How long do we expect retirement to last?* 2010 Alison O'Connell



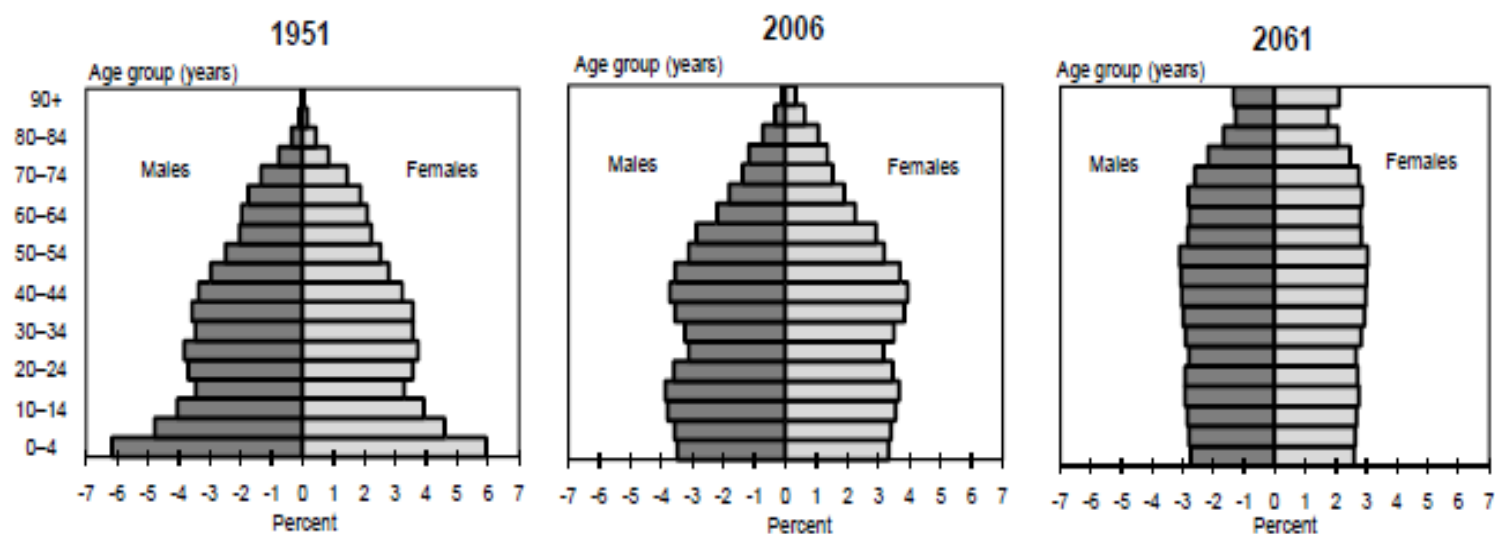
# Raising the Retirement Age



# Arguments for:

- NZS in its current form is unsustainable!
- Seems logical given increasing longevity

Estimated and Projected Age-Sex Distribution  
Total Population



‘The Impact of Structural Population Change’, Statistics New Zealand





# Arguments for:

- Intergenerational equity
- In terms of health, working beyond age 65 is not unrealistic
- It has been raised in the past  
*“No-one is looking back now and saying the retirement age should be 60, because 60 seems absurdly young, and 65 will seem absurdly young to many people one day”, professor Susan St John*
- Australia has plans to increase the age of eligibility from 65 – 67 over 2017 – 2025. NZ to follow?
- ISI, economics professors and actuaries support it!





# Arguments against:

- Impact would not be the same for everyone. Different life expectancies for:

- Men and women
- Different ethnicities
- Different socio-economic classes

Problem is compounded for those on lower incomes as less likely to own a house or have adequate KiwiSaver savings

*“A policy that impacts most heavily on those who can least afford it cannot be a good one”, Sullivan, 2002*

- Job availability?
- Discrimination against older workers





# Arguments against:

- Max age (and therefore benefits) will increase for:
  - Unemployment benefits
  - Death and TPD for employer superannuation schemes
  - ACC work account
- Receive “Gold Card” later!





# What age to raise it to?

- 'Living Within Our Means: A Framework for Making Decisions on the Age of Eligibility for New Zealand Superannuation', Geoff Rashbrooke
- Basic idea in model:

Aim is to keep the superannuation tax rate constant over time

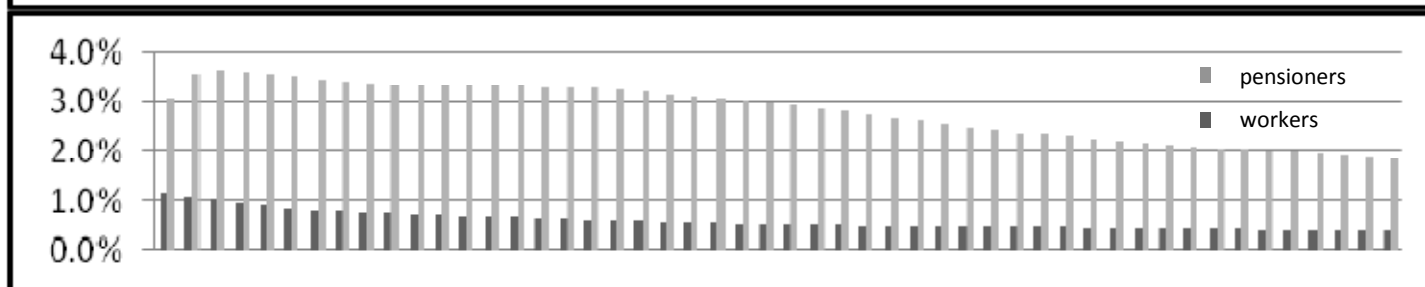
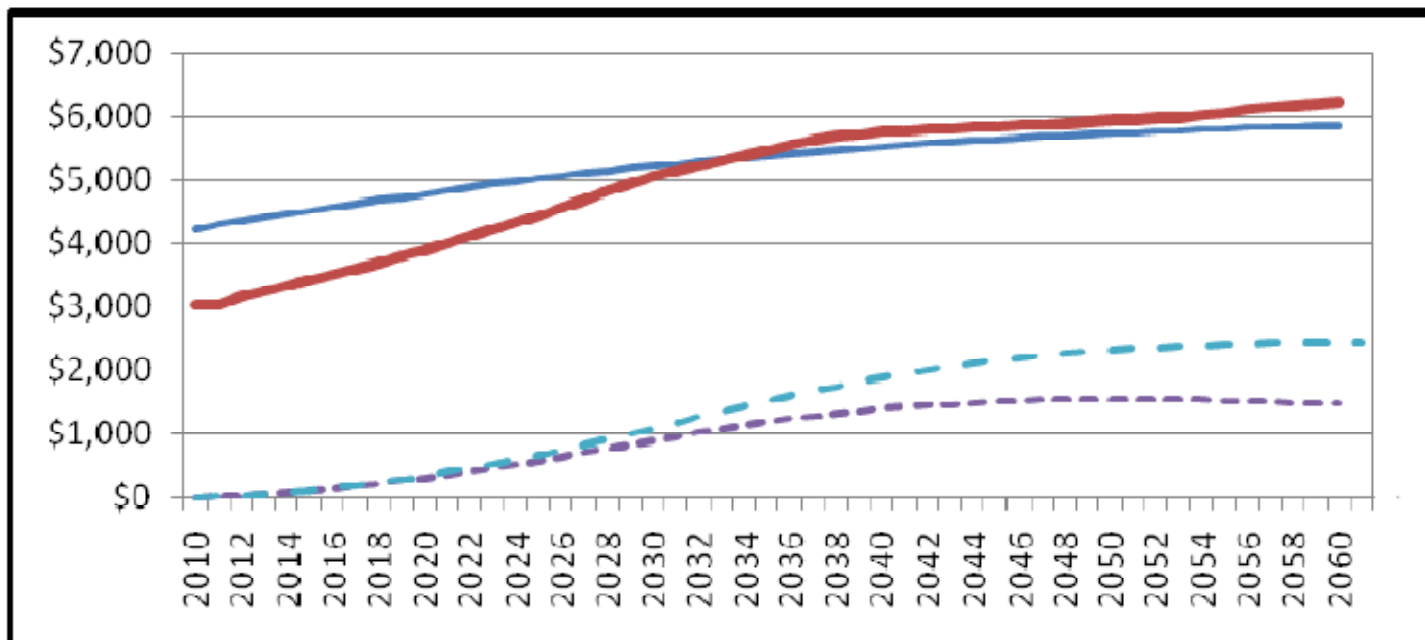
- Currently around 6% (on average \$3000 / FTE)
- Main factor affecting the superannuation tax rate is the dependency ratio (number of pensioners / number of workers) which is rising.

This ratio needs to be constrained!



# No change in eligibility age

- cost per head
- cost per head with NZSF smoothing
- - - additional health costs (real increase of 1%)
- - - additional health costs (no real increase)

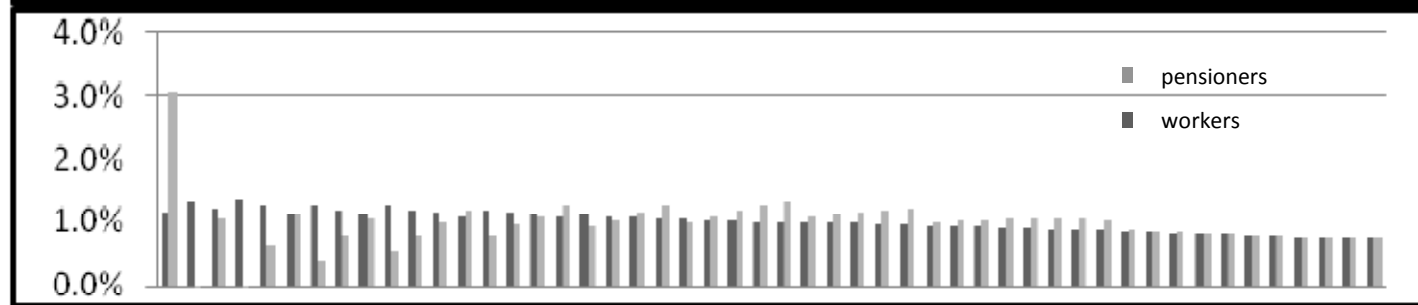
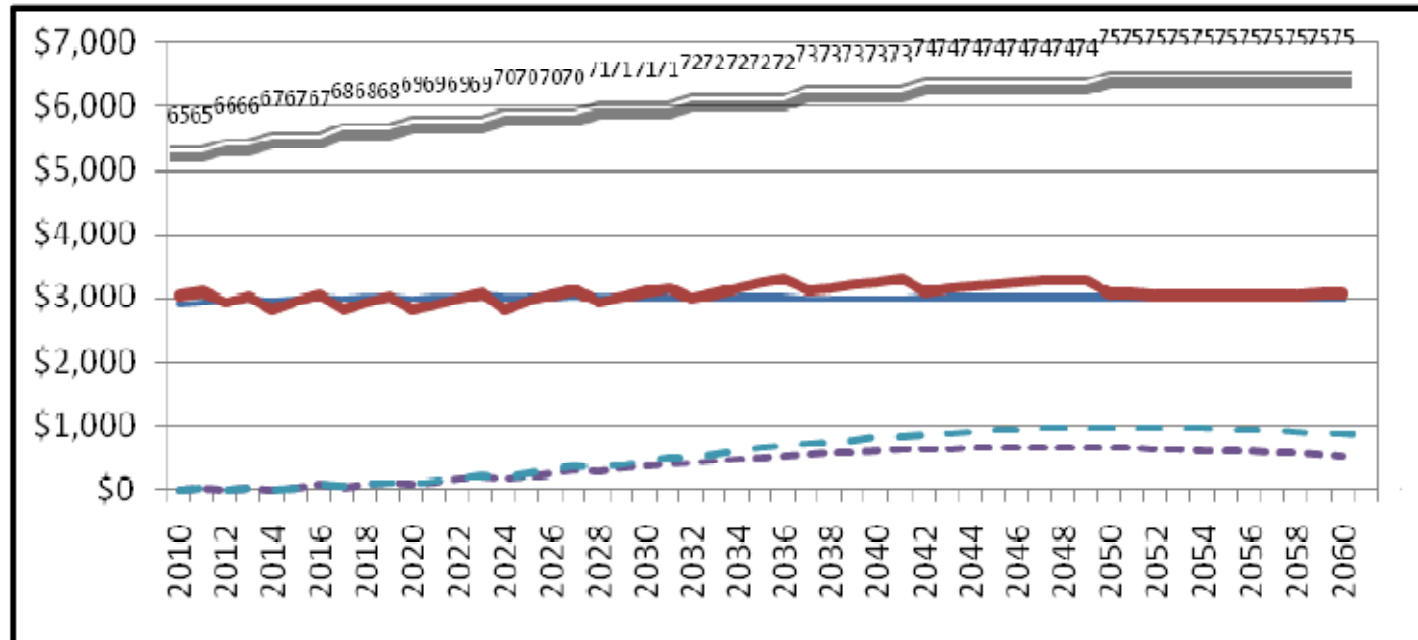


*Projected labour force 2061: 2.97 million*



# No increase in cost per head

- cost per head
- cost per head with NZSF smoothing
- - - additional health costs (real increase of 1%)
- - - additional health costs (no real increase)



*Projected labour force 2061: 3.45 million*





# What age to raise it to?

- Notes on Rashbrooke model:
  - Remember this model assumes the only change to NZS is the age of eligibility. Age of eligibility will not need to rise to as high as 75 if other measures are taken e.g. means testing
  - Rashbrooke also looks at capping the average cost per head at \$4000 → tax increase of 2%. (Reduces increase in age of eligibility from 75 in 2050 to 70 in 2040)



# What age to raise it to?

- Another idea suggested:

**Age of eligibility = current expected age of death – x**

Pros	+ve	Sustainability of NZS
	+ve	Very simple formula, easy to understand
	+ve	No need for recurring political debate
Cons	-ve	Formula too simple – intergenerational inequities will still exist
	-ve	Which cohort to use for expected age of death?
	-ve	Doesn't give enough forewarning of retirement age for young people







# Hybrid Alternatives / Compromises

- Encourage *voluntary* later retirement
  - Incentives to postpone collecting pension after age 65
    - Permanently increase pension benefits by a given amount for each month of postponement
    - Reduce the amount of income tax payable by workers who delay collecting their pensions







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