

Spending the savings

Decumulation and middle income retirement

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THE RISKS OF MIDDLE INCOME RETIREMENT

- Living a long time
- Investment risk
- Needing expensive end of life care

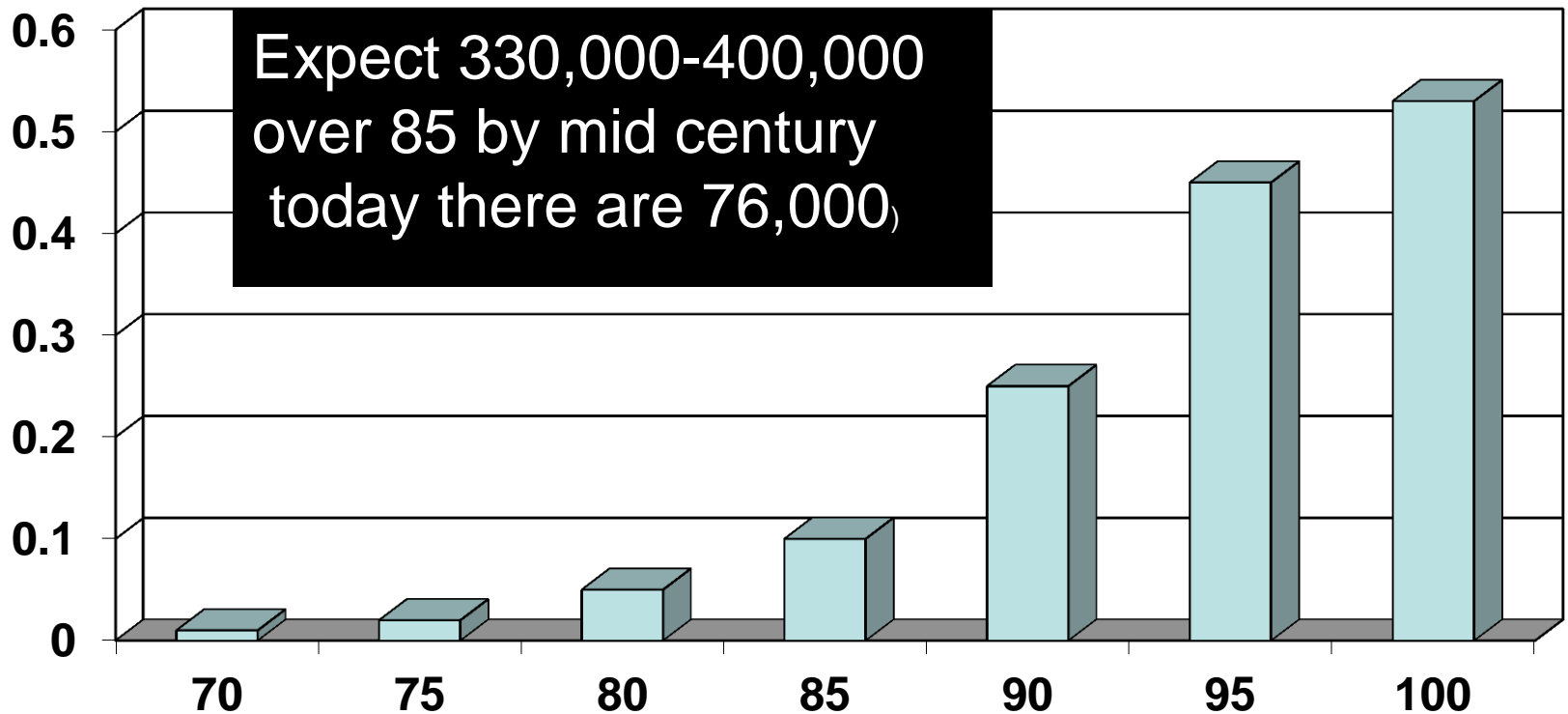
Pensions and annuities

- *Retired at 58, now 98, GSF pension*
- *Benefits of longevity and inflation protection*

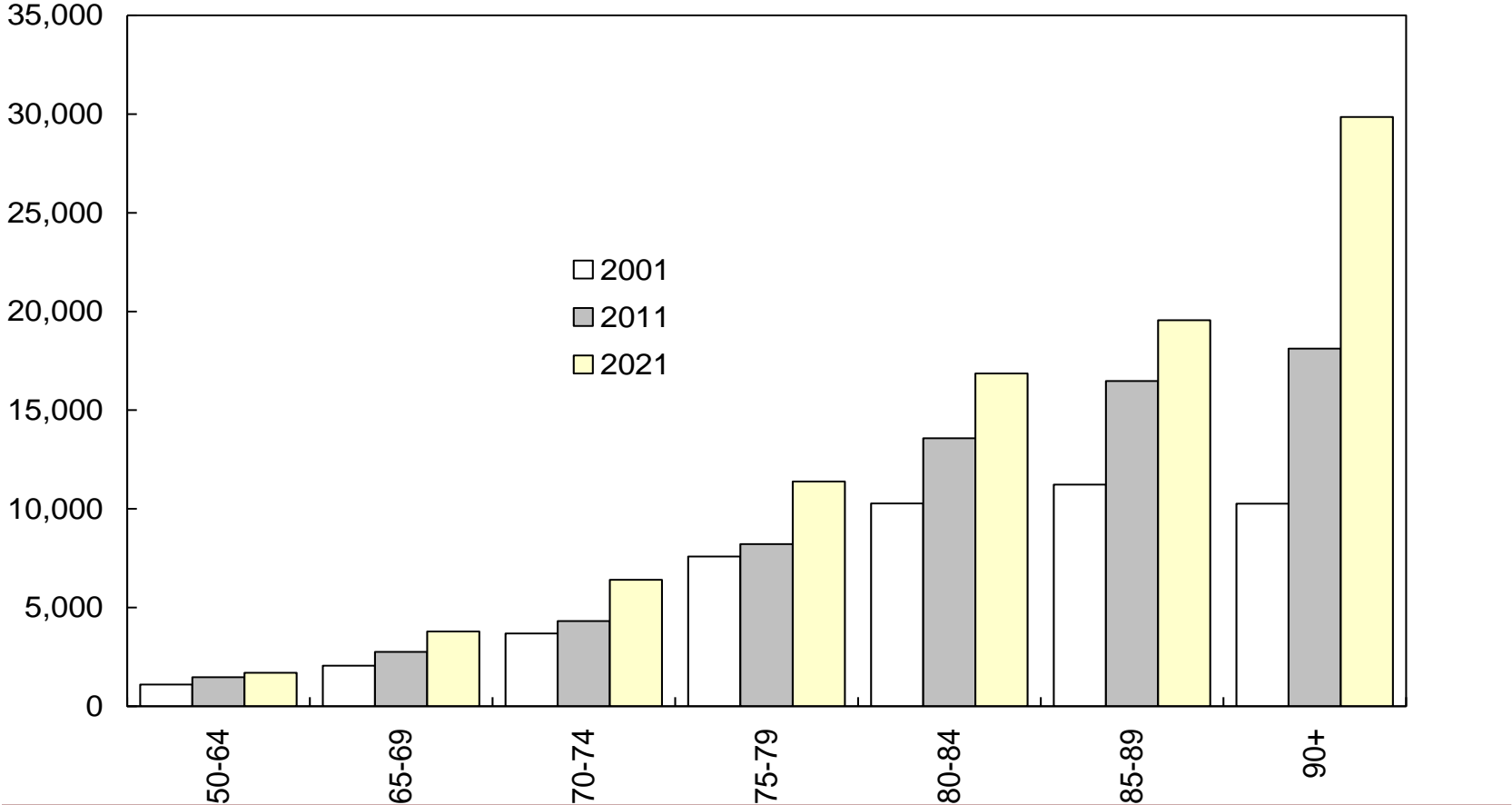


Probability of being in long-term care

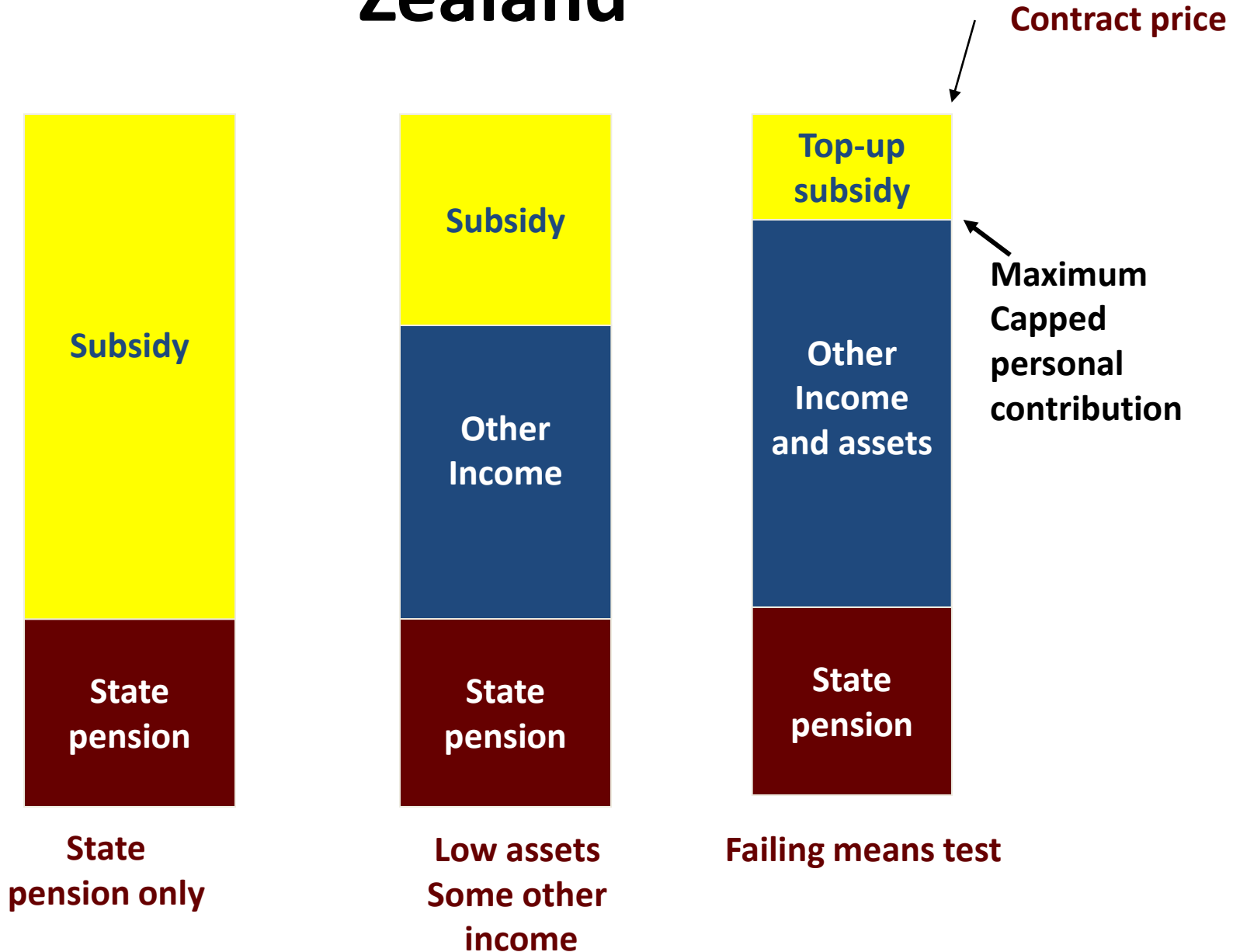
Averaged for female and male



Long-term care 2001-2021- demand doubles. What about 2051????



Paying for old age care in New Zealand



Removal of asset test?

Promised in 1996 agreement

“Progressive removal from 2005”

Halted in 2012

The Asset Test

Years	Single person	Married couple with one in care	Married couple, both in care
1998 – 2005	\$15,000	\$55,000 + house +car	\$30,000
July 2012 CPI adjustment	\$213,000	\$118,000 + house +car <i>or</i> \$213,000 total	\$213,000

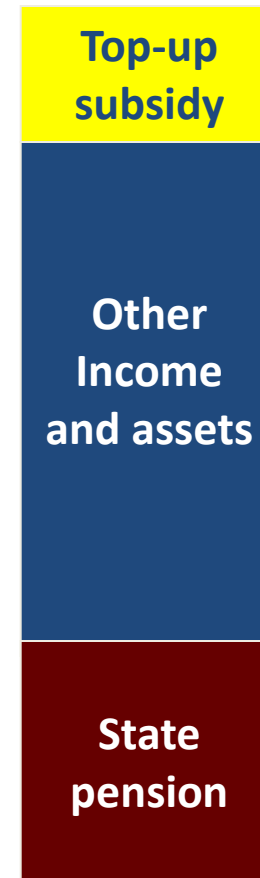
Annual capped payment-

Individual contribution
Capped **\$ 46,400**

If net NZS=**\$16,400**

Other income needed =**\$30,000**

Note additional Govt- TOP UP may
be as high as **\$27,000- high level of
care .**



Failing means test

More Intragenerational sharing

- Whose claim on resources should be reduced?
- **Currently burden falls on**
 - Working age population- subsidies, NZ super, asset test avoidance
 - Unlucky families, through means test
- **Intragenerational sharing** would impose more of the costs on the generation aged 65+
 - Spread from those who die early or live longer without needing care, to those who live longest and need care.
 - Improve intergenerational perceptions

Some options to improve Intragenerational equity

- Long-term care insurance?
- Expand use of annuities?
- Life insurance and long-term care
- Life annuities and long term care

Current annuities market almost non-existent

- Life annuities
- **Appear expensive**
- **Poor value for women**
- **Timing is a lottery**
- **No protection from inflation**
- **No protection from growth in living standards**
- **Institutional risks and no guarantees**

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A Blueskies product for New Zealand?

- Inflation-adjusted gender-neutral Life annuity of value of up to \$10,000 pa
- Increased on the determination of the need for long term care- *say annuity trebles*
- Paid for at age 65 with cash and if suitable, equity share in housing

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New Zealand in a unique position
State involvement needed
NZS \$ net 16,000 + annuity \$10,000
Enhanced annuity \$30,000 as indemnity insurance

Single premium at age 65 to 74

Younger age = lower premium

Offsets longevity risk with care risk

Source of purchase price- KiwiSaver, other cash and home equity?

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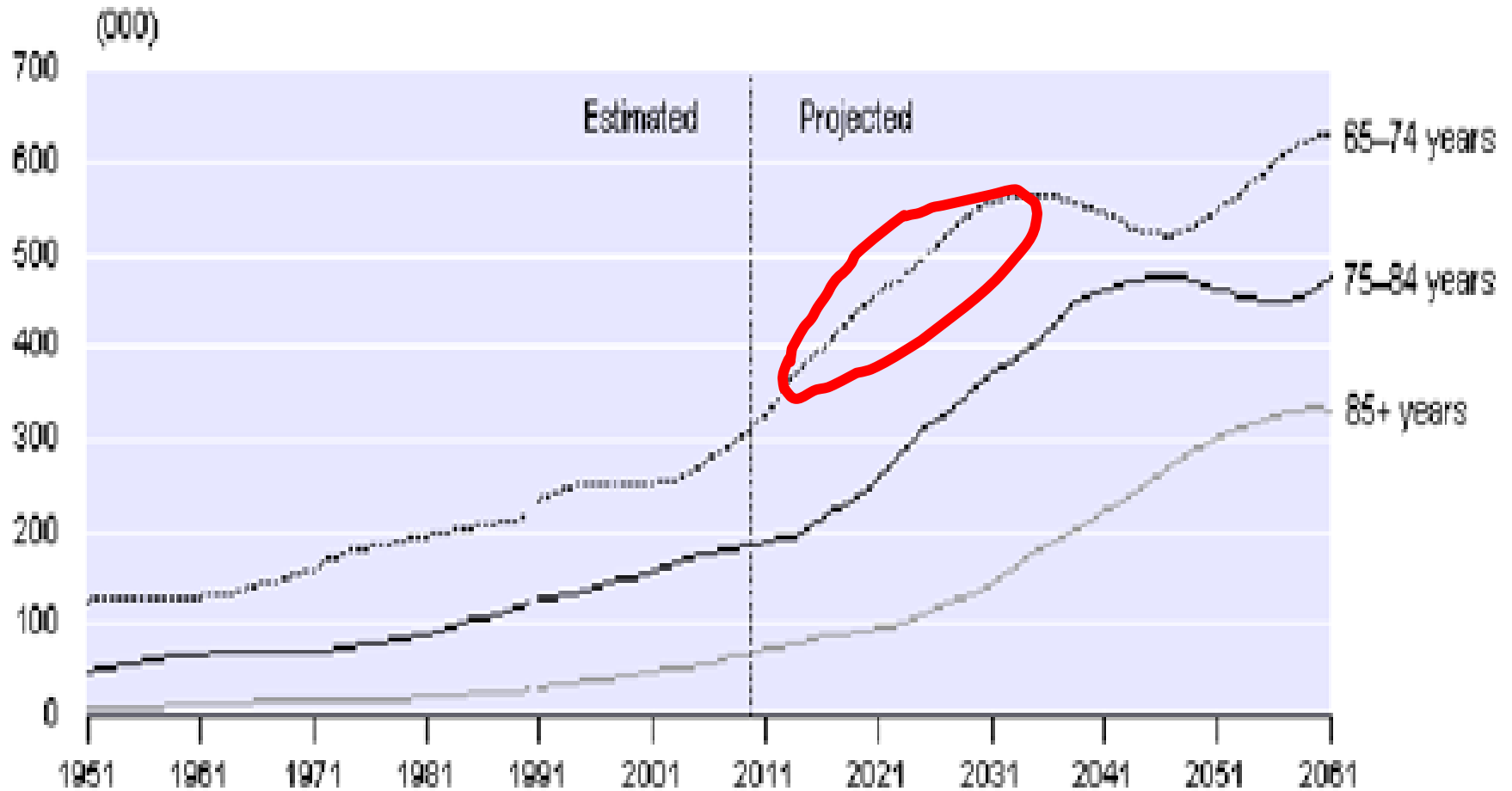
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Population aged 65+ by age group 1951-2061 series 5



What could the government do?

- Agree that the social advantages that might flow from annuities
- Subsidise, support and regulate the market, or act as provider
- May offer limited annuity with long-term care rider as a top up to NZ Super
- Means test for LTC may need strengthening

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What kind of a figure are we talking about?

- Pricing such a annuity is complex
- Simplistic pricing – based on probabilities of living to a given age and probabilities of being in care
- No overheads
- Assuming a real interest rate of 2%
- Annuity trebles on being admitted to residential LTC

Ball park figure for \$10,000 annuity-averaged M&F- at age 65, 2% real interest rate

Annuity	Annuity Guarantee 10 years	Annuity With LTC rider	LTC With Guarantee 10 years
\$144,400	\$154,200	\$157,700	\$167,900

SAYG V PAYG?

Home equity?

Degree of subsidy?

Would middle income people like
it?

Conclusion

- If the older group buy insurance in young old age the risks are spread
- Tentative costings suggest that this product is feasible
- Might look attractive to both men and women
- FOR NEW ZEALAND Subsidy to the decumulation phase may be justified in a voluntary savings regime if little subsidisation of accumulation phase