

# The place of decumulation in overall retirement income policy

Dr Malcolm Menzies

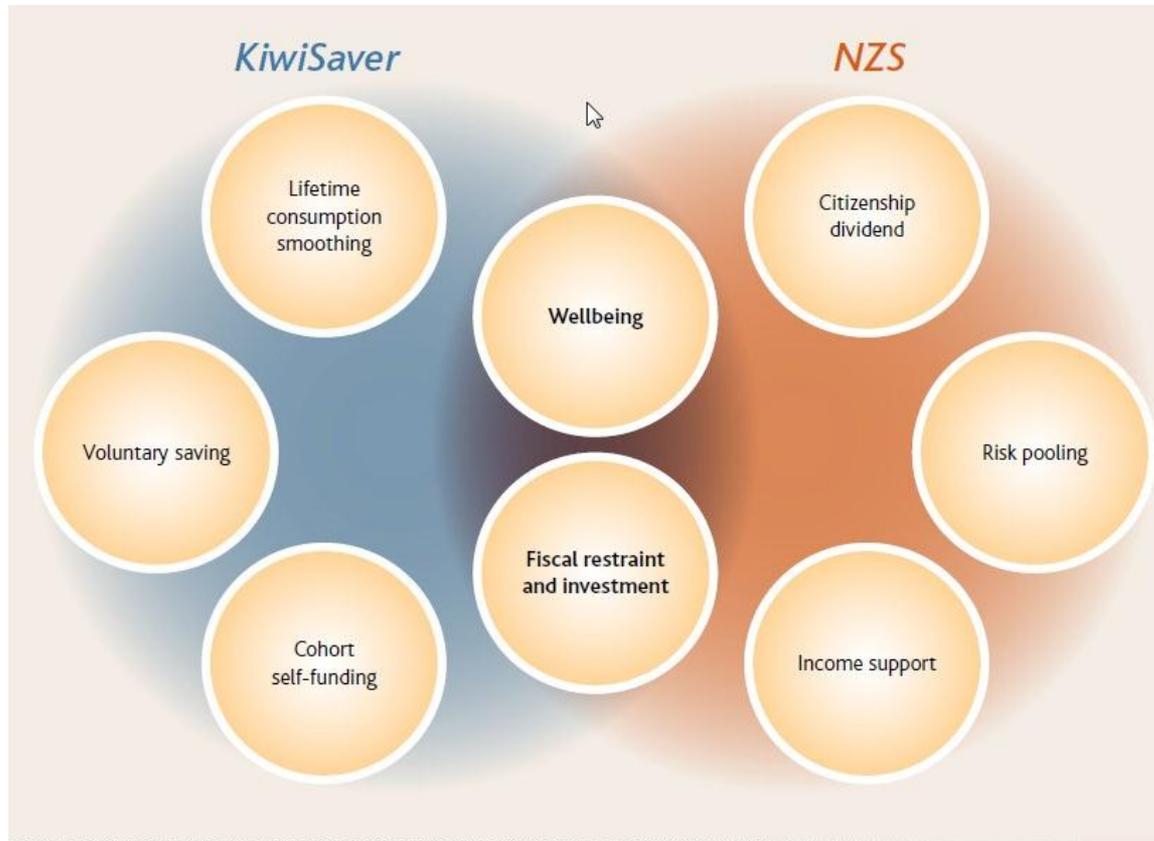
Research Manager

Commission for Financial Literacy and

Retirement Income

# Topics

- Objectives for Retirement Income Policy
- The place of decumulation
- The role of financial literacy
- Older Kiwis' strategy
- 2013 Review



## Objectives of Retirement Income Policy

# The place of decumulation (1)

## 1. Income support

- NZS provides “no frills” income support for 60% of older (66+) New Zealanders

## 2. Wellbeing

- Low levels of poverty among older New Zealanders are very dependent on home ownership and complementary services

## 3. Longevity risk pooling

- New Zealand Superannuation covers this off
- One reason for lack of demand for annuities

# So what's the problem?

## 4. Fiscal restraint and investment

- The fiscal gap
- Increases in longevity (where will they stop?)

## 5. Cohort self-funding

- Trend towards transfer of burden and risk
- Political sustainability

# The place of decumulation (2)

## 6. Lifetime consumption smoothing

- Increasing expectations of the baby boomers and beyond

## 7. Citizenship dividend

- A two tiered aged population?
- Decumulation for all or just for some?

## 8. Voluntary savings

- Possible change in indexation of NZS
- Increasing need for private top-up
- Growth in KiwiSaver. What to do with balances?

# The role of financial literacy

- Important at all ages
- Behaviours are core
- Think, shrink and grow
- Life course perspective
- In the right context

# Six pillars

- NZS
- **KiwiSaver**
- **Private savings**
- **Home ownership**
- Employment
- Other public services, especially health

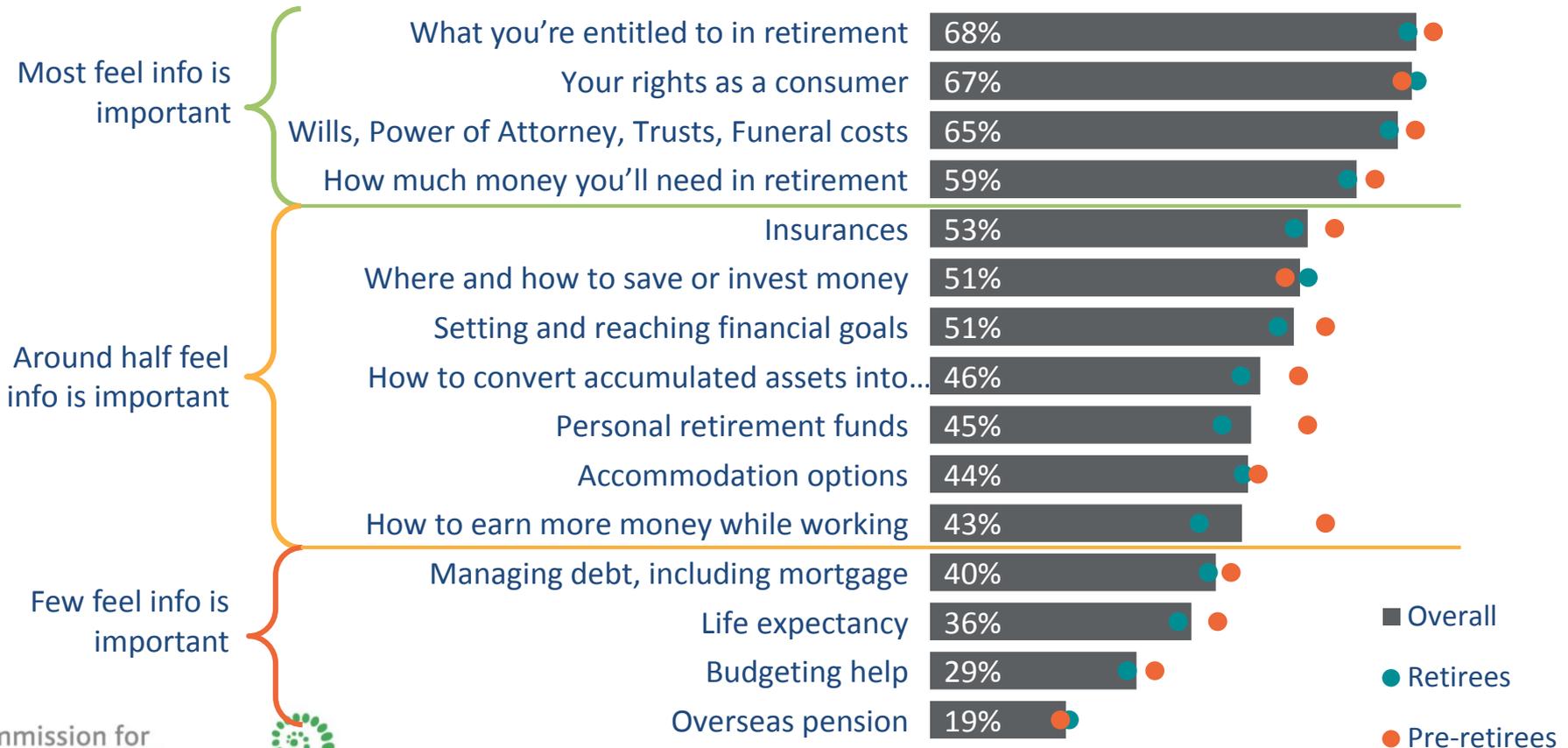
# Older Kiwis strategy: segments

- Pre-retirees
  - Vulnerable
  - Middlers
  - Planners
- Retirees
  - Lifestylers
  - Supporters
  - Later life transitioners



# Decumulation in the middle of the pack

## IMPORTANCE OF INFORMATION TYPE





# Information is not necessarily used

Q17c

Did that information change how you managed your financial situation in some way?

## USE OF INFORMATION TYPE

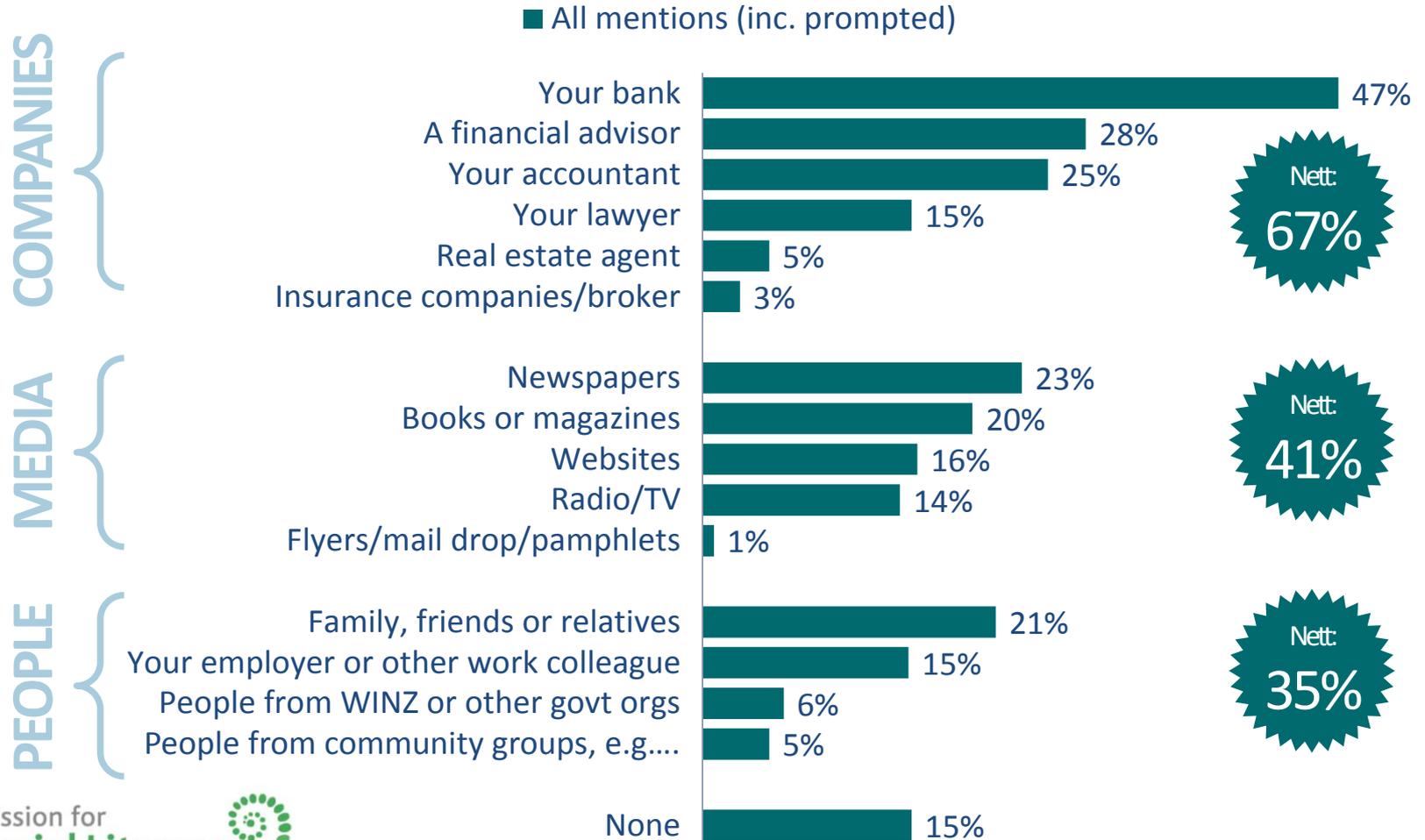




# Sources of information about retirement finances

Q15:

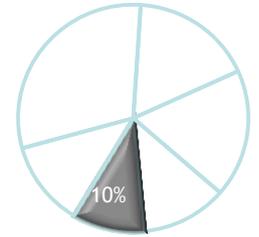
Which sources have you or your spouse ever got information from in regard to your long-term savings, investments or retirement finances?





# Meet our pre-retiree 'Middlers'...

Middlers



## Just trying to get life sorted

Retirement?  
That's way off yet - I know it's coming but.....

The Future

Yeah I know I should be saving more , I do what I can but have to prioritise

Money

Life

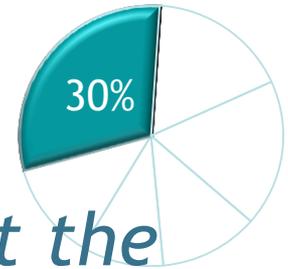
It's good but busy - work, family, social - life's for living right?

What they might say about...



# Meet our retired 'Lifestylers'...

Lifestylers



## In denial about the challenges of the future



*I'll always be able to find a way to look after myself - it's what I do!*

The Future

*I've got what it takes to make money and will just carry on*

Money

Life

*Life's good - yeah I'm getting older but no big deal*

What they might say about...

# Focus of OK strategy

- Middlers and lifestylers
  - The same people at different stages?
  - Doing alright but as long as “nothing happens”
  - Backing their ability to stay healthy and to earn. i.e. human capital rather than financial capital
  - Need to plan, manage risks, consider alternatives to working longer and harder



## Later life transitioners needed help converting assets into regular income

- The priorities are “how much you’ll need in retirement”, “converting assets into regular income”, and “setting and reaching financial goals”.
- “Converting assets into regular income” is an information type that is a unique top priority to this group.
- Implications for annuitisation at a later stage? But what about bequest motive?

# Some possible conclusions

- Protect the six pillars
- Develop an affordable insurance against loss of income for those betting on working longer
- Invest in financial literacy at all ages
- Self-management of income in early retirement
- Products targeted at older ages