What is it with compulsory saving?

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Agenda

• Is New Zealand Superannuation sustainable?
• Do we need the New Zealand Superannuation Fund?
• Do we need KiwiSaver, let alone compulsion?
• What can governments actually do?
• What should New Zealand really do next?
NZS - can we afford it?

- Population aged 65+ will more than double
- Cost of NZS will more than double
- Dependency ratio will worsen, but:

**Total (as % GDP):**
- 32% in 2006
- 37% in 2050

**NZS (net cost):**
- 3.4% in 2010
- 7.1% in 2050

Source: Retirement Commissioner 2007
NZS – the Treasury’s LTFM 2000-2007

- Demography drives expected cost
- GDP drives ‘affordability’
- 2009 estimates lowest in real terms
What about other countries? EU15

% GDP

Source: European Commission 2006
What about other countries? - 2

% GDP

Sources: European Commision, LTFM (net), Intergenerational Report 2010
Does the NZSF change things?

- The cost of NZS is not changed by $1
- The incidence of cost is changed slightly:
  - Contributions holiday until 2018/19
  - By 2050, net outgo reduced by 0.6% of GDP (-8%)
- Exposure to risk
- ‘Total accounting context’: borrowing to invest
- Cost taxpayers $2.6 bn at 30 June 2009
- Example of ‘cookie jar economics’
- Purports to ‘lock-in’ NZS benefit design & Budget process

We should agree what to pay for before how
What do we know?

- New Zealanders’ responses
- Some questions:
  - Do tax incentives increase saving?
  - Might compulsion help?
  - Can governments really change behaviour?
  - Does domestic saving matter?
  - How do we resolve this apparent dilemma?
Let’s look at some evidence
Can governments actually change things?

- International evidence is ‘no’
- For example, 48 country study: 1980–2004
- $1 in pension saving adds 0-20 cents to national saving
- Ignores cost of incentives and sub-optimal investment decisions
- Small “improvement” with maturity
- “Reforming countries” don’t seem to be different

_Pensions and Saving: New International Panel Data Evidence_  
Bebczuk and Musalem (2006)
Can governments change things? - 2

- More evidence that answer is ‘no’
- Seven country study – 1970 to 2000
- Voluntary pension savings largely not ‘new’ money
- “We found substantial evidence that pension saving substitutes for other forms of private saving.”

*Pension Reform and Saving*
Bosworth and Burtless (2004)
Do tax incentives work? - 1

- Evidence that answer is ‘no’
- No evidence that they increase savings
- ... or ‘saving’
- They are regressive
- ... and increase the taxes of all
- They also distort behaviour

*Current taxation of qualified pension plans: has the time come?*
Munnell (1992)
Do tax incentives work? - 2

- Incentives change behaviour
- Direct incentives probably don’t increase saving
- “… between 0 and 30 percent of 401(k) balances represent net additions to private saving”
- Ignores direct/indirect costs of incentives

*The Effects of 401(k) Plans on Household Wealth*  
Engen and Gale (2000)
Does compulsion work?

- A 13 country review of Latin America
- 11 lessons including:
  - Growing ‘informality’ of labour force
  - ‘Ownership’ doesn’t solve evasion
  - Suppliers tend to concentrate to a few
  - Competition doesn’t control costs
  - Market doesn’t solve mortality issues
  - Effect on national saving is uncertain
  - Large, regressive, long-tail costs in transition
  - May have made markets more liquid (but may not)
  - Investment risk adds to social risk

*Reassessing Pension Reform in Chile and Other Countries in Latin America*
Meso-Lago (2002)
What drives saving?

- Higher output growth boosts saving
- “Fiscal consolidation” linked with increased saving
- Private credit increases tend to reduce saving
- Ageing populations reduce saving
- Better ‘terms of trade’ tends to increase saving
- Saving behaviour may not be affected by returns
- Increased credit may mean firms invest more
- Higher cost of capital associated with lower investment

*World Economic Outlook, 2005*
International Monetary Fund
Higher savings = growth?

- More savings matter for ‘poor’ rather than ‘rich’ countries
- Review of 118 countries over 1960-2000
- Open capital markets disrupt theories based on closed economies
- Local savings matter for innovation in ‘poor’ countries – not significant for ‘rich’

*When Does Domestic Saving Matter for Economic Growth?*  
Aghion, Comin & Howitt (2006)
Are ‘household saving’ numbers helpful?

- For ‘retirement saving’, stocks matter not flows
- “Nothing about retirement saving adequacy can be inferred from” household ‘saving’
- Possible adjustments could convert net national saving from 2.1% to 13%
- Correcting for inflation removes “the so widely cited downward trend in private saving”.
- The ‘look around’ test is more useful
- OECD will not now use our household numbers

*Saving in New Zealand: measurement and trends*
Claus & Scobie (2002)
New Zealanders behaving badly? - 1

- A look at available evidence
- Review concludes that about one third are not saving ‘enough’
- Conservative assumptions
- Data could be better
- So, the problem is ....... ?

*Are Kiwis Saving Enough for Retirement? Preliminary evidence from SOFIE*

Trinh Le, Grant Scobie and John Gibson (2007)
New Zealanders behaving badly? - 2

- Treasury: A "least regrets" approach today seems defensible (2007)
- Report: NZrs getting richer despite ‘spending more than they earn’
- … “and not just because of housing”
- “reasons that have been used to justify pro-saving policies lack economic underpinnings.”
- “Pro-saving policies are more likely to be regrettable than not.”
- So, the problem is ....... ?

*Does New Zealand have a household saving crisis?*
Trinh Le, NZIER (2007)
New Zealanders behaving badly? - 3

- Compares SoFIE (individual) data for 2004 and 2006
- Separates ‘permanent’ and ‘transitory’ effects
- Measurement issues
- Median saving rate: 16% p.a. of real incomes (5% ex-property)
- Wide distribution – data may improve
- So, the problem is ....... ?

*Saving Rates of New Zealanders: A Net Wealth Approach*
Grant Scobie & Katherine Henderson (2009)
How are New Zealand’s old faring now?

- Ground-breaking work by MSD – ‘Economic Living Standards Index’ (ELSI)
- We must have been doing some things right
- The old (65+) have the smallest levels of ‘hardship’: only 8% have any at all
- Unrelated to ‘financial assets’ – 59% have $25,000 or less
- Owning a debt-free home is important
- So, the problem is ....... ?

New Zealand Living Standards 2004
Ministry of Social Development (2006)
More on New Zealand’s old

- 2008 Living Standards Survey
- Non-income measures of hardship
- Supplements usual income-based measures
- “older New Zealanders (65+) have low hardship rates (4%)” (cf. EU25: 14%)
- whole population: 13%; children 19%; sole parents: 39%; beneficiaries: 51%
- So, the problem is ....... ?

*Non-income measures of material wellbeing and hardship: first results from the 2008 New Zealand Living Standards Survey with international comparisons*

Bryan Perry (2010)
SoFIE’s symmetry

- Eight year longitudinal survey
- Substantial population sample
- Subsequent financial data 2006, 2008 & 2010
- Straddles KiwiSaver’s introduction
- We might be able to see impact
- Australia’s equivalent is HILDA
## HILDA (Aust) vs. SoFIE (NZ): 2006

<table>
<thead>
<tr>
<th>As % net assets</th>
<th>HILDA</th>
<th>SoFIE</th>
</tr>
</thead>
<tbody>
<tr>
<td>House + other prop</td>
<td>50.3%</td>
<td>46.2%</td>
</tr>
<tr>
<td>Pensions/super</td>
<td>18.6%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Businesses/farms</td>
<td>9.3%</td>
<td>22.2%</td>
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<tr>
<td>Shares, funds etc</td>
<td>7.7%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Bank accounts</td>
<td>4.7%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Vehicles</td>
<td>3.9%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Other assets</td>
<td>5.7%</td>
<td>13.9%</td>
</tr>
<tr>
<td>Liabilities (% gross)</td>
<td>14.4%</td>
<td>13.9%</td>
</tr>
</tbody>
</table>
HILDA vs. SoFIE: 2006

- Governments can influence aspects of behaviour
- Probably have limited impact overall
- Convertible to cash in 2006:
  - Australians: 54.5% of net assets
  - New Zealanders: 48.5%
- Debt about the same:
  - Australians: 14.4% of gross assets
  - New Zealanders: 13.9%
More from HILDA: 2005-2009

- ‘Financial’ savings tracked (excludes home, lifestyle assets) by individuals
- Inflation-adjusted, ‘active’ saving
- Savings (p.a.)
  - All adult Australians: $300 p.a. (1.3% disposable income)
  - Age 45-54: $2,260 p.a.
  - Top quintile earners: -$25,710 to +$39,120 (med. $8,060)
- “Without SG contributions, the typical Australian would have spent $210 more than they received.”

Saving Tomorrow – the saving and spending patterns of Australians
NATSEM, University of Canberra (2010)
New Zealanders behaving badly? - 4

- Report compares SoFIE 2004 and 2006
- Wealth at both years compared - ‘stocks’ measure
- Average saving per adult (over two years):
  - Total: $29,900
  - Excluding housing gains: $12,600 (18% gross incomes)
  - Excluding property & durables: $9,700
- “...passive saving from the property boom did not crowd out other forms of saving”
- Concerns on lack of saving “strongly overstated”
- So, the problem is .......?

*Household Wealth and Saving in New Zealand: Evidence from the Longitudinal Survey of Family, Income and Employment*

Trinh Le, John Gibson and Steven Stillman (2010)
Do we need KiwiSaver?

- New Zealanders are bad savers (?)
- Australia shows the way (?)
- Future retirees won’t have enough to live on (?)
- We need to finance an ageing population (?)
- New Zealand lacks sufficient local capital (?)
- Fewer New Zealanders own their homes (?)
- ‘Behavioural economics’ can help savers make ‘appropriate’ saving decisions (?)
KiwiSaver – interim judgement

- Some positive aspects
- Workplace participation has increased
- But ... the ‘problem’ not defined
- Founded on questionable assumptions
- Next-to-no research – no debate
- Rushed introduction; imperfect implementation
- Not designed for employers
- Tax breaks & housing subsidies unjustified
- Introduces unnecessary public policy risks
- Probably won’t ‘work’ – definition?
KiwiSaver – ‘Not achieved’

OECD measures ‘good’ regulation as:
- Serving clearly identified goals
- Having a sound legal & empirical basis
- Producing benefits greater than costs
- Minimising costs & market distortions
- Promoting innovation through market incentives & goal-based approaches
- Being clear and practical
- Being consistent with other regulations & policies
- Being compatible with competition, trade & investment-facilitating principles

OECD Guiding Principles For Regulatory Quality And Performance (2005)
Behavourial responses

• Tax treatment is now complex and lacks:
  – Transparency
  – Logic
  – ...but costs more to administer
  – ...and the boundaries are constantly tested
• Amounts in superannuation will rise ....
• .... but not necessarily ‘saving’
• Tax planning is re-emerging
• “Social assistance integrity”? 
What can governments really do?

• Little influence over saving levels (except their own)
• Growth matters (almost above all else)
• NZS design a strong influence on behaviour
• Good data matter
• Education matters
• Disclosure matters (and the regulatory regime)
• Tax matters – TTE the ‘gold standard’
• Everything else should be left to:
  – Employers
  – Employees
  – Other individuals
What do we need to fix/discuss?

• Let’s start a proper, evidence-based debate on:
  - NZS benefit design from 2030 onwards
  - The NZ Superannuation Fund
  - KiwiSaver
  - Tax incentives/ compulsory private provision
  - Tax regime for ‘collective saving vehicles’
  - Interface with income-tested benefits
  - Disclosure regime

• Depends on better information than we have
• Requires a more robust framework than we have been used to
• Politicians can participate but can’t lead debate
A thought:

“There is no greater tyranny than to force a man to pay for what he does not want because you think it will be good for him.”

Robert Heinlein