

# RPRC Update

Retirement Policy and Research Centre

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## A Universal Pension for Ireland – Stakeholder Workshop, Dublin Castle

Associate Professor Susan St John, Co-director of the RPRC was invited to Ireland and the United Kingdom in early February for high level industry, government and academic discussions. The RPRC notes with appreciation the role of David Harris CEO of Tor Financial Consulting Ltd in arranging these and numerous other contacts in the pensions world. The Republic of Ireland and the UK are at differing stages of policy development related to pension reforms. Both countries have ageing populations and are interested in how New Zealand has addressed its retirement framework modifications, especially through KiwiSaver. The New Zealand experience shows how retirement policy lessons can transcend differing countries' cultural outlooks.



St John showcased our achievements in retirement policy formulation to politicians, regulators, academics and industry practitioners in a major event involving all the key stakeholders in Irish pension policy on February 11 at Dublin Castle. A *Universal Pension for Ireland – Stakeholder Workshop*, sponsored by Insurance Ireland, was designed to examine auto-enrolment experiences to see how the Irish pension system could be enhanced. The photo shows Susan St John with the Irish Minister of Social Protection Joan Burton who is driving change politically, and the Hon Nick Sherry who is well known for work in Australian retirement income policies.

The New Zealand contribution explored features that have made KiwiSaver unique. This was followed by commentary from delegates from the UK, Australia and US. It was a critical opportunity for the RPRC to meet with the CEO and policy heads of the Irish Pensions Board, advisors to the Taoiseach (Irish Prime Minister), the Heads of Department of Social Protection, and the CEOs of Irish Life, AXA Wealth and JP Morgan Asset Management.

After Dublin, St John met in London with Alliance Bernstein on default or target date developments, and with the National Employment Savings Trust (NEST - the UK auto-enrolment administrator). On 13 February, she was guest speaker at both a Friends Life Thought Leadership Event: *Auto Enrolment in NZ - Lessons for the UK: Employers and Trustees*, and a Friends Life dinner for employee benefits managers. Leading UK journal *Pensions Insight* interviewed St John on why New Zealand might be seen as achieving a framework fit for the 21st century, and her commentary was sought by the Financial Times. St John has since been appointed to Insurance Ireland's Public Policy Research Council, Academic Advisory Panel, to continue her contribution to the pensions debate in Ireland and the UK.

New Zealand is fortunate to have a framework that potentially addresses some of the thorny issues facing other countries. Ireland's institutional history is of expensive, administratively cumbersome, employer-based schemes, plus expensive, tax-subsidised, defined benefit schemes for government employees. The UK suffers from a complex formula to determine via 'band of earnings' who is subject to the auto-enrolment process; and lacks the advantage of a centrally administered scheme based on the existing PAYE revenue structure. In contrast KiwiSaver puts the control firmly in the hands of the individual, not the employer. The RPRC says New Zealand has an opportunity to design ways to help people run down their nest eggs and retain meaningful protection against the risk of outliving those savings.

On 21 November 2014 the RPRC will bring together key experts to brainstorm such a design for the decumulation phase of retirement saving. As David Harris says: "*other countries in the northern hemisphere are listening. The USA and the OECD are curious about developments. New Zealand needs to grow up and mature in terms of understanding its role in global pension reforms. Antipodean doesn't mean isolation from intellectual thought on this topic.*"

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# Pensions Insight



New Zealand is ahead of the curve when it comes to pensions provision, but as the country's leading pensions

economist Susan St John explains to David Blackman, many issues the sector faces are universal.

The reason so many people want to hear from St John is that when it comes to auto-enrolment, New Zealand is ahead of the curve... The Kiwis have plenty of lessons about pensions for their old colonial masters.

New Zealand implemented its version of auto-enrolment in 2007 due to the dire state of New Zealand's pension provision. By this time last decade, just one in ten of the country's workforce was in a work based savings scheme.

Tax concessions were seen as grossly unfair and distortionary. This in turn was rooted in the NZ's decision in the early 1990s to get rid of all saving tax incentives. The move was part of a wider overall programme to reform the New Zealand economy, dubbed 'Rogernomics' after the then finance minister Roger Douglas.

But the policy backfired, leading to the plunge in workplace savings rates. New Zealand's relatively generous state pension arrangements, which are fixed at 33% of the average national wage, masked the shortfall, but didn't entirely disguise it.

Full article available [here](#).

## RPRC Working Paper 2014-1: Now we are six. Lessons from New Zealand's KiwiSaver

New Zealand's success with auto-enrolment's 'soft compulsion' has been and is continuing to be an influence in the design of opt-out schemes in the UK and Ireland. Six years on, despite numerous changes to KiwiSaver, the scheme appears well accepted by the public and membership has exceeded most expectations. That experience suggests auto-enrolment and large incentives to entice people to remain opted-in may ensure initial take-up is high. It also suggests the incentives may be reduced significantly ex post with little impact on membership. Core tax-funded KiwiSaver subsidies have been both substantially reduced and not indexed while membership has continued to grow strongly.

Whether this scheme, with generous provisions for withdrawals and contributions holidays, is sufficient to ensure those who should be saving for their retirement are saving, and saving enough, is open to debate. If KiwiSaver is made compulsory, as some powerful lobbies propose, there are large complexities to resolve, including the role of NZS, the universal state pension.

Lessons from KiwiSaver on what to avoid in the design of a national retirement saving scheme may include: opening it to children; offering housing subsidies; allowing too many providers and privileging some of these as 'default providers'; ignoring the issue of decumulation; and obscure objectives. Advantages over previous work-based retirement saving schemes include the portability of KiwiSaver accounts facilitated by the IRD's role as a clearing house. New Zealand has also limited regressivity in the design of its now very modest tax incentives, but at a cost: many save just the minimum required to maximise the subsidies.

The Working Paper surveys the first six years of KiwiSaver's evolution to July 2013. In that time, the fundamental questions around its purpose and design have not been resolved. As 2014 is an election year, political parties are positioning themselves on KiwiSaver policy. In the long term, there are implications for New Zealand's overall pensions framework, and in particular the very successful universal state pension.

Paper available [here](#).

## PensionBriefing 2014-1: Observations on the Reserve Bank's household financial assets 2003-2013

Many commentators describe KiwiSaver as a success. With 2.2 million members and more than \$19 billion in assets, it seems that KiwiSaver might have made a real difference to New Zealanders' saving habits. However, apart from those headline numbers, we do not know whether New Zealanders are saving more; or whether KiwiSaver has helped to lift the aggregate numbers.

The Reserve Bank of New Zealand (RBNZ) collects information from financial service providers offering different services to New Zealanders. In aggregate, these data do not tell us what different groups of New Zealanders are doing in their financial lives, but they can give a rough sense of what is happening to all households as a group. In summary, KiwiSaver, despite

its growth from its introduction in July 2007, still plays a very small part in New Zealand households' financial affairs and there may be offsetting behaviour in other parts that reduce even that small impact.



As well, the RBNZ data show that about half of all KiwiSaver assets are invested overseas (50.1% at September 2013); also that more than half those overall assets are invested in fixed interest investments (53.6% at September 2013). Neither of those numbers support a story about building the New Zealand economy to support an ageing population.

PensionBriefing 2014-1 is available [here](#).

## Estate & Tax Planning Council - Breakfast discussion 26 March 2014.

**Michael Littlewood, Co-director RPRC**, suggested that although the cost of NZS will increase from a net 4.1% of GDP to an expected net 6.6% by 2060 (see [here](#)), that significant lift does not constitute a crisis, although it is definitely something about which we need to have an evidence-based discussion. "The average OECD cost of public pensions (gross) in 2010 for 28 reporting countries was 9.3% of GDP, so their average cost is greater today than New Zealand can expect to pay in 2060." He asked and answered 5 questions on proposals to make KiwiSaver compulsory:

- Where is the evidence that New Zealanders are under-saving for retirement?
- How does increasing KiwiSaver contribution rates form part of the preparation for an ageing population?
- What has happened to data from the Survey of Family Income and Employment (SoFIE) for 2008 and 2010?

- How has KiwiSaver affected household balance sheets since it was introduced?
- How will KiwiSaver help the country's economic growth more than alternative strategies?

Australians have higher debt levels approaching retirement and retire earlier than New Zealanders. And recent data shows a greater proportion of old Australians suffering economic hardship than here in New Zealand. Also, the financial services industry in Australia is about 11% of GDP, in large part because of the compulsory Superannuation Guarantee scheme.

"All this goes to show that forcing New Zealanders to join KiwiSaver, as Labour and others propose, will change aspects of their behaviour but probably won't affect overall behaviour much in the very long run."

## Conferences, academic presentations and awards

**Dale, M.C., Auckland Microfinance Initiative Annual Launch, keynote address, 17 March.** AMI, a student-led University of Auckland club with over 400 members, was founded in 2013 to empower young people to fight poverty through microfinance. Two broad approaches to this goal are firstly, organising events such as competitions to attract, educate and engage new and existing members. Secondly, they run 'Initiative projects'. These give students the opportunity to gain experience in microfinance through applying the skills they learn in the classroom to the industry. The 2014 Annual Launch was attended by over 200 students. They have engaged with a number of existing microfinance initiatives, mainly in the Pacific region.

**St John, S. Spending the savings of an ageing population: why do we care? 25 March.** St John's Head of School Seminar at the University of Auckland's School of Population Health, began by setting out the dimensions of the problem as demographic, economic, fiscal, inter-generational warfare, and middle-income security. Drawing on the work of demographer Professor Natalie Jackson, NIDEA, she explained the misleading headline figures that imply boys and girls born in 2006 have a life expectancy of 78 and 82 years respectively. Cohort life

expectancies indicate expected life spans of 89 (boys) and 92 years (girls). Compounding the problem is a decrease in fertility rates meaning those aged 65+ will comprise an increasing proportion of the population, while those of working age contributing to the tax base will comprise a decreasing proportion. The question becomes: how will the pension and health costs of increasing numbers of elderly people be funded?

**Littlewood, M. Think Tank invitation, March.** Southern Cross and Massey University are partnering on an invitation only Think Tank about Healthcare to include respected health, political, finance, economic and academic stakeholders, including the RPRC Co-director. Treasury's "Affording Our Future" 2013 fiscal statement highlighted the cost of healthcare as one of the biggest challenges facing our economy. To cope, the health system must adapt to demographic changes, an ageing population, increasing prevalence of chronic disease, new and expensive technologies, labour force challenges and public expectations around quality, service and treatment options. Overcoming such challenges will require innovative thinking across the public and private sectors.

## Welcome to RPRC Research Associates



**Brian Easton, DSc**, is a Fellow of the Royal Statistical Society, a Chartered Statistician, a Distinguished Fellow of New Zealand Economic Association and long-time economics columnist of *The New Zealand Listener*. His interest in the history and development of retirement incomes policy is part of a broader interest in the economic and social development of New Zealand. See [Brian Easton's website](#). He has advocated raising the eligibility age for NZS, and his chapter 5 in *The Whimpering of the State* (1999) offers an analytic framework which could underpin public policy thinking on retirement.



**Bridget Browne** is a Senior Lecturer in actuarial studies at the Australian National University, and concurrently a CEPAR PhD candidate with the topic: "Long term care in Australia: What place for insurance?" Her research interests include long term care insurance, life insurance, mortality, longevity

and insurance linked securities. She is a member of the Group on Longevity, Ageing and Mortality (GLAM) which conducts research in the inter-related areas of mortality, longevity and population ageing. GLAM houses a node for the ARC Centre of Excellence in Population Ageing Research ([CEPAR](#)).



**Annette Lazonby** recently joined Brian and Bridget as a Research Associate with the RPRC. She manages the Stage 1 Economics programme at the University of Auckland. Current research interests are intergenerational equity issues surrounding retirement, housing policy and taxation of capital. Her research has included retirement policy issues, treatment of overseas pensions, the retirement village and residential care sectors, decumulation of savings, and consumer attitudes towards the use of reverse mortgages to provide for retirement, interaction of national pension systems and international labour-mobility, and issues relating to housing policy.

## Overseas Pensions: *Christian missionary wins the right to collect her New Zealand Superannuation while overseas*

The Ministry of Social Development is considering appealing the court decision in a case that could lead to payoffs for other superannuitants. Missionary Dawn Greenfield has won the right to collect her NZS while overseas. In February 2012, the MSD denied her NZS when at age 65 she returned to New Zealand to apply for it. MSD did not consider her settled here, or deem her missionary work absences as temporary. Time spent in missionary work, volunteering and serving in the armed forces are not counted toward qualification for NZS under a special provision in the law.

High Court Justice David Collins ruled a New Zealander is someone who planned to return home, even if they remained

overseas; and MSD placed too much emphasis on Greenfield's time overseas, rather than her intentions. He ordered the Government to pay court costs.

RPRC co-director Susan St John said a foreign citizen can move to New Zealand and not work for 10 years but still qualify for the pension, while a New Zealand citizen may be treated more punitively. For example retirees who spend their working life in New Zealand but marry someone with an overseas pension can lose part or all of their superannuation. "It's a shocking anomaly."

See the full article by Marika Hill, 5 Jan 2014, at [stuff.co.nz](http://stuff.co.nz).

## **RPRC in the media and public presentations and contributions**

**5 January, [stuff.co.nz](http://stuff.co.nz), [Govt may challenge missionary super win](#)**, Marika Hill interviews Susan St John.

**12 February, [Dominion Post](#), [KiwiSaver not helping NZ-report](#)**, Richard Meadows interviews Michael Littlewood.

**12 February, [Blog: The Visible Hand in Economics](#), [More questioning of the efficacy of KiwiSaver](#)**, Matt Nolan quotes Michael Littlewood.

**12 February, [ASB Securities Morning Briefing](#), [KiwiSaver not helping NZ-report](#)**, quotes Michael Littlewood.

**12 February, [GoodReturns website](#), [KiwiSaver influence insignificant](#)**, Niko Kloeten quotes Michael Littlewood.

**14 February, [MortgageLinkOtago website](#), [KiwiSaver report card](#)**, quotes Michael Littlewood.

**19 February, [New Zealand Herald](#), [Expert slams retirement warning](#)**, Tamsyn Parker quotes Michael Littlewood.

**22 February, [New Zealand Economic Papers](#)**, M.Claire Dale peer reviews article submitted for publication.

**1 March, [The Geneva Association Life and Pensions Newsletter](#), [Part of New Zealand's Pensions Past: the 1898 Old Age Pension](#)**, publishes an article written by Michael Littlewood.

**20 March, [Press Release](#), [Minister's crack-down on loan sharks a crack-up](#)**, quotes M.Claire Dale.

**21 March, [New Zealand Herald](#), [Global Survey: one in six Kiwis struggling for food](#)**, Simon Collins quotes Susan St John.

**25 March, [The Financial Times](#), [Some employers are waking up to the benefits of bigger pensions contributions](#)**, Ian Smith quotes Susan St John.

**26 March, [Estate & Tax Planning Council - Breakfast discussion](#)**, Michael Littlewood contributes.

## pensionreforms

Some recent reports covered by *PensionReforms*:

Australia has surprisingly high pensioner poverty rates, despite a relatively generous Tier 1 and an intricately regulated Tier 2 that has been in full force for 22 years. Elder poverty levels could become a political issue. [more](#)

This line-by-line comparison of the retirement income systems of Australia and New Zealand shows two things:

such comparisons are very difficult, and there isn't much relative difference overall, despite first impressions to the contrary. [more](#)

In Ireland, executive directors' pension arrangements are markedly more generous than those for ordinary employees, magnifying the already-wide gap in direct pay. Favourable tax treatment of pensions needs further trimming. [more](#)

The UN and HelpAge International have combined to report on ageing issues and public policy challenges. Older people deserve to live "with dignity and security". Developing countries face the largest challenges. [more](#)

## **REGISTRATION NOW OPEN:**

### **Forum: Retirement Income issues: The Future Is Now**

**When:** 17 April 2014, 9.15am to 4.30pm, followed by refreshments

**Where:** Case Room 2, level 0, University of Auckland Business School, Grafton Rd

Hosted by the RPRC with the Commission for Financial Literacy and Retirement Income.

New Zealand's remarkably simple and successful retirement incomes policy framework has recently attracted much international interest, particularly from the UK, Ireland, and the USA. Nevertheless, on-going evaluation of New Zealand's policies for fiscal sustainability, intergenerational acceptability, transparency, security and coherence is essential. At the Forum, proposals for New Zealand Superannuation and KiwiSaver published by the Retirement Commissioner, the Financial Services Council, Treasury, the New Zealand Institute of Economic Research and Mercer will be examined. The Forum will enable an informed debate in an independent environment. This event will assist participants in preparing their Briefings to the 2014 incoming government after the 2014 election on 20 September.

[PROGRAMME](#) is on the RPRC website, with short biographies of the speakers. [REGISTRATION.](#)

### **Mark your diaries for RPRC Forum 21 November: *Ditching Decumulation Distress***

This Forum builds on the November 2012 Symposium: [Spending the Savings](#) which brought together national and international retirement industry experts and academics to debate this critical but under-researched topic. It addressed the questions: How can middle income people best use their retirement savings for what might be a very long or very short retirement; and if health deteriorates and care costs are large, how will those costs be met? The 2014 Forum will also draw on national and internal expertise.

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