



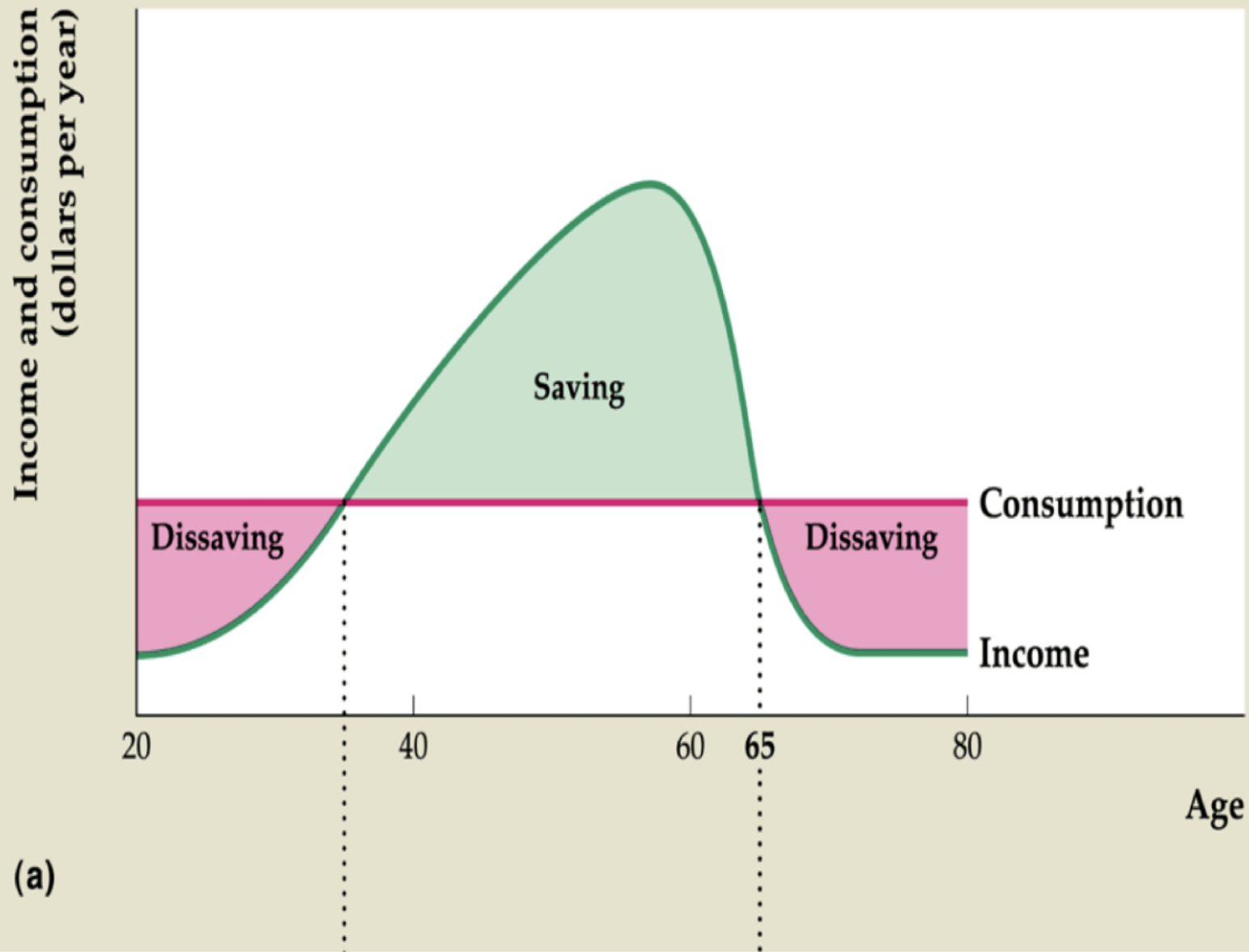
# The evidence for annuities

## Evidence-based policy making and decumulation

Andreas Heuser  
The Treasury  
Presentation to CFFC Decumulation Forum  
Auckland, 20 May 2016

# What is “decumulation” and is there a Government policy problem

- Decumulation is the process in later life of managing and consuming resources which have been saved in earlier phases of life
- There are no explicit Government policies directed at decumulation - whereas there are in other countries (eg, UK and Australia (tax))
- In New Zealand, the “retired” manage their own assets, income sources and receive New Zealand Superannuation (NZS)
- If we are thinking about making decumulation policy, we first need to know if there is some problem that needs fixing
- This presentation discusses the relevant evidence for policy and where there are gaps, if any



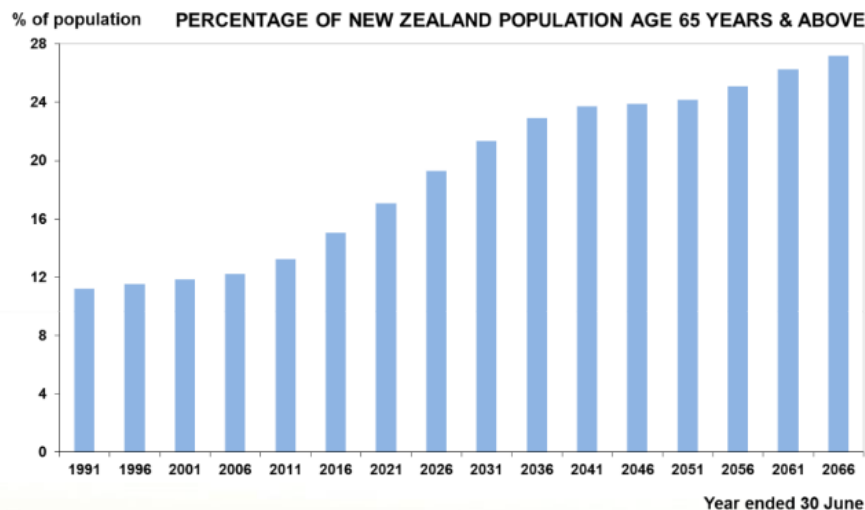
(a)

# What is “decumulation” and is there a Government policy problem

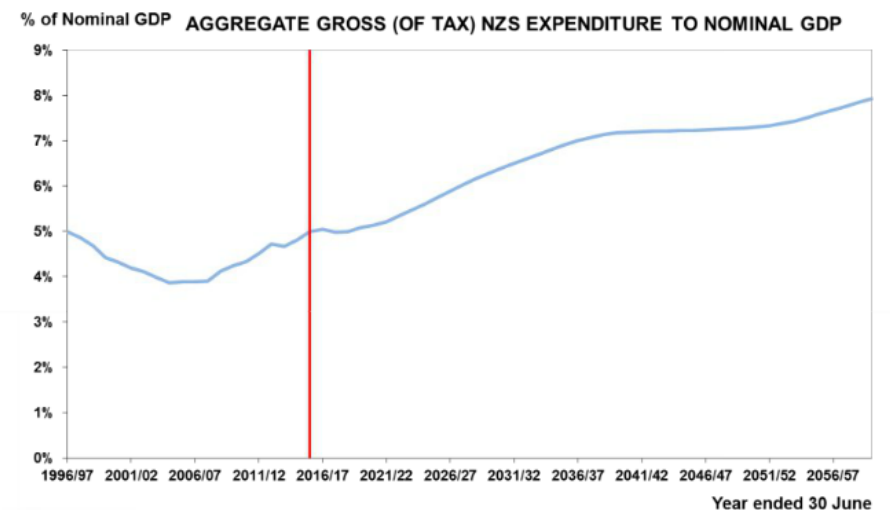
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# Is there a *public* provisioning problem?

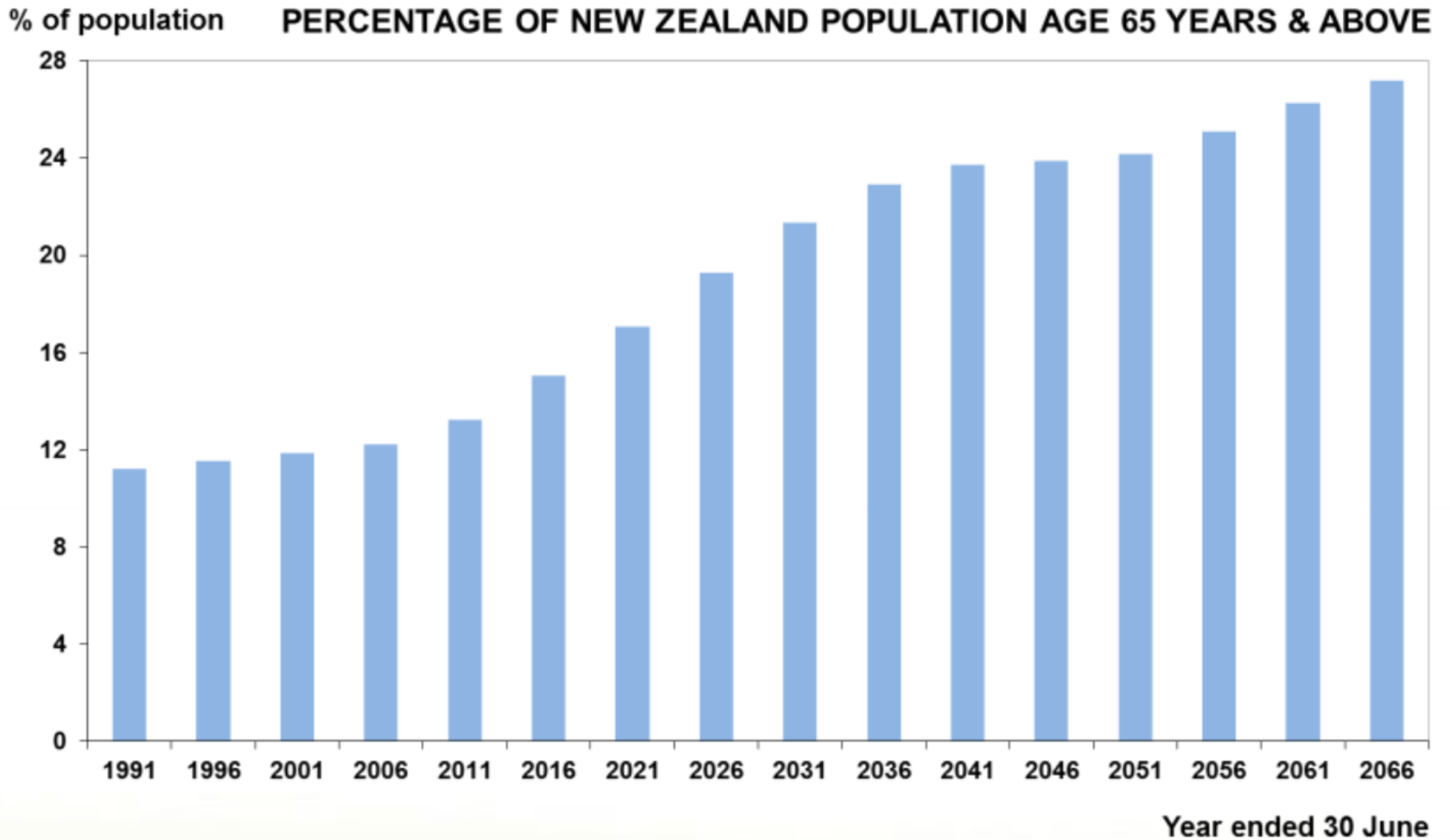
- On the one hand, we have a clear picture that the Government's NZS liability will grow over time as the number of over-65s increases
- This is likely to require changes in the future if other Government revenues and spending are to be sustained at a similar level to current



Source: The Treasury

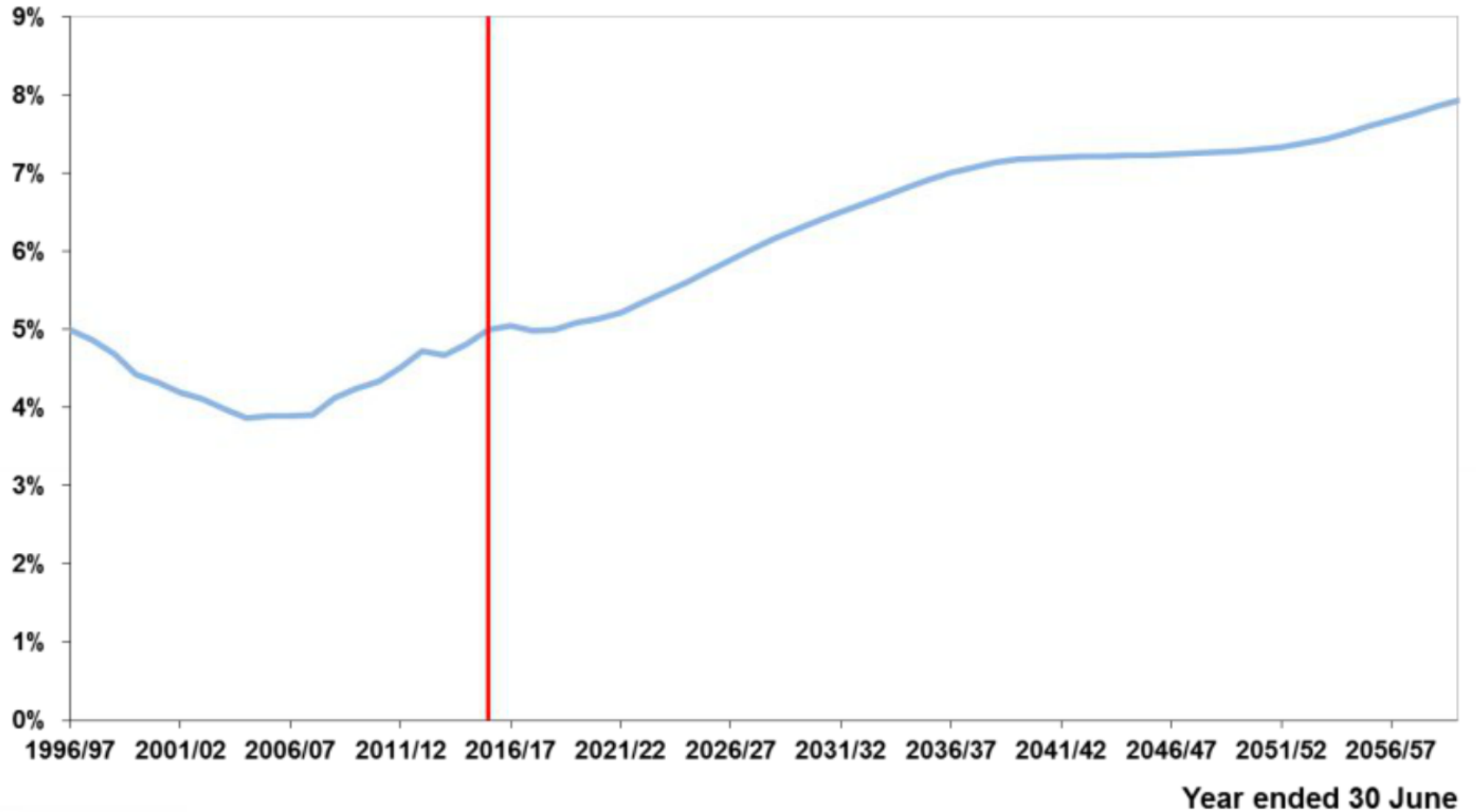


Source: The Treasury



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**% of Nominal GDP AGGREGATE GROSS (OF TAX) NZS EXPENDITURE TO NOMINAL GDP**

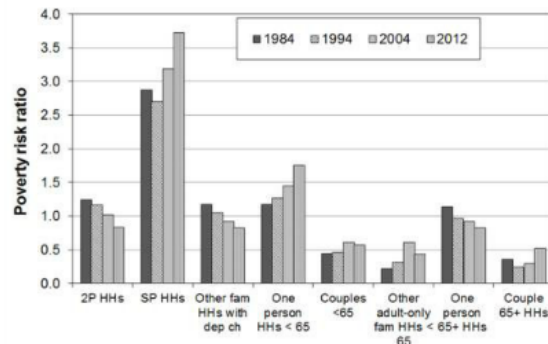


Source: The Treasury

# Is there a *private* provisioning problem?

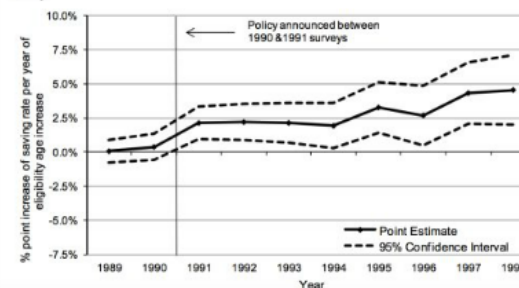
- On the other hand, we have a patchy idea of the *private* wealth and asset decumulation habits of current and future retirees

We know over 65s are relatively a lot less poor than other cohorts (and getting less poor) (Perry 2015))



We know that future retirees respond predictably to signaled changes in New Zealand Superannuation

Figure 4 – Saving rates: estimated treatment effects by year (sample period 1984 to 1998)



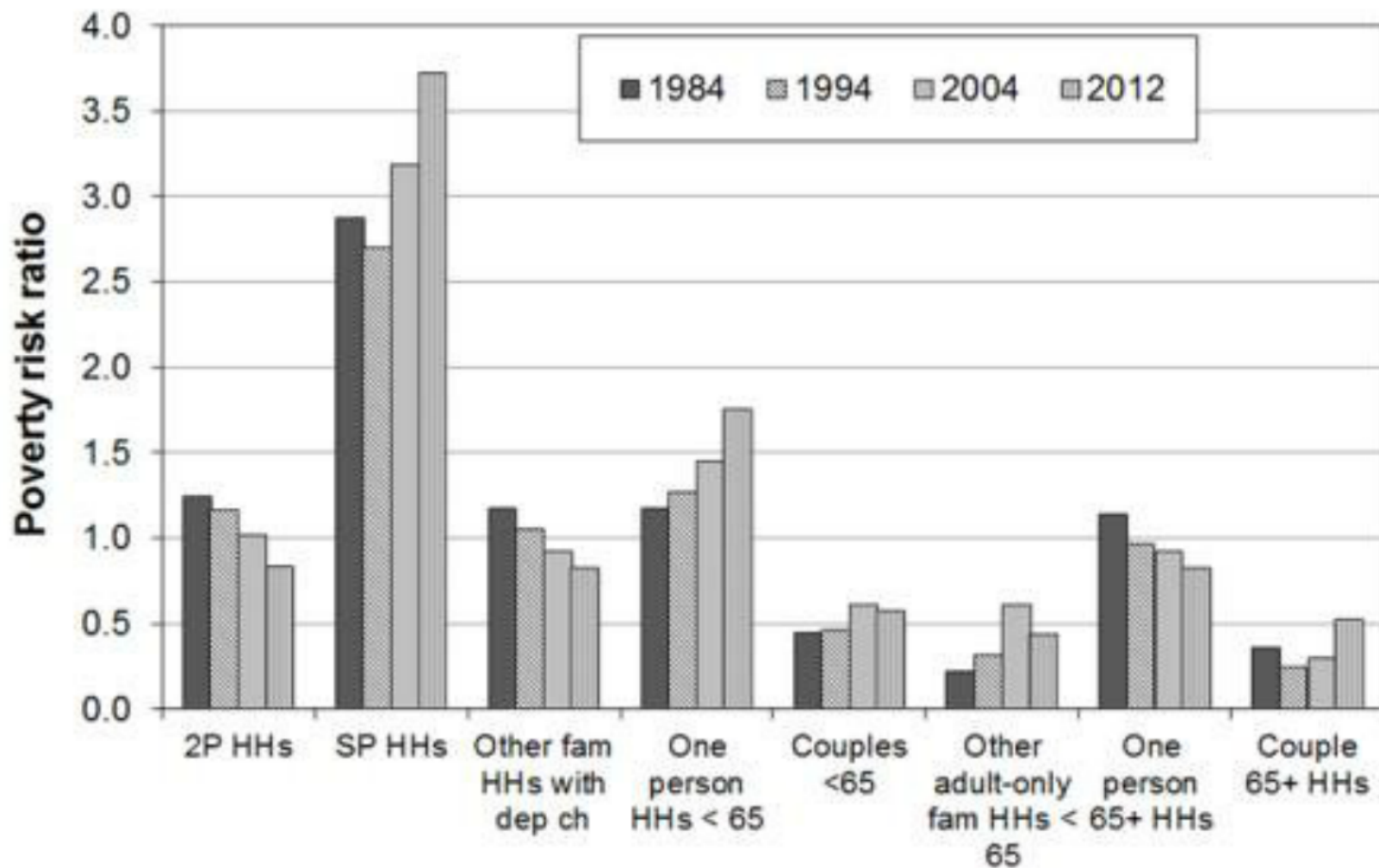
Talosaga, T & M. Vink, TWP 14/21

We know that consumption patterns of individuals leading up to and in retirement are adequate for lower and middle income New Zealanders. The consumption patterns of higher income New Zealanders are not of significant policy concern.

Le, T, J. Gibson & G. Scobie, *Saving for Retirement: New Evidence for New Zealand*, Treasury Working Paper 04/12

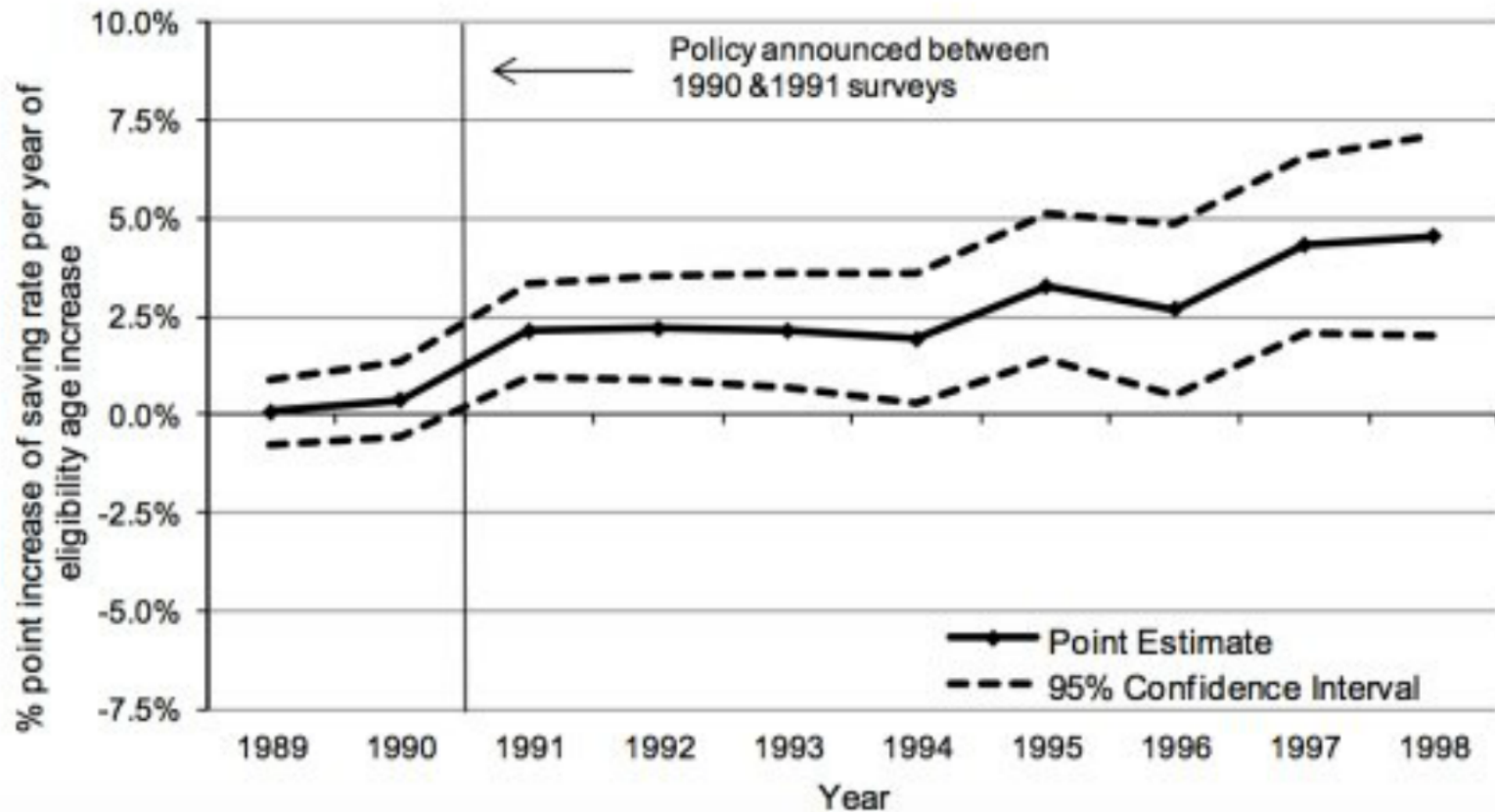


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**Figure 4 – Saving rates: estimated treatment effects by year (sample period 1984 to 1998)**



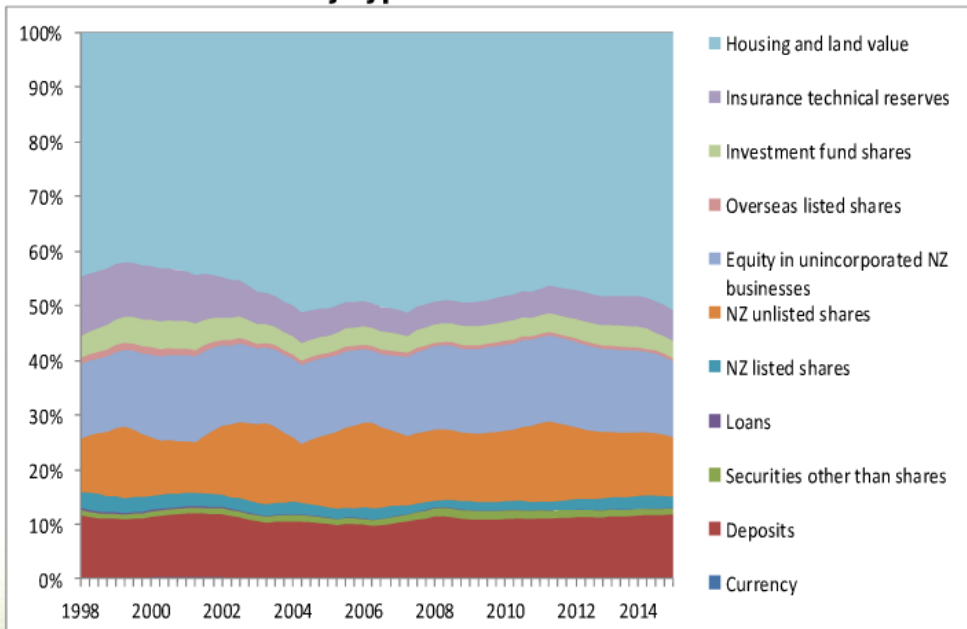
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# What we don't know

- Whether financial assets will grow as a proportion of household assets - there is a significant assumption that KiwiSaver will grow as a share of household assets (as yet, the statistics don't bear this out)
- We don't know if New Zealanders have a problem in managing assets in retirement

Household assets by type

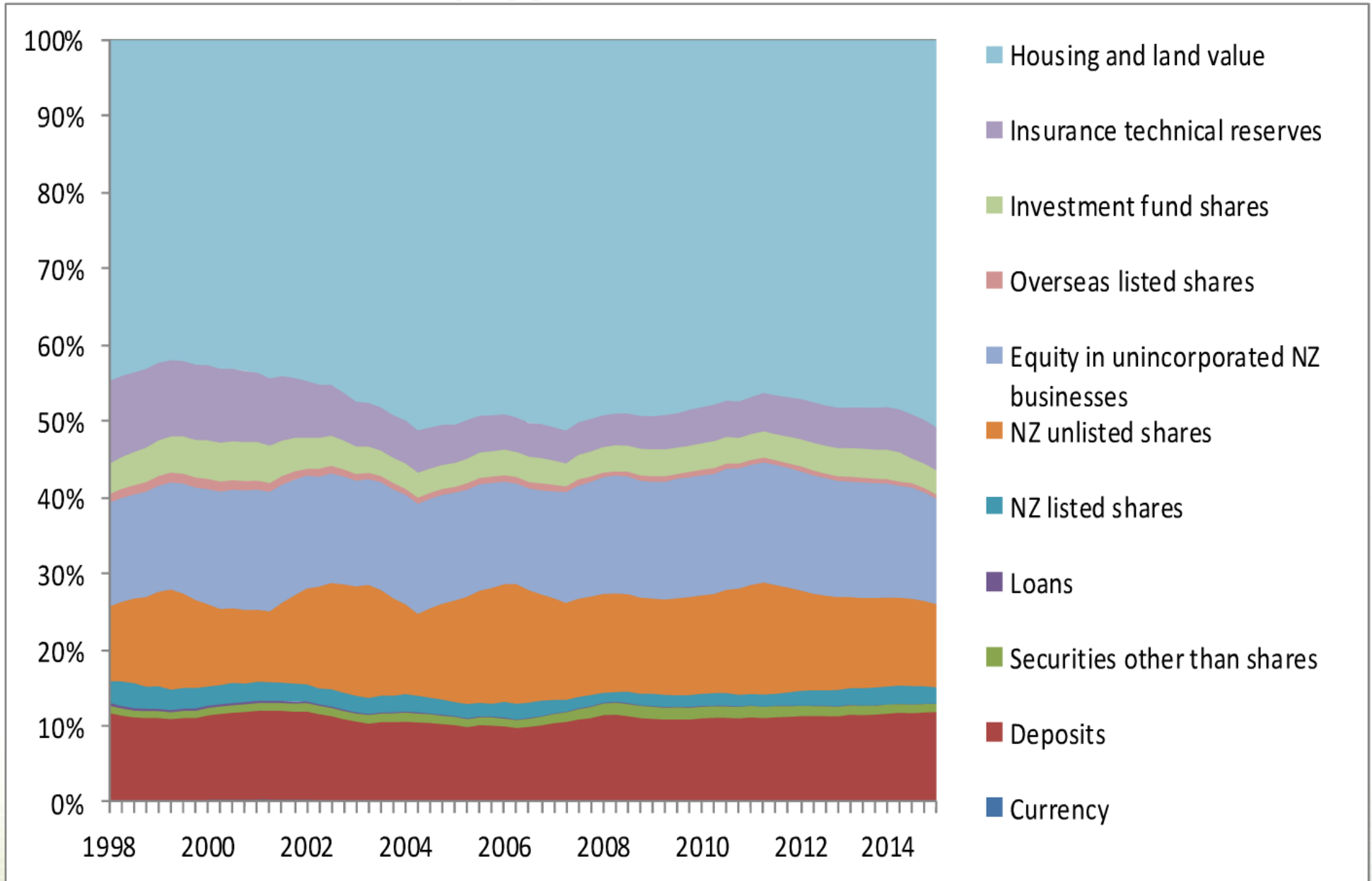


Source: Reserve Bank of New Zealand

KiwiSaver includes a significant degree of substitution from other forms of saving – conclusion from the only empirical analysis of KiwiSaver and actual savings data.

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# Next steps

- There are useful next steps for exploring whether we have a problem with retirees failing to manage wealth
- Use SoFIE data (2002-2010) to interrogate the behaviour of individuals entering retirement
  - For different income groups, we could determine what the pattern of decumulation **actually** looks like
  - The rate of decumulation (do people “spend their savings on a cruise”?)
  - Compare decumulation patterns with life expectancy information
  - Compare data with Statistics NZ’s Integrated Data Infrastructure (IDI) and Employer-Employee Data (*LEED*)
- This is an actual project which could go ahead today

# Thank you for your attention

Thanks to Matthew Bell and David Law of the Treasury for their assistance in preparing this presentation.