



Decumulation Forum

20th May 2016

Commission for Financial Capability



**Commission for
Financial Capability**

Building wealthy lives

Agenda

- Commission Overview – David Boyle
- International Perspectives – Jeremy Cooper of Challenger and Mark Wilson of Aviva (by video)
- Decumulation & retirement income options in the NZ market today
- Barriers & opportunities in the NZ market now and in the future
- Working groups: What stands out & what should the Commission recommend?
- Close then drinks

Decumulation - background

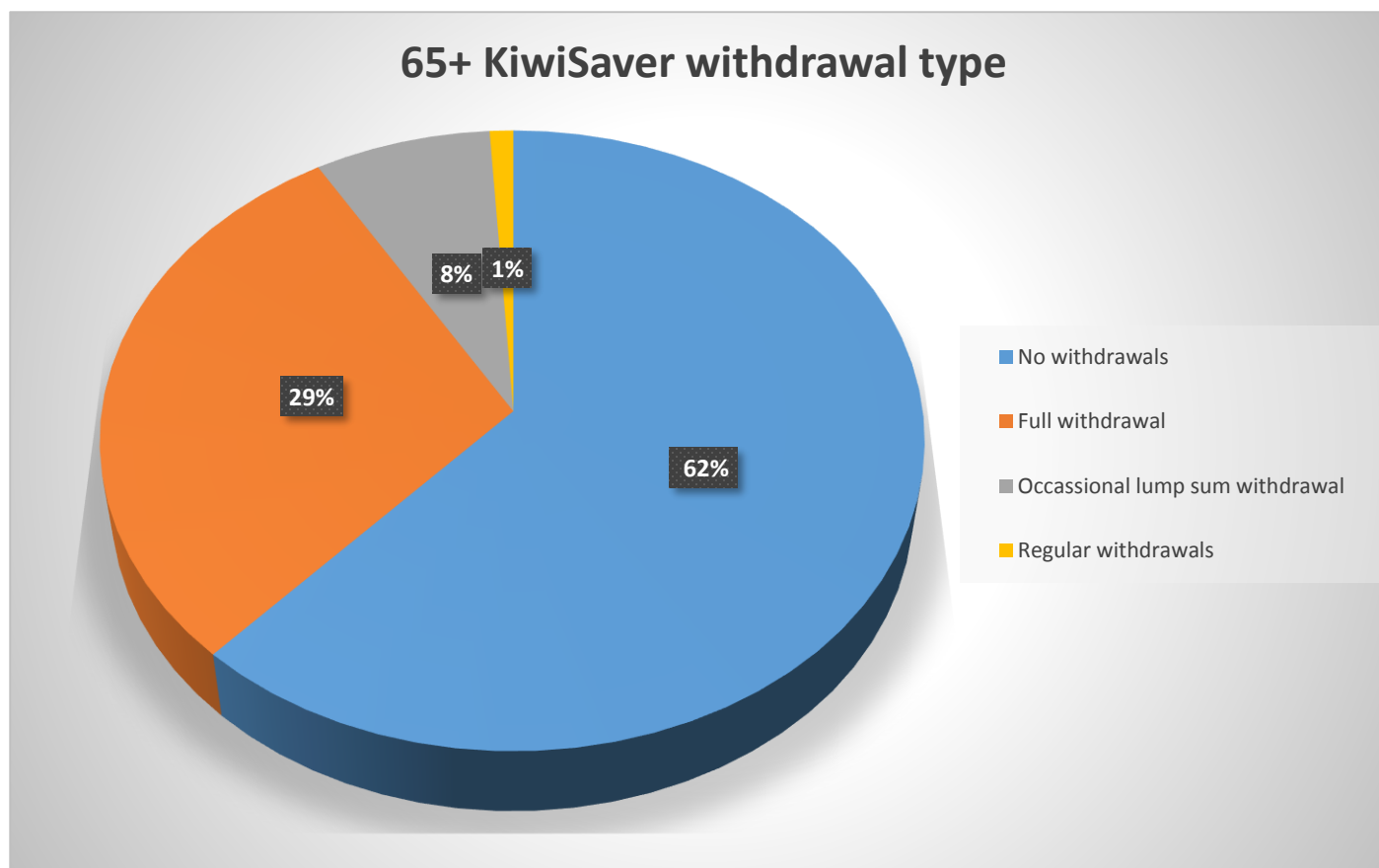
- Merriam-Webster “disposal of something accumulated”
- Decumulation as a concept or public policy has had little attention
- Industry discussions in 2014/2015
- Key drivers being longevity, KiwiSaver balances, and downsizing
- 2016 terms of reference specifically requested a review
- During this period one annuity provider left the market and one has entered



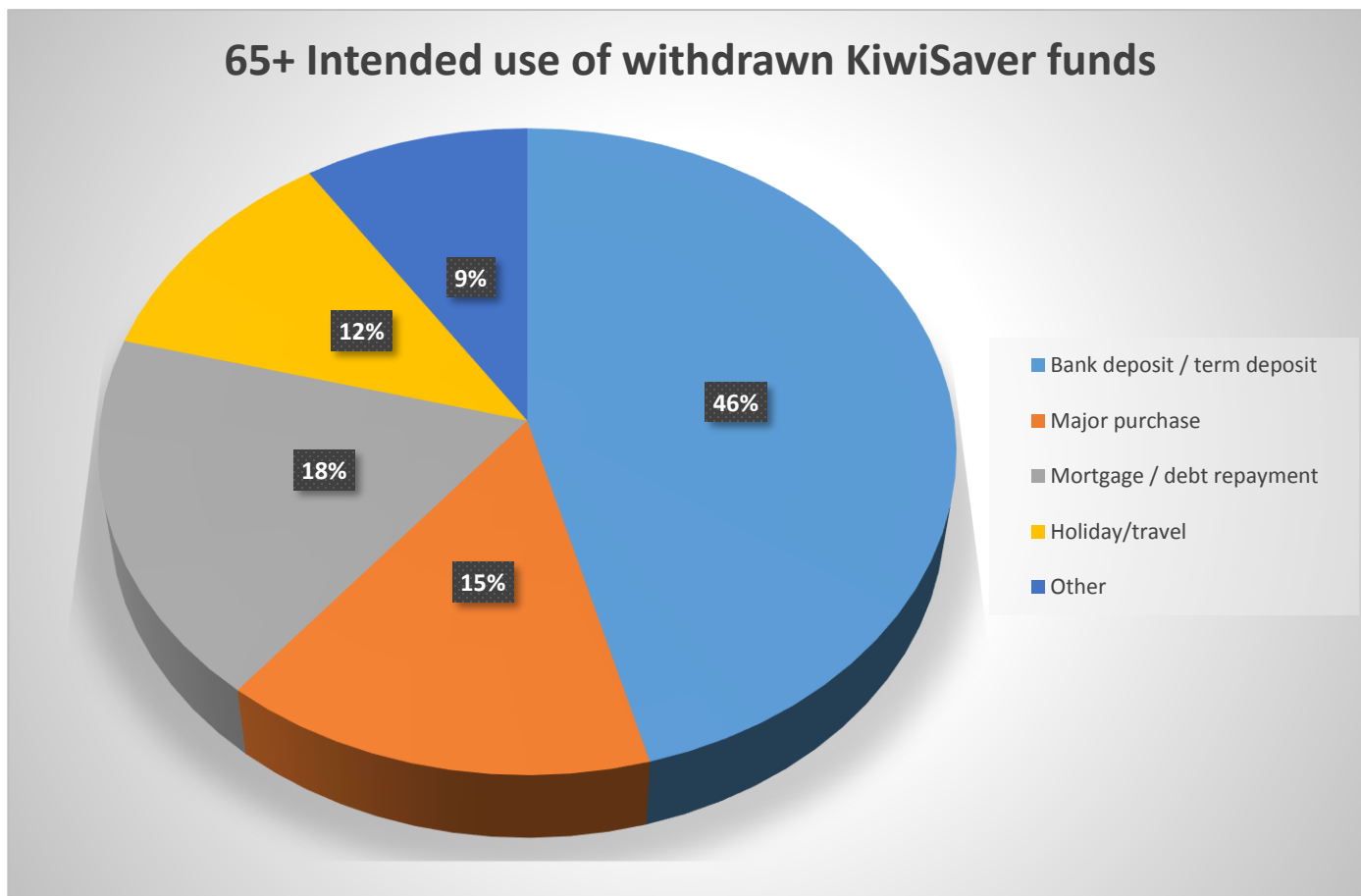
Decumulation – public perceptions

- Living standard in retirement?
 - Improve - 7%
 - Stay the same – 38%
 - Decrease – 37%
 - Not sure/already retired – 18%
- Your main source of retirement income?
 - NZ Super – 39%
 - KiwiSaver – 14%
 - Rental income from property you own – 10%
 - Other sources – 37%
- How concerned are you about living longer than your savings?
 - Very or quite concerned – 49%
 - Not very or not at all concerned – 51%
- Do you have a financial plan for funding your retirement?
 - Yes – 59%
 - No – 41%

KiwiSaver Provider Exit Data



KiwiSaver Provider Exit Data



Decumulation – so where are we today?

- We have a government annuity
- The role of the Government is important to consider
- As KiwiSaver members' balances grow we need to ensure there they have a range of income options
- While it seems there is little demand today longevity will drive greater demand in the future
- There still seems a lack of innovation



Decumulation Forum

Auckland – 20 May 2016

International perspectives

Jeremy Cooper

Chairman, Retirement Income

What's the problem?

Why are we even talking about this?

DC funds aren't built for retirement income – the 'cliff edge'



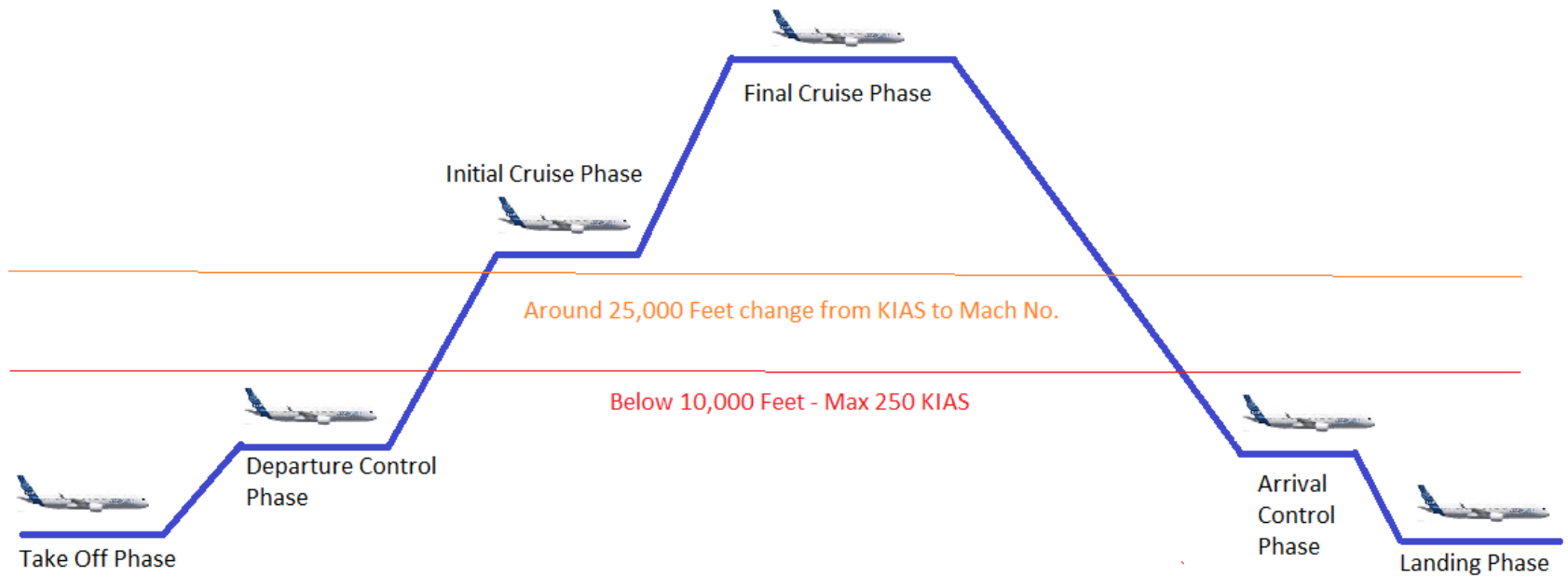
Funds: “decumulation is the issue”

2015 ASFA / PwC CEO Survey

Key strategic priorities for the next 3 years	2015 (%)	2014 (%)
Post retirement products	61	48
Advice offerings /Member engagement	50	39
Digital strategy	44	42
Operational efficiency	33	33
Expanding product offerings	28	21
...		

We are stuck in final cruise phase

Need a mission or a 'flight plan'



What can we do better in Australia?

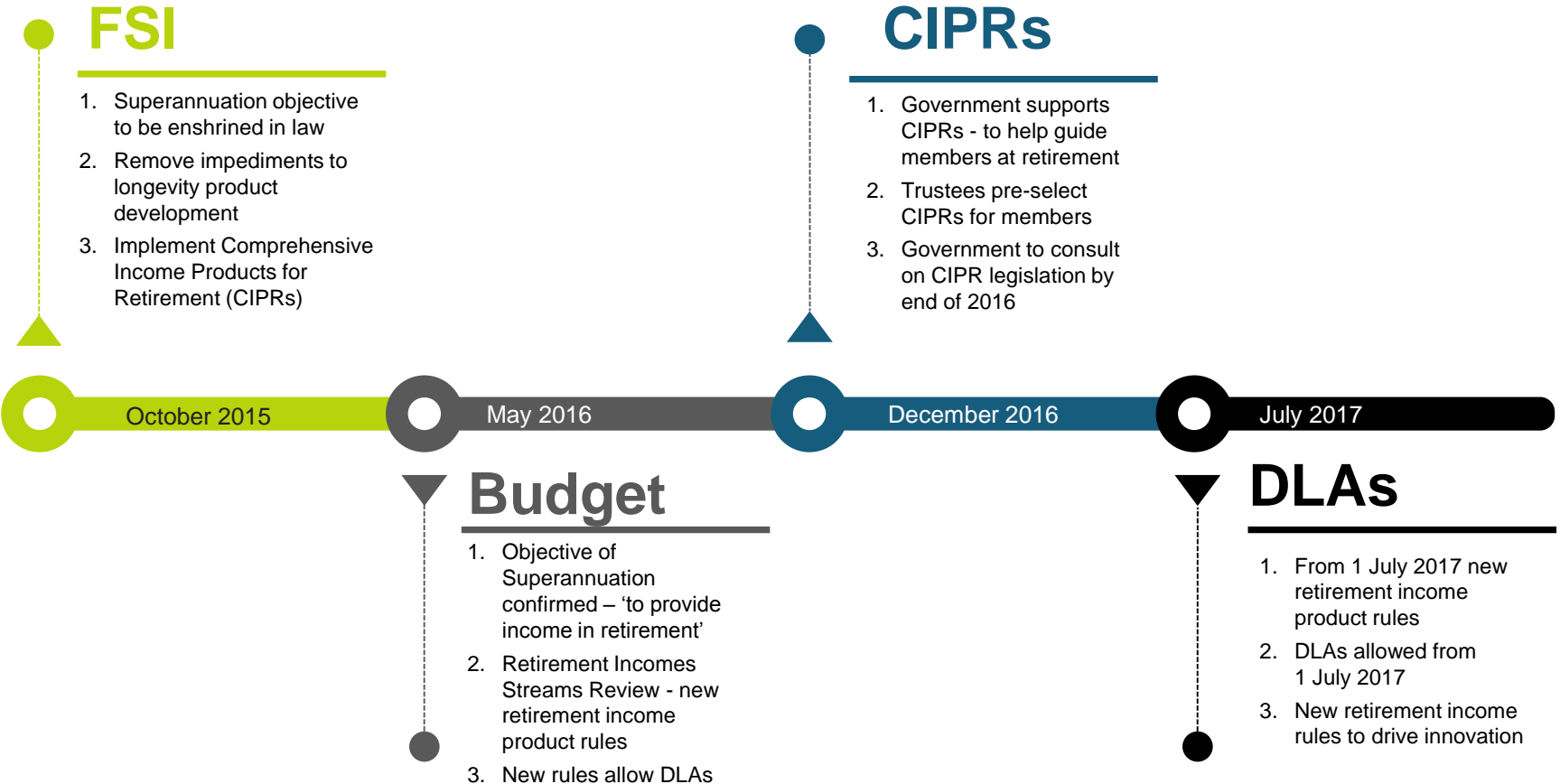
Attitudinal change needed

- Governance – fund trustees simply have not ‘grasped the nettle’
- Retirement income is core business
- Seeing retirement through an insurance lens
- Viewing retirement as a household challenge – not an individual one
- Financial literacy and engagement
- Advice



Australia's decumulation timeline

Regulatory reforms to enhance retirement phase

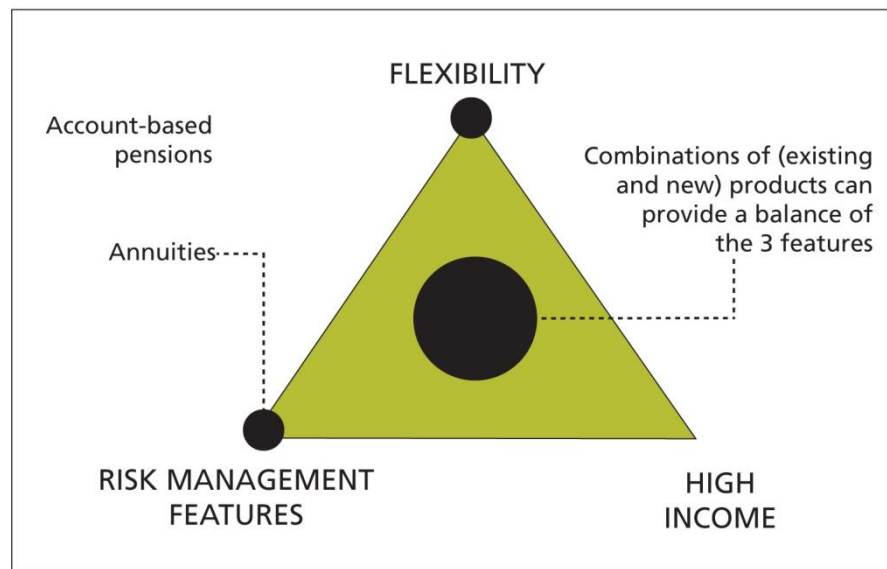


Financial System Inquiry

A shift in thinking about retirement income

2014 FSI final report recommended:

- the objective of super be enshrined in legislation
- a Comprehensive Income Product for Retirement (CIPR)



2016-17 Budget super changes

Summary of key changes

- Key Budget changes to super:
 - Purpose of super articulated – *retirement income*
 - \$1.6m balance transfer cap – excess is left in accumulation
 - \$500k lifetime non-concessional cap starting from 1 July 2007
 - Reduced \$25,000 annual concessional cap for all age groups
- Super is still a very attractive saving/investing vehicle:
 - Still a highly concessionally-taxed environment.
 - The only downside of bumping up against the \$1.6m cap is that you will pay tax on the earnings at 15% (pre franking credits)
 - A couple will have, hypothetically, \$3.2m (indexed to CPI) to play with.
- Some commentators have been over-reacting to the real impacts

Retirement Income Streams review

Pathway to Comprehensive Income Products (CIPRs)

- New regime will provide “*as much flexibility for design to meet consumer preferences*”

✓ bought pre-retirement	✓ bought post-retirement
✓ multiple premiums	✓ single premiums
✓ access to capital	✓ death benefit options

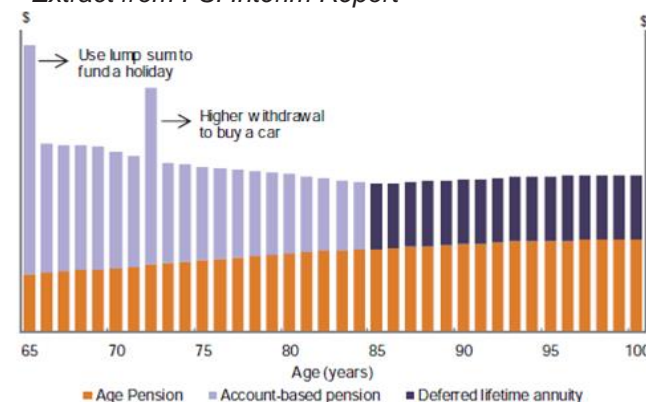
- Retirement income product regime to permit new range of retirement income products
- Existing products continue to be provided
- DLAs offer simple and effective insurance against risk of outliving savings
- DLAs to provide building blocks for super funds to develop **Comprehensive Income Products for Retirement (CIPRs)**



Lifetime annuity .. or .. deferred lifetime annuity

DLA working to supplement Age Pension

Extract from FSI Interim Report

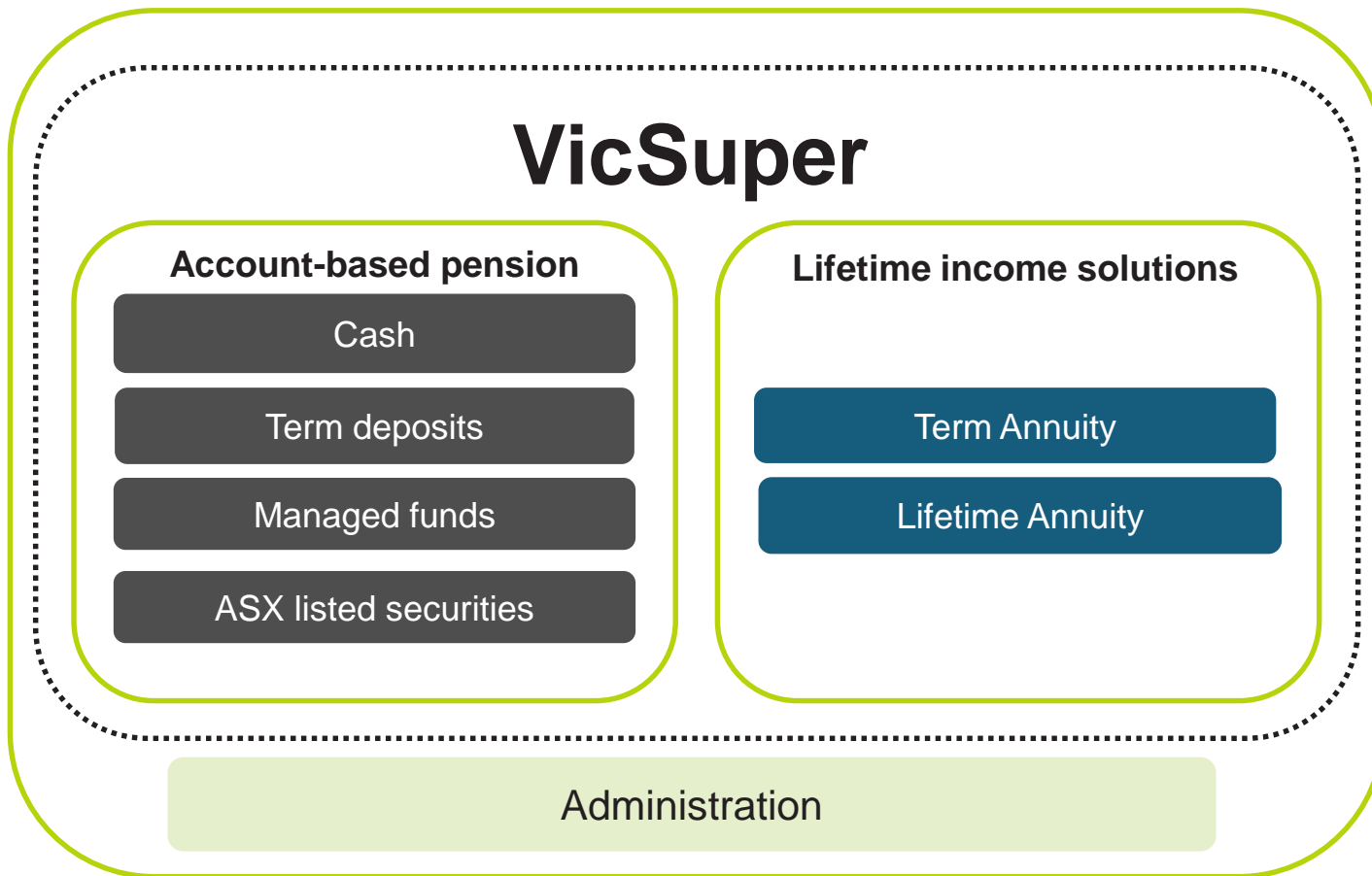


Investor Day – Retirement income policy issues

- www.treasury.gov.au/ConsultationsandReviews/Consultations/2014/Review-of-retirement-income-stream-regulation.

Case Study – VicSuper

A holistic retirement solution



Myth-busting time (Australia)

What the data and research are telling us

- Retirees aren't blowing their money, they're hoarding it because they fear running out...
- Average household with super now has around \$425,000 in the 60-64 age bracket
- Only 15% of over 50s think it's very important to leave an estate
- You only have a 5% chance of living until life expectancy

United Kingdom decumulation landscape

Major regulatory changes



- 2014 UK ‘pension freedom’ reforms (end to compulsory annuitisation)
- Dramatic impact on UK life companies, but 61,700 policies worth £3.3bn sold in the 9 months since the reforms
- ‘Enhanced annuities’ – way of the future
- Defined ambition/collective DC proposals – Pension Schemes Act 2015
- Lifetime ISAs – 2016 Budget announcement

International Perspective



Mark Wilson
Group CEO
AVIVA

Decumulation & retirement income options in the NZ market today

A view on retirees' future needs

Christine Ormrod – NZ Society of Actuaries

A new annuity product

Ralph Stewart – Lifetime Retirement Income

Retirement Housing Options

John Collyns – Executive Director, Retirement Villages Association

A home equity release product

Chris Flood – Heartland Bank

Retirement income planning and options

Deborah Carlyon – AFA, Stuart + Carlyon Ltd

A View on Retirees' Future Needs:

How Rules of Thumb can help

**New Zealand Society of Actuaries
Retirement Income Interest Group
20 May 2016**



A Rule of Thumb:

A simple principle, generally reliable in the absence of full advice; a broad steer on how to achieve a financial goal

- X Is not perfect and may not achieve the best possible outcome for anyone**
- X Should not be “set and forget”**

- ✓ Addresses a specific question**
- ✓ Is quite easy to understand and follow**
- ✓ Can be used as a guide or target**
- ✓ Offers a better course of action than not following it**

A typical KiwiSaver thinking about decumulation has:

Preferences and ambitions
Risk appetite; retirement aims

Potential further income from invested fund including KiwiSaver
Another c.\$100,000

Flexible income from a safe emergency fund
Bank accounts, term deposits, liquid PIEs/KiwiSaver: up to \$100,000?

Lifetime income
NZS

Could benefit from a nudge towards:



- **Knowledge:**
How long might I live?
What returns are likely?
- **A generally reliable steer:**
consistent; tested; up to date
- **A call to action:** normalises what to do; integrated into different ways people seek guidance

Who could provide what?



A **nudge** towards:

- **Knowledge:**
How long might I live?
What returns are likely?
- **A generally reliable steer:**
consistent; tested; up to date
- **A call to action:** normalises
what to do; integrated into
different ways people seek
guidance

Access and clarity:

- **Providers**
- **Distributors**
- **Regulators**
- **Commentators**

Confidence in content:

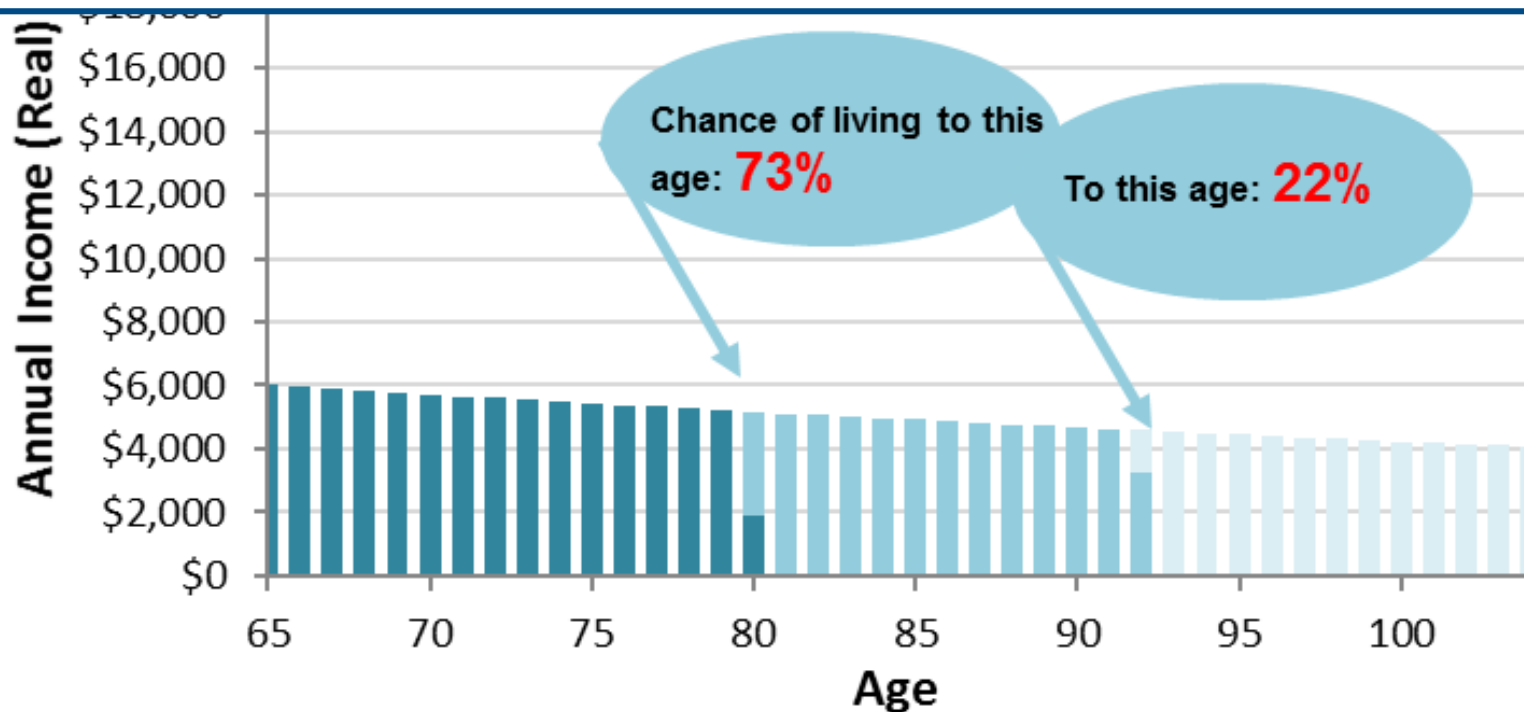
- **Actuaries**
- **Regulators**

Here are the rules described in general terms

Rule of Thumb	Most suitable for	Pros	Cons
Rule 1: Each year, take 6% of the starting value of the fund	People who want more income at the start of their retirement to “front-load” their spending	<ul style="list-style-type: none"> • Very simple • Known, regular income 	<ul style="list-style-type: none"> • Income won’t rise with inflation • Risk of fund running out within lifetime
Rule 2: As Rule 1 but starting with 4% and then increasing that percentage each year with inflation	Most people, especially if they are worried about running out of money in retirement or want to leave an inheritance	<ul style="list-style-type: none"> • Fund likely to last lifetime • Income will rise with inflation 	<ul style="list-style-type: none"> • Lower income than other options
Rule 3: Run down fund over a set period – each year take out the fund value divided by number of years left	People wanting to be certain when the fund will expire; content to live on NZS or other income after the set period; fund not planned to be inherited	<ul style="list-style-type: none"> • Income for a known period 	<ul style="list-style-type: none"> • Amount of income depends on how much is in fund each year, so can’t be known at start

An example, just one Rule

- Age at start: 65, Male
- **Balanced** investment profile, fund size at age 65: \$100,000
- Dark blue and light blue show income from possible but unlikely investment scenarios (5% chance).
Mid-blue shows the likely income

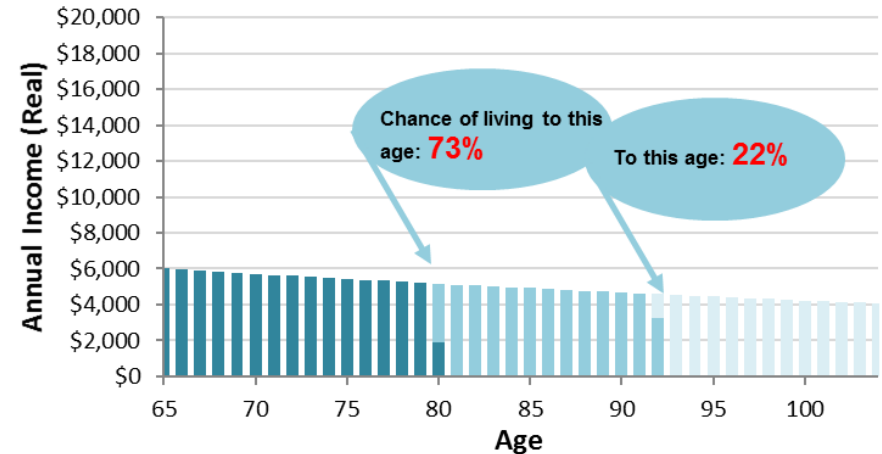


Rule 1: 6%

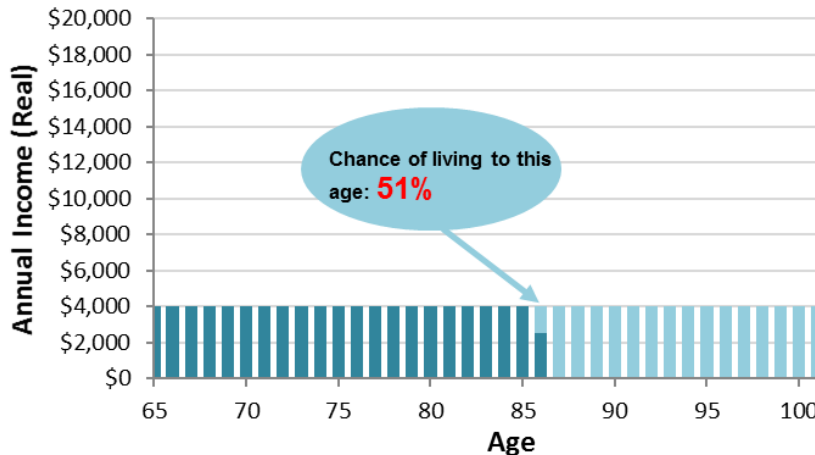
Same example, all 3 Rules



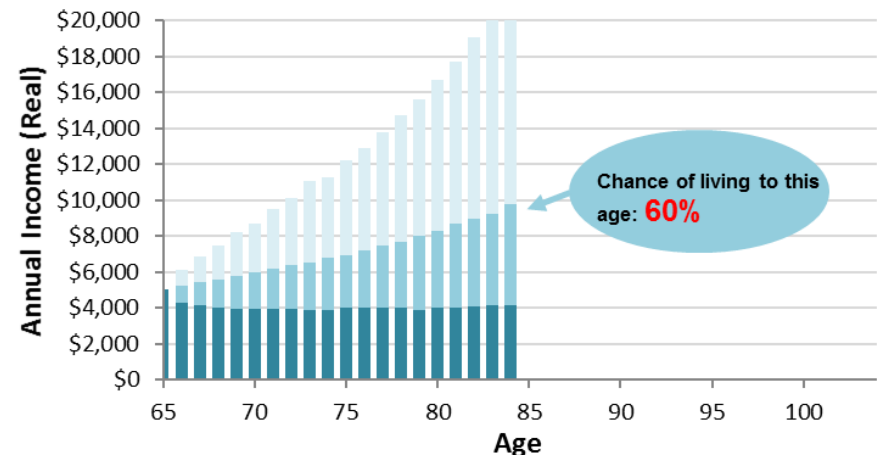
- Age at start: 65, Male
- **Balanced** investment profile
- Fund size at age 65: \$100,000
- Dark blue and light blue show income from possible but unlikely investment scenarios (5% chance).
Mid-blue is likely



Rule 1: 6%



Rule 2: 4% plus inflation

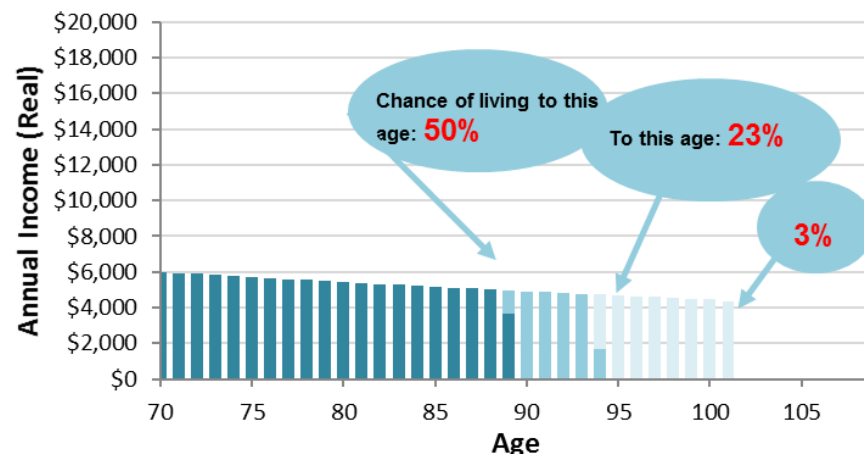


Rule 3: Straight line over 20 years

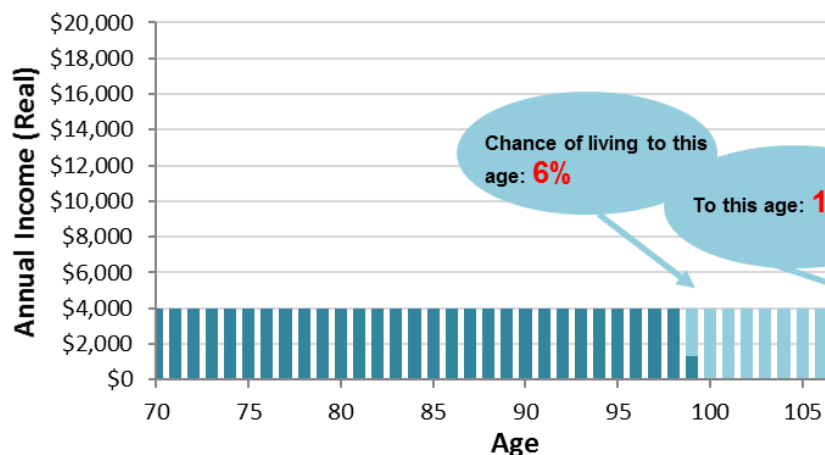
Another example



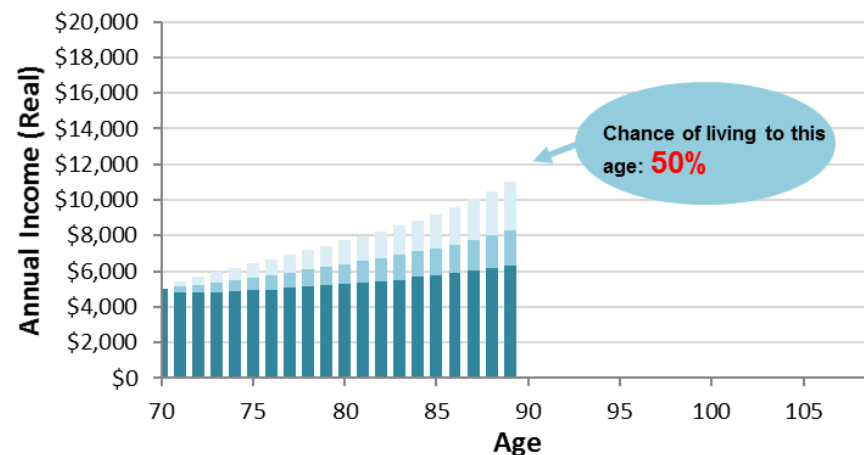
- Age at start: 70, Female
- **Conservative** investment profile
- Fund size at age 70: \$100,000
- Dark blue and light blue show income from possible but unlikely investment scenarios (5% chance).
Mid-blue is likely



Rule 1: 6%



Rule 2: 4% plus inflation



Rule 3: Straight line over 20 years



Decumulation and retirement income options in the New Zealand market today



1. Understand decumulation and **retirement income options in New Zealand today.**
2. Consider the **barriers and opportunities** for product development and innovation to meet New Zealander's needs in the future.
3. Gain an **international perspective** on decumulation and what other countries are doing today.
4. **Develop insights** that will inform recommendations for the review of retirement income policies.

Decumulation and retirement income options in New Zealand today



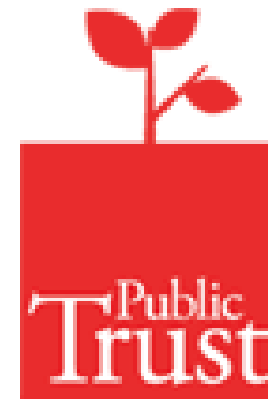
Table 4: Assessment of income streaming products or strategies

	Protection against longevity risk	Protection against mortality risk	Protection against credit risk	Protection against inflation risk	Protection against investment risks	Transparency	Simplicity
Already available in NZ							
Managed drawdown	X	√	=	=	X	√	√
Do-It-Yourself drawdown	X	√	=	=	X	√	=
KiwiSaver drawdowns	X	√	=	=	X	=	=
Capital assured funds	X	√	=	X	√	=	X
Term deposits	X	√	=	X	√	√	√
NZ government bonds	X	√	√	X	X	√	=
Managed Income Funds	X	√	=	=	X	=	X
Rental property	=	√	X	=	X	√	√
Equity release	√	=	=	=	√	X	=
Life interests	√	X	=	=	X	=	√
Not currently available in New Zealand							
Annuity (nominal)	√	X	=/√	X	√	X	√
Annuity (inflation-linked)	√	X	=/√	√	√	X	√
Shaped annuities	√	X	=/√	=	√	X	=
Variable annuities	=	=	=/√	=	=	X	√

Barriers and opportunities for product development and innovation



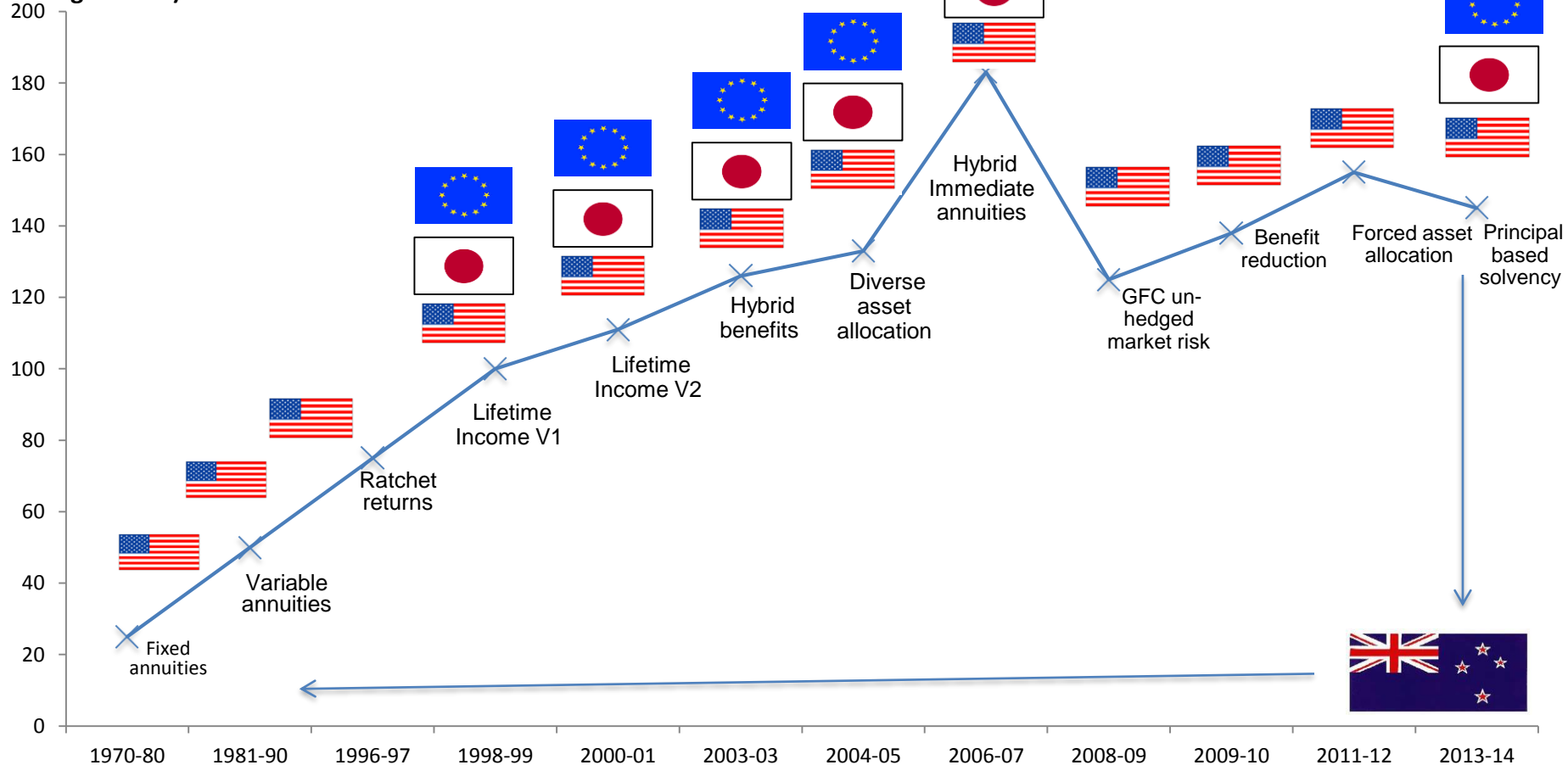
Inland Revenue
Te Tari Taake



An international perspective on decumulation

US Variable Annuity Total Sales US\$B

(Morningstar Inc.)



May 2016

CONFIDENTIAL

Develop insights that will inform recommendations
for the review

Practical Retirement Income Solutions Seminar

You've worked hard, and you've been planning and saving for your retirement. So what happens when you have retired and the money starts flowing the other way? Learn more about new approaches to managing income in retirement from our panel of experts.



Martin Hawes

Author and financial journalist

"Enjoy your twenty good summers"



Meredith Osmond

Managing director, Thought Partners

"Thinking through the options"



Liz Koh

Financial adviser and commentator

"Common financial sense comes first"



Bernard Hickey

Financial journalist and commentator

"Real retirement economics"

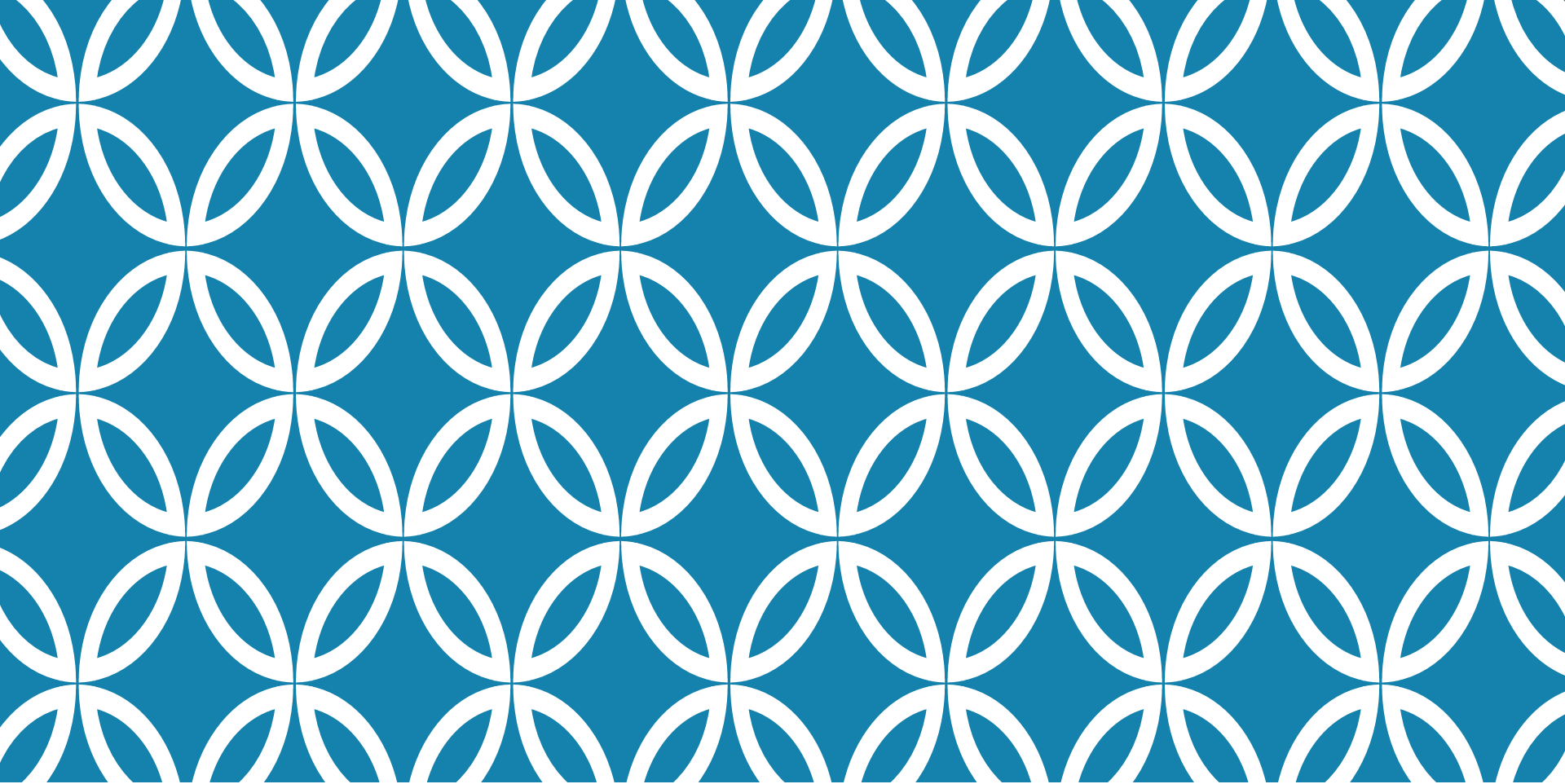
Southwards Car Museum, Friday 29 April 2016 at 2.30pm or 6.30pm. Refreshments will follow.

Reserve your free place now, call (04) 472 7902 or visit lifetimeincome.co.nz

lifetime
RETIREMENT INCOME



- The reality of capital drawdown for most of us in retirement
- The reality of living three different lives in retirement
- The deep seated fear of outliving retirement savings
- The behavioral impact of the current interest rate cycle
- The gap between NZ Super and everyday retirement living costs
- The need for the private sector to accept and manage more risk



DECUMULATION FORUM — 20 MAY 2016

Retirement Housing Options —
how retirement villages help
John Collyns, Executive Director,
Retirement Villages Association

THE RVA ...

Represents the interests of the owners, developers and managers of retirement villages throughout NZ.

345 registered village members

26,125 units

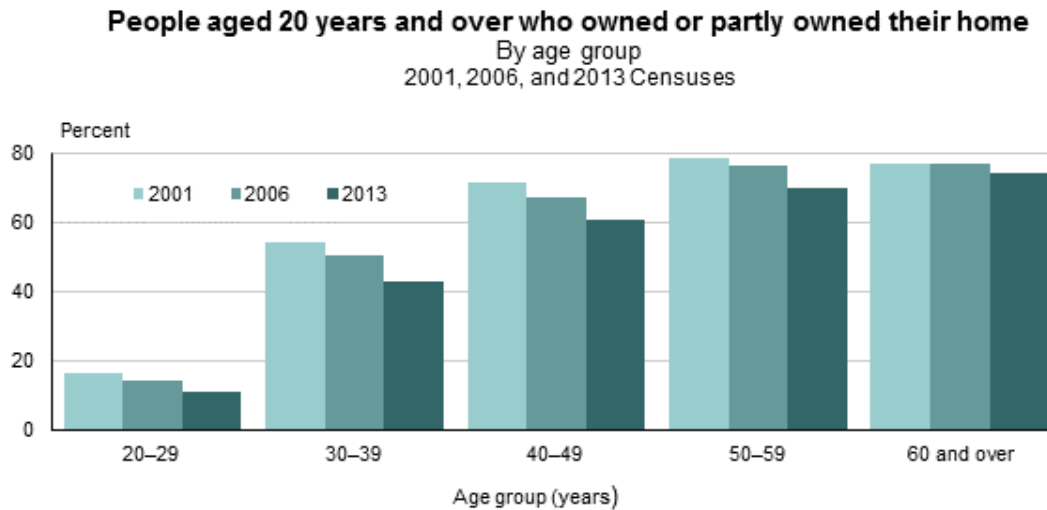
- 63% corporate, 24% independent, 13% not-for-profit and welfare

Approximately 34,000 residents – 12.1% of +75 population

96% of the industry are members by unit number

HOME OWNERSHIP CRUCIAL

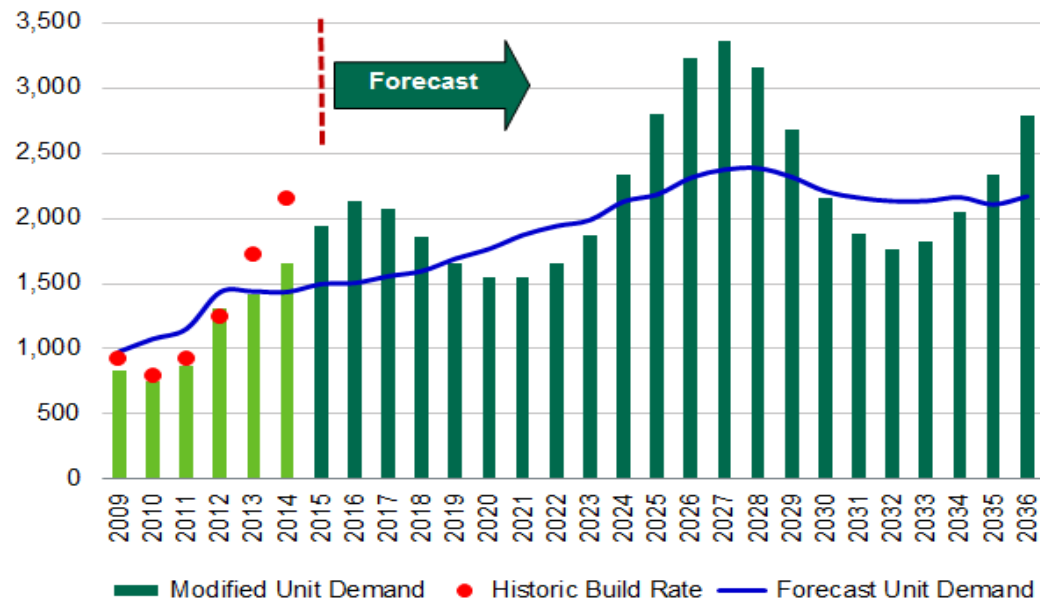
Home ownership is steady in target market



Source: Statistics New Zealand

RV DEMAND PROJECTIONS

New Zealand Forecast Average Net Unit Demand Per Annum



NB: Net Unit Demand excludes any allowance for resale stock

CBRE

DEVELOPMENT PIPELINE



	# villages	# units
Existing villages	83	5,906
New villages	65	10,200
Totals	148	16,106



MARKET SHARE DRIVERS

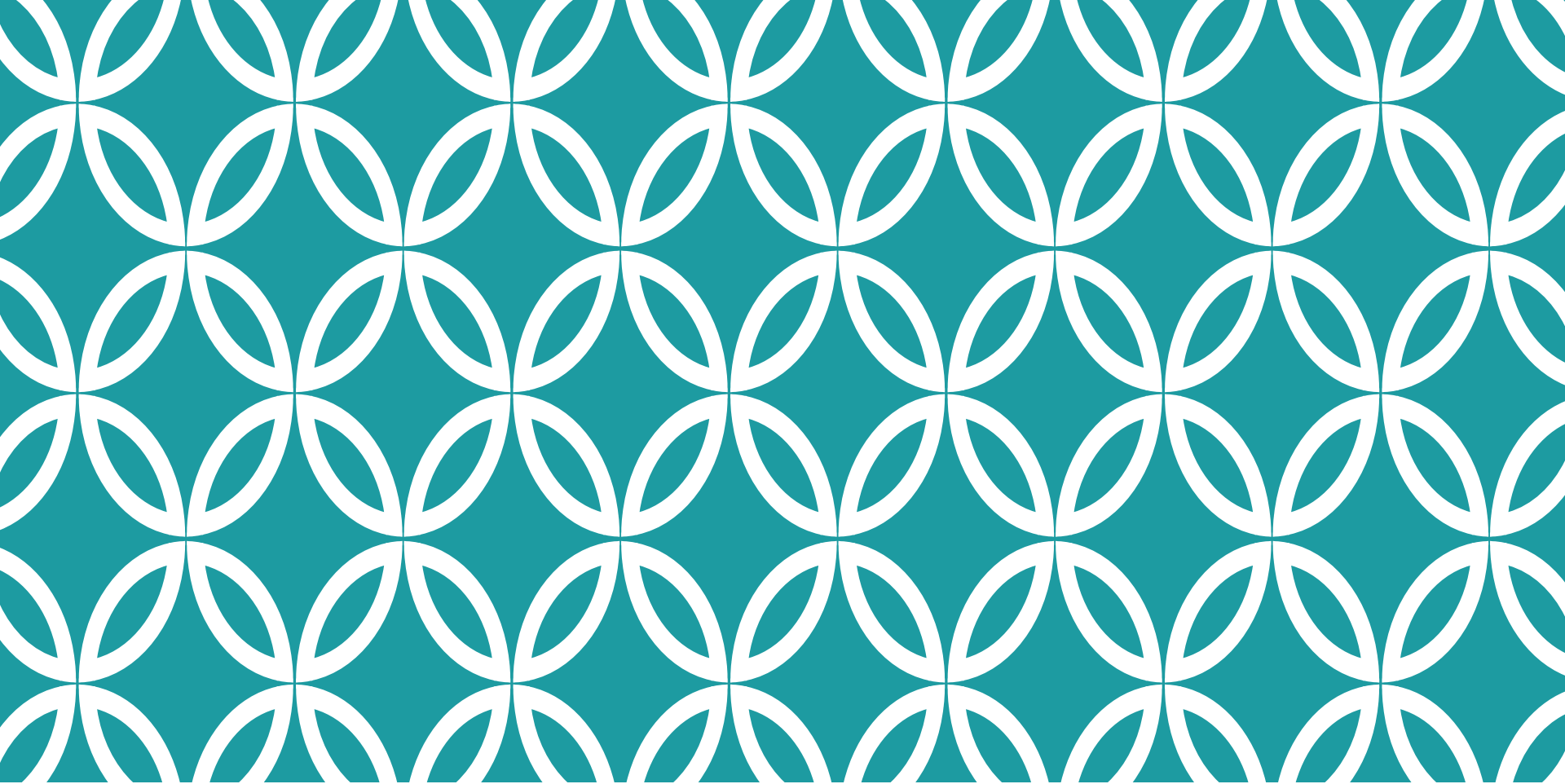
Increased availability of quality product and continuum of care available

Market acceptance of RV as mainstream housing option for older people

Affordability of village units compared with owning own home

Improved sense of security, companionship and physical activity

Releasing equity in property due to increased property values and mobility of capital



THE EFFECT OF EQUITY RELEASE

How retirement villages improve
retirement income

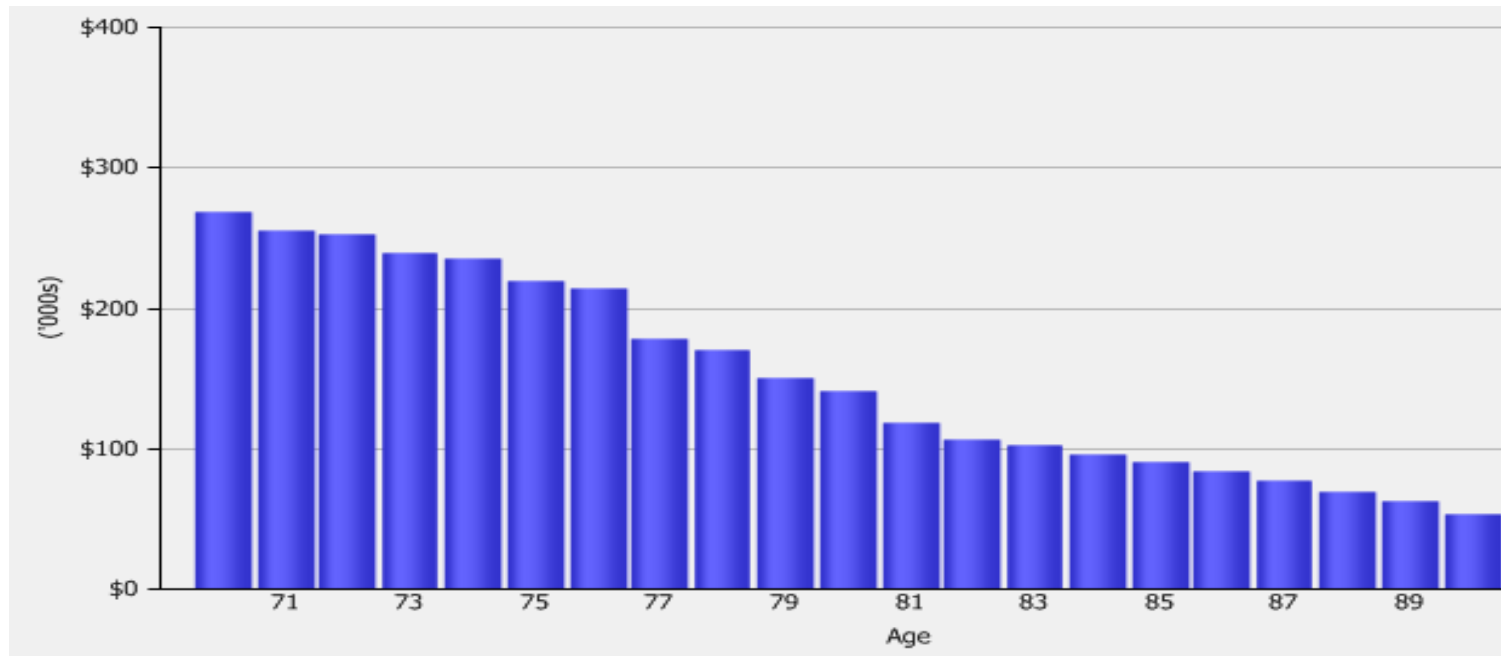
A CASE STUDY – NORAH, AGED 70

Investments	Investment value	Return	
Portfolio	\$300,000	4%	(including inflation)
Drawings	Value	From	Until
Drawings	\$7,000	2016	Annually
Home painting	\$15,000	2016	Once only
Car replacement	\$15,000	2016	And again in 7 years' time
Europe	\$15,000	2017	Every 2 years till age 81
Pacific	\$5,000	2016	Every 2 years till age 82

PROJECTIONS — STAYING IN OWN HOME

Age	Drawings	Home painting	Car replacement	Europe	Pacific	Total drawings	Total additions	Growth	Total portfolio
Open									300,000
70	7,000	15,000	15,000		5,000	42,000		10,320	268,320
71	7,140			15,300		22,440		9,835	255,715
72	7,283				5,202	12,485		9,730	252,960
73	7,428			15,918		23,347		9,184	238,797
74	7,577				5,412	12,989		9,032	234,840
75	7,729			16,561		24,290		8,422	218,972
76	7,883				5,631	13,514		8,219	213,677
77	8,041		17,230	17,230		42,501		6,848	178,024
78	8,202				5,858	14,060		6,558	170,522
79	8,366			17,926		26,292		5,770	150,000
80	8,533				6,095	14,628		5,415	140,787
81	8,704			18,651		27,354		4,536	117,969
82	8,878				6,341	15,219		4,110	106,860
83	9,055					9,055		3,912	101,717
84	9,236					9,236		3,699	96,180
85	9,421					9,421		3,470	90,229
86	9,609					9,609		3,224	83,844
87	9,802					9,802		2,962	77,004
88	9,998					9,998		2,680	69,686
89	10,198					10,198		2,379	61,867
90	10,402					10,402		2,059	53,524

PROJECTIONS — STAYING IN OWN HOME



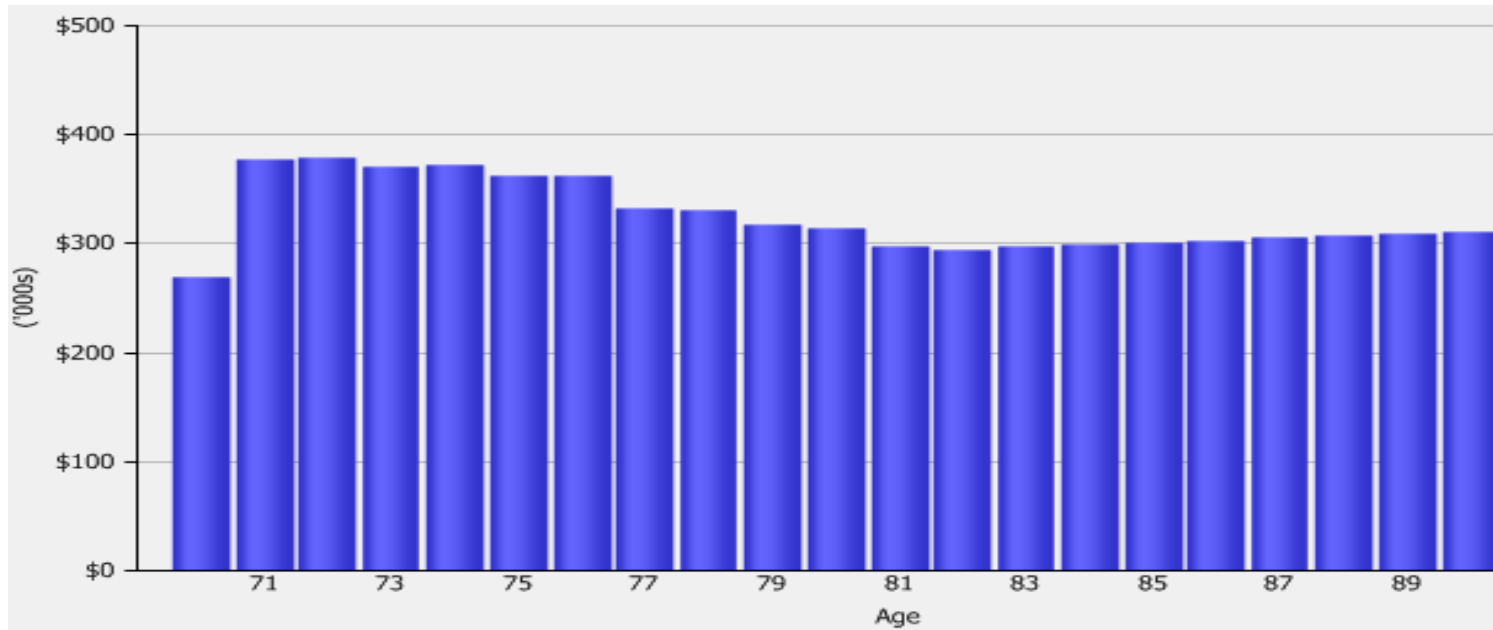
ASSUMPTIONS — MOVE TO A VILLAGE

Investments	Investment value	Return	
Portfolio	\$300,000	4%	(including inflation)
Drawings	Value	From	Until
Drawings	\$7,000	2016	Annually
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Europe	\$15,000	2017	Every 2 years till age 81
Pacific	\$5,000	2016	Every 2 years till age 82
Additions			
House sale equity (net of RV unit purchase, agents' fees, etc)	\$117,000	2017	

PROJECTIONS — MOVE TO A VILLAGE

Age	Drawings	Home painting	Car replacement	Europe	Pacific	Total drawings	Total additions	Growth	Total portfolio
Open									300,000
70	7,000	15,000	15,000		5,000	42,000		10,320	268,320
71	7,140			15,300		22,440	117,000	14,515	377,395
72	7,283				5,202	12,485		14,597	379,507
73	7,428			15,918		23,347		14,246	370,406
74	7,577				5,412	12,989		14,296	371,713
75	7,729			16,561		24,290		13,897	361,320
76	7,883				5,631	13,514		13,913	361,719
77	8,041		17,230	17,230		42,501		12,770	331,988
78	8,202				5,858	14,060		12,717	330,645
79	8,366			17,926		26,292		12,175	316,528
80	8,533				6,095	14,628		12,076	313,976
81	8,704			18,651		27,354		11,464	298,086
82	8,878				6,341	15,219		11,314	294,181
83	9,055					9,055		11,405	296,531
84	9,236					9,236		11,491	298,786
85	9,421					9,421		11,574	300,939
86	9,609					9,609		11,653	302,983
87	9,802					9,802		11,727	304,908
88	9,998					9,998		11,796	306,706
89	10,198					10,198		11,860	308,368
90	10,402					10,402		11,919	309,885

PROJECTIONS — MOVE TO A VILLAGE



RELEASING EQUITY

Equity	Number of residents	Percentage of total
Less than \$25,000	144	30.2%
\$25,000 - \$50,000	80	16.8%
\$50,001 - \$75,000	49	10.3%
\$75,001 - \$100,000	38	7.9%
\$100,001 and above	166	34.8%



Retirement Villages Association

Heartland

Decumulation Forum

HEARTLAND

— Seniors Finance —

Introduction

- About Heartland
- The Challenge
- Options
- The Solution



About Heartland

- A long and proud history with roots stretching back to 1875
- Became a registered bank in December 2012
- New Zealand operated and managed
- Specialist banking products for business, rural and household sectors including Home Equity Release



The Challenge

- Aging population

Population aged 65+ expected to double from 650,000 in 2014 to 1.3m in 2041¹

- People living for longer

Population aged 85+ expected to triple from 78,000 in 2014 to 245,000 in 2041²

- Not enough savings and / or assets held in non-liquid assets

Almost 75% of people aged over 65 own their own home³

- Superannuation only covers essentials

The median income for a New Zealand retiree is just \$22k⁴

- Increasing costs – particularly healthcare

Retirees often have to compromise lifestyle or sacrifice quality of life in retirement.

1. Statistics NZ - National Population Projections 2. Statistics NZ - National Population Projections 3. 2013 Census Data 4. Statistics New Zealand Income Survey June 2015

Options

Three pillar approach:

1. Government Superannuation
2. Private Superannuation
3. Voluntary Savings

A fourth pillar provides much greater stability.



The Solution

- Downsize / Retirement village
- Borrow from family
- Continue, or re-join the workforce
- Use a Reverse Mortgage

No one best option for all

Financial and Emotional Pro's and Con's to each

Education is key – options provide empowerment.

What is a Reverse Mortgage?

- Similar to a regular mortgage
- Designed specifically for seniors with no regular repayments
- Enable seniors to continue living in their home and benefit from any increase in value
- Free up some cash to enjoy a better retirement
- Prudent
 - Often only a modest amount makes a big difference
- Protection
 - Lifetime occupancy
 - No negative equity guarantee
 - Robust fulfilment process including mandatory independent legal advice

Summary

- There is a challenge, but solutions exist
- Requires mind-set change
- Education critical
- The time is right

Aging population

Recognition of social outcomes from aging in place

Desire to self fund retirement where able



STUART + CARLYON

Financial advisers for your lifetime goals

Retirement Income Planning

Deborah Carlyon

Authorised Financial Adviser

Decumulation Forum - 20 May 2016

Common Client Concerns

- Have I accumulated enough?
- How much income will I need for my retirement lifestyle?
- What sources of income are there?
- Where should I invest?
- How long will it last?
- Will I run out of money?

Start with the household balance sheet

Assets	Liabilities
Human Capital Continuing career Part Time work	Fixed Expenses Basic living needs Taxes Debt repayment
Home Equity	Discretionary Expenses Travel & leisure Lifestyle improvements
Financial Assets Bank Accounts Shares/ Property KiwiSaver/ PIE funds	Contingencies Long-term care Health care Other spending shocks
Insurance + annuities	Legacy goals Family Community & society
Social Capital NZ Superannuation Medical care/ ACC Company pensions Family & Community	

Holistic approach

Human Capital

Working longer has multiple benefits

- Save NZ Super
- Save from salary
- Delay drawing from retirement fund

Working part time after retirement

- Lower initial drawings needed
- Make renovations to support aging in own home
- Extra spending while active and healthy

Use assets wisely

Home Equity

Earn income while living in the house

- Boarder or foreign student
- “airbnb”

Release capital later

- Downsize house
- Reverse mortgage/ line of credit
- Move to a retirement village

Factor in social benefits

- NZ Super of \$15,000 net pa each for a couple, increased annually linked to the average wage
- Free hospital care/ ACC
- Help from family & community
- Company pensions – large employers with their own schemes
 - Defined benefit (fewer now)
 - Defined contribution (KiwiSaver has replaced many)

How much will I spend during retirement?

Current outgoings less:

- Mortgage payments
- Life insurance premiums
- Raising children – childcare, education

Fixed Expenses during retirement

- Basic living needs (house, food, utilities, clothes, personal care)
- Taxes (PAYE, RWT, PIE tax, FIFs, rental income)
- Debt repayment (hopefully none by then)

Discretionary Expenses during retirement

- Travel & leisure (entertainment, eating out, boat, bach)
- Lifestyle improvements (house, education, wellness, fitness)

Planning to live not planning to die – play the long game

Build an integrated strategy to manage retirement risks.

Contingencies

- Longevity risk
- Long term care (use home equity?)
- Health care (self fund if no medical insurance)
- Other spending shocks (family debt/ divorce)
- Distinguish between technical liquidity & true liquidity

Legacy goals

- Leaving money to family (the house only?)
- Charitable donations, philanthropy

Agree spending requirements

Adopt an integrated strategy for a dependable income flow and access to assets.

Consider several sources:

- KiwiSaver / portfolio
- NZ Super/ pension / annuity
- Home equity release

Avoid biased advice: investment vs insurance

Example of a couple aged 65 with \$500,000 to invest

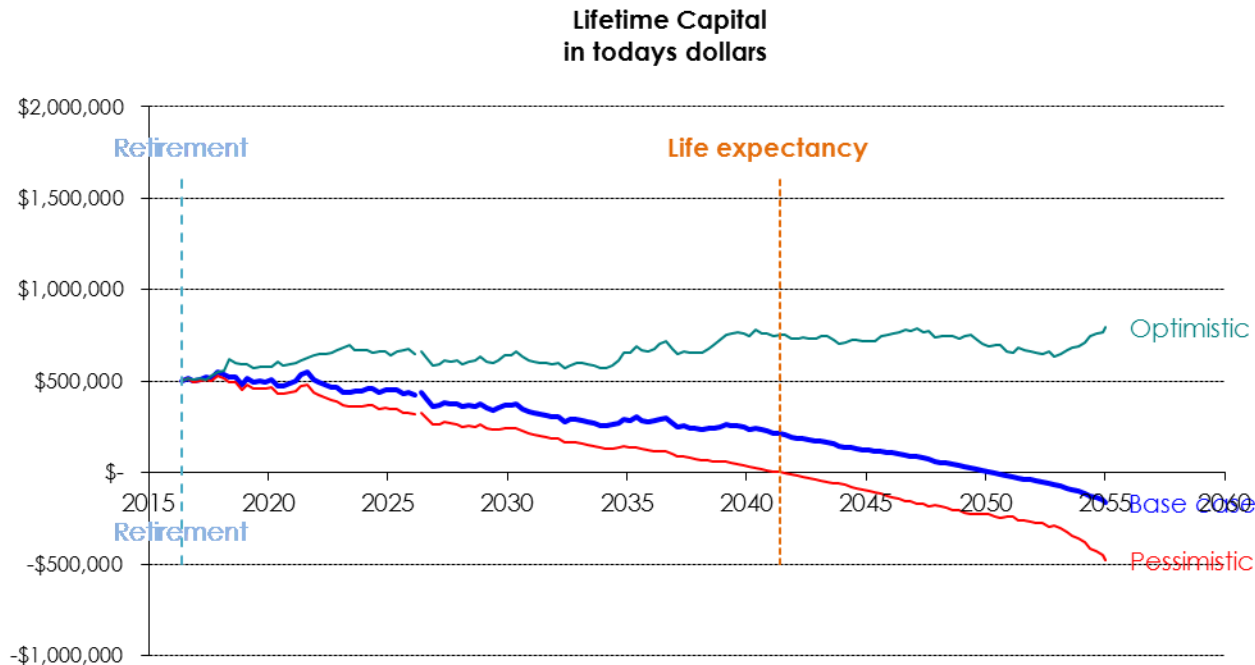
Lifestyle spending	\$ 56,000 pa
NZ Super for a couple	\$ 30,000 pa
Required from investments	\$ 26,000 pa

Do drawings need to fully increase by inflation?

Will more be needed in the early retirement years?

Scenario Modelling

Maximise the ability of retirees to fully and contentedly make use of their savings.



Source: farrellys Projector tool. Assumes retiree couple age 65 and life expectancy of 90, portfolio \$500,000, drawing \$26,000 pa increasing at 2% pa with an 80% chance of success, and 56% risky assets.

Am I on track?

Review annually how well the portfolio is projected to sustain them.

The Monte Carlo simulation includes assessing:

- Capital market conditions
- Inflation
- Longevity risk
- Sequencing risk
- Spending patterns
- Asset allocation

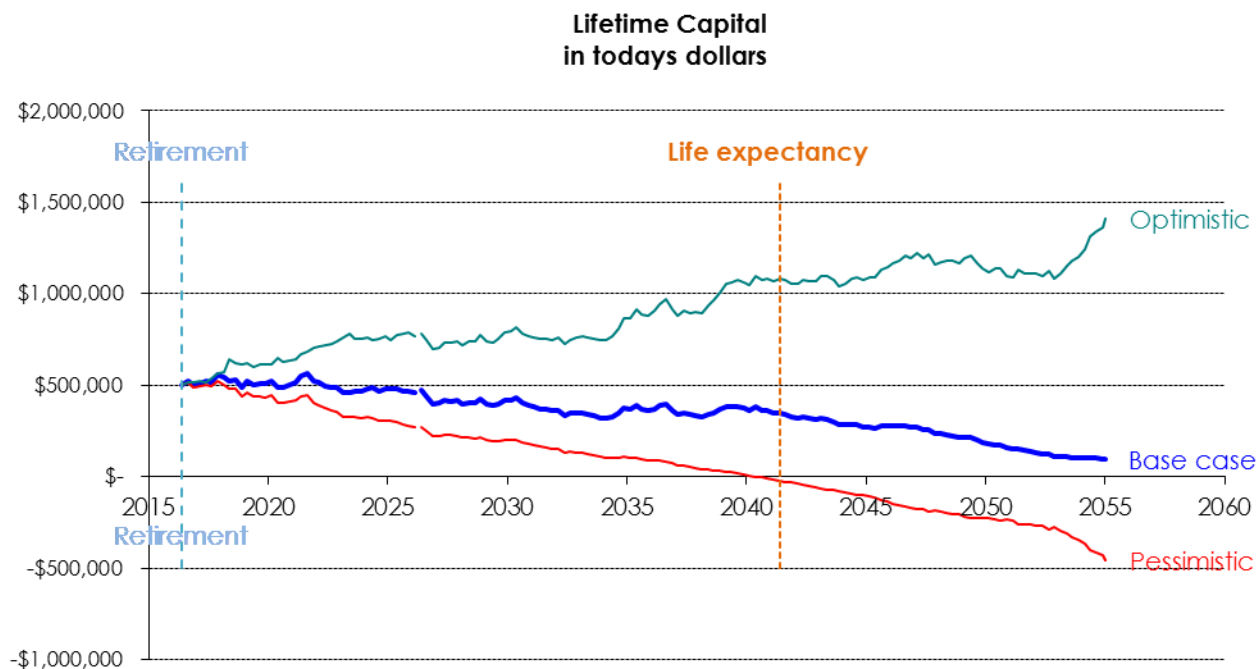
Has anything changed?

Do we need to adjust spending up or down?

Should we draw on other assets?

Adjust the decumulation rate

For greater certainty in the pessimistic outcome, reduce drawings to \$23,000 per year



Source: farrellys Projector tool. Assumes retiree couple age 65 and life expectancy of 90, portfolio \$500,000, drawing \$23,000 pa increasing at 2% pa, with a 95% chance of success, and 56% risky assets.

Important information

Deborah Carlyon is an Authorised Financial Adviser.

This presentation does not provide personalised advice.

My disclosure statement is available on request and free of charge by emailing deborah@stuartcarlyon.co.nz

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Barriers & opportunities in the NZ market now & in the future

Regulating to create confidence and opportunity

Rob Everett – Chief Executive, FMA

Evidence based policy making

Andreas Heuser – Senior Analyst, Financial Markets, The Treasury

Income options, innovation and advice

Blair Vernon – Director of Advice & Sales, AMP

What's NZ missing?

Jeremy Cooper – Chairman, Retirement Income, Challenger

Working Groups

Workshop objectives:

- What are the stand out observations and key points that should inform the 2016 review of retirement income policies?
- What are the top three things New Zealand should do to develop future retirement income options?

Thank you

