Decumulation: Time to act, by Susan St John and Claire Dale, Retirement Policy Research Centre - University of Auckland

<u>Summary by CFFC</u>

Accumulation and decumulation

- Accumulation is the process of saving for retirement eg via KiwiSaver.
- Decumulation is the process of using those savings over the period of retirement.

Does New Zealand need policies to help middle income people decumulate safely?

- NZS could be described as a perfect annuity.
- Various drawdown products for retirees' other savings are available through banks, KiwiSaver providers and insurance companies.
- More middle-income retirees are reaching the age of 65 years with increasingly large lump-sums from KiwiSaver that require careful management.
- Middle income retirees face many risks, including outliving their savings and expensive long-term care.
- Annuities provide one way to decumulate savings. The lumpsum saving is used to purchase an income stream.
- New Zealand has no real annuities market, nor any strong culture of annuities as do many other countries.

Why annuities would benefit many retirees

- Low interest rates create an environment where older people may be prone to exploitation by institutions and individuals who offer higher interest rates but mask the risks involved.
- The variability in mortality means that an individual can expect between 0 and 40 years in retirement, which makes planning decumulation a challenge.
- Management of property and investment income can become increasingly problematic as people age, especially if they experience any cognitive decline.
- Annuitisation prevents the consumption of the lump sums too early in retirement.
- Annuitisation can provide for ongoing income to meet future healthcare costs, including long-term care that may otherwise become a cost to the state.

Why the state should be involved in the annuities market

- The New Zealand market is too small to encourage competition among multiple private providers.
- The risks faced by middle income retirees are largely uninsurable in the private sector.

How the state could get involved

- The authors propose that in exchange for a lump sum, a limited, gender neutral, annuity ("Kiwispend") could be provided that combines an annuity with long term care insurance.
- The New Zealand Super Fund would be utilised to allow for long-term investment strategy, full CPI indexation, and the possibility of wage indexation.
- KiwiSaver providers would be obliged to default members into this scheme with a suitable opt out period to allow for advice to be taken and assessment of alternatives.
- A sensible goal for a top up annuity for middle income retirees might be an additional $10,000 to 15,000 per annum.