***International trends and reforms in pension policy and delivery: comparative models for accumulation and decumulation*, by Yanshu Huang and Jennifer Curtin, University of Auckland (PPI)**

Summary compiled by CFFC

Context

- Decumulation is the process by which funds from a pension scheme or product are converted into income during retirement.
- Following the introduction of KiwiSaver in 2007, an increasing number of those aged 65 and over will have access to increasingly large lump sums they can draw down.
- A survey conduction by Inland Revenue (2013) suggests that most eligible retirees withdrew the entirety of their KiwiSaver funds upon retirement. Most of these funds were used for non-retirement purposes such as paying off debt or for travel.
- A system of a one-off withdrawal does not protect retirees from longevity risk, inflation risk, unsuccessful investment risks, financial exploitation or spending the money too early.

The Netherlands

- In the Netherlands workers are required to purchase an annuity product upon retirement.
- The compulsion and restricted flexibility has resulted in some consumer dissatisfaction.
- Recent changes include an option to purchase a temporary annuity.

Denmark

- Employees are often encouraged to think about decumulation early in their working lives.
- Lump sum withdrawals are permitted but are not attractive compared to other options.

Germany

- A variety of options for decumulation of pension funds - annuities, lump sum, and programmed withdrawal (or drawdown).
- The retirement system is highly complex, with different decumulation requirements, depending on the scheme.

Other countries

- The majority of EU member states provide annuity options.
- Annuities are mandatory in six of the member states of the EU and voluntary in 15 states.

New Zealand

- The private annuities market in New Zealand declined and disappeared briefly due to low state involvement in protecting consumers and high levels of taxation associated with annuities.
- Lifetime is currently the single private annuities provider.
- At present, little information is available for safe self-managed decumulation with KiwiSaver funds.
- To annuitise KiwiSaver funds, tax-incentives and government regulation are needed.
- The Retirement Policy and Research Centre proposed a social insurance scheme, which they have named 'KiwiSpend'. The intention is to provide both a retirement income in the form of an annuity as well as finance for long term medical care.