TE ARA AHUNGA ORA
Retirement Commission

Decumulation:
Policy Insights

Dr Michelle Reyers, CFA

Decumulation: Policy Insights

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Policy considerations (including design and product availability) for decumulation of retirement savings from KiwiSaver and other retirement savings schemes and assets after reaching the age of NZ Super eligibility.

Tirohanga whānui

Overview

- Decumulation has been a recurring theme in all five previous RRIPs, however there have been limited recommendations, with a wait and see approach adopted
- Decumulation is broader than just KiwiSaver assets, it is also important to consider other assets e.g., housing wealth and the use of equity release mechanisms
- The global decumulation landscape continues to evolve and there is a new focus on balancing longevity risk with choice and flexibility
- The focus has shifted to providing people with confidence to use their assets to fund their retirement
- This paper reaches the following conclusions and recommendations:
  - Good decumulation systems combine flexibility with longevity risk protection
    - NZ Super provides protection against longevity risk and must continue to be a key pillar of the New Zealand retirement landscape.
  - People need guidance (such as 'rules of thumb') on how to draw down assets
    - Develop and use consistent terminology and supply consistent information and guidance (including 'rules of thumb') for the drawdown phase of retirement
    - Require all KiwiSaver providers to contact members at milestones approaching retirement (55, 64 and 65) and provide information and guidance on options
    - Develop calculators to show consequences of drawdown choices, and tools to compare products
  - People are using KiwiSaver accounts as drawdown accounts after age 65
    - KiwiSaver products should be user-friendly for regular draw downs, and forms should include helpful information
  - Having access to administrative data at a disaggregated level is key to ensuring that policy recommendations are based on evidence of how the KiwiSaver system is maturing
    - KiwiSaver providers to report disaggregated data (age, gender, fund type)
  - Home equity release has significant potential to help support retirement incomes
    - Research home equity release and provide accurate information to consumers and advisors
    - Housing and planning policies should consider needs of older people

Whakarāpopototanga Matua

Executive summary

Decumulation has been a recurring theme in all five of the previous Review of Retirement Income Policies (RRIP). Previous RRIPs have commissioned a variety of work related to decumulation, and a number of working groups, forums and symposiums have been convened to specifically focus on decumulation. However, limited recommendations have been put forward in final RRIP reports. There appears to have been a "wait and see" approach to this issue, both in terms of recommendations, and also in terms of the Government's response.

Decumulation generally refers to the process of drawing down savings and investments that have been accumulated over the working life to provide income in retirement. Equity release is another way to decumulate assets (in this case housing wealth). The decumulation process helps achieve the "consumption smoothing" objective of retirement income, with the aim of allowing individuals to maintain their standard of living in retirement. The rate of decumulation may also be affected by the "bequest motive" to leave some wealth to the next generation. However, decumulation is not necessarily the mere whittling away of a pile of assets that have been accumulated over a lifetime. Some savings and investments may also continue to grow (accumulate) during retirement and slow the rate at which assets are used up.

From a global perspective, the decumulation landscape continues to change and evolve as retirement systems around the world adapt to changing demographics and the continued move towards individual responsibility for retirement accumulation and decumulation decisions. There is a new focus on balancing longevity risk with choice and flexibility, as well as the consideration of how best to use accumulated assets, including home equity, to contribute to retirement wellbeing. There is an emphasis on providing people with confidence to use their assets to fund their retirement, the notion of "cracking open the nest egg", with a key element being the provision of appropriate guidance and advice.

Despite the increase in focus and research in this area there is no clear consensus on how best to manage decumulation, and specifically the role of annuities in the decumulation framework. There is very little interest in annuity products, and unless there is a legislated requirement to annuitise, there is generally a low take-up of these products. The OECD has moved away from a stance in 2012 of encouraging annuitisation as protection against longevity risk, to a more flexible approach to products that can be used in the decumulation or drawdown phase, as part of their 2021 "OECD Recommendation for the Good Design of Defined Contribution Pension Plans[1]". Product innovations to overcome specific drawbacks of traditional annuities are continually being developed. One particular focus has been on deferred annuities, which aim to introduce more flexibility compared to traditional annuities. More recently there has also been a revival in interest in the concept of pooling risk among plan participants, in the form of non-guaranteed annuities. It is too early to determine whether these new products will prove to be more popular than traditional annuities. However, it is important to note that these products do not overcome many of issues that lead to low up take of annuities, such as lack of flexibility, substitution by government pensions, and adverse selection.

From a New Zealand specific context there has been limited research related to actual decumulation and post-retirement financial decision making. In addition, a lack of information about KiwiSaver balances across age cohorts and gender has made it difficult to understand current and future decumulation. Work undertaken by Te Ara Ahunga Ora Retirement Commission in 2021/22 has sought to fill in some of the knowledge gaps. Case studies, focus groups, and surveys conducted with older New Zealanders have highlighted a strong reliance on New Zealand Superannuation (NZ Super) to meet expenses, supplemented by savings for some (with KiwiSaver starting to feature), and continuing to work for those who can. There appears to be a reluctance to access home equity through reverse mortgage products, and limited options to downsize result in asset (house) rich, cash poor households.

1 https://www.oecd.org/pensions/designingfundedpensionplans.htm

While the above research provides insights into self-reported pre-retiree and retiree behaviour, administrative data relating to KiwiSaver balances and account usage allows a more comprehensive picture of one aspect of decumulation to be formed, focussed specifically on the role of KiwiSaver. A combination of administrative data available from the IRD, to assess macro trends, and research commissioned by Te Ara Ahunga Ora, which provides disaggregated information of KiwiSaver balances across age and gender, provides insights into how KiwiSaver is maturing and being used by older New Zealanders.

KiwiSaver participation among those nearing age 65 continues to increase over time, and while lower than among younger cohorts, almost 77% of the population aged 55-64 has a KiwiSaver account. On average balances are higher than among younger cohorts, however almost one fifth of those aged 60 – 65 have less than $10,000 accumulated in KiwiSaver. In addition, 60% of females aged 60 – 65 have balances below $40,000. While the current cohort of 'pre-retirees' have only had 14 years of KiwiSaver, younger cohorts will have access to KiwiSaver over their whole working life, so in future balances for those nearing retirement are expected to be higher as KiwiSaver continues to mature. It is important to keep in mind that KiwiSaver will only reach full maturity in the early 2050s when it will have been available for the full working life of the age cohort who started work in 2007.

While KiwiSaver is still relatively new, trends are starting to emerge about how people are accessing their KiwiSaver after 65. From the data it appears as though KiwiSaver is evolving into a decumulation/drawdown product post retirement as there is increasing use of KiwiSaver among over 65s. There has been high growth in the number of over 65s who have a KiwiSaver account, and the percentage of over 65s each year who retain their KiwiSaver account is increasing from just over one-third in 2018 to more than 50% in 2021. However, as this account was primarily set up for accumulation, there is room for improvement in terms of the ease of access to the account for decumulation purposes and guidance provided to members who would like to use their account as a drawdown account.

From a product design and availability perspective, as highlighted earlier, annuity products remain unpopular, and new product innovations such as deferred annuities, and a revival of the pooled risk sharing products are subject to some of the same concerns that result in low annuity take-up. New Zealand does not offer any of these products and, for a variety of reasons, including the small size of the market and the existence of NZ Super, it is potentially difficult to develop these products here.

Individual managed drawdown products are seen as a way to create flexibility and choice in the decumulation phase, however there is a risk of outliving funds depending on how well the drawdown from the investment product is managed. This is less of a concern where there is a government pension that provides a safety net for those who outlive their funds, such as NZ Super. For managed drawdown, setting parameters or providing guidance to assist individuals is important given the self-managed nature of many of these products. There are limited specific managed drawdown products in New Zealand, however KiwiSaver funds have by default morphed into drawdown funds for many who keep their funds in their KiwiSaver account after age 65.

In many countries around the world, including New Zealand, housing wealth makes up a large share of the wealth of many older adults. However, home equity is often overlooked as a potential asset to fund consumption during retirement. This can lead to the situation of people being asset (house) rich but cash poor. There seems to be a resistance to use home equity to finance consumption in retirement, with research finding that home equity tends to be the last asset that individuals consume in their lifetime. Downsizing is one way to access equity in a house, however, in many markets, including New Zealand there are limited options for downsizing. Equity Release Schemes (ERS) products such as reverse mortgages and home equity reversion schemes provide another way for homeowners to access what would otherwise be an illiquid asset. However, worldwide only a small portion of retirees make use of these products, with many considering it as a way to access funds in an emergency or as a last resort, rather than seeing it as a product that can help fund general consumption in retirement. There are a range of reasons for low uptake, with both supply and demand side constraints. Two of the main demand side constraints include perceptions of poor value for money and a lack of understanding of a complex financial product.

There are limited equity release options in New Zealand. For those who choose to sell their house and downsize many find it hard to find a smaller and more affordable dwelling. From the perspective of specific equity release products, there are currently only two banks that offer reverse mortgages, while a third company is looking to enter the market by providing a home reversion scheme product. The usual supply and demand side constraints for reverse mortgages also apply to New Zealand, with an additional constraint that both consumers, and consumer advisory groups, do not see the product in a positive light, and it is considered a product of last resort, once all other options have been exhausted.

This paper has identified three key decumulation themes, and these are set out below along with specific policy recommendations related to each theme.

1. There is a need to balance longevity risk with choice and flexibility. **Good decumulation systems combine flexibility with longevity risk protection.** Changes in guidance from the OECD shows support for the idea that, as long as there is protection against longevity risk through existing pensions, individuals should have flexibility related to decumulation decisions with regard to other accumulated assets. In the New Zealand context, longevity risk protection is already provided by NZ Super as it gives universal access to a lifetime income in retirement for eligible New Zealanders. In addition, as KiwiSaver mirrors workplace inequalities from the gender and ethnic pay gaps, occupational segregation and various levels of labour market participation, NZ Super has additional desirable features such as being universal and gender neutral.

   Policy recommendation: NZ Super must continue to be a key pillar of the New Zealand retirement income landscape. It fulfils a vital role in providing longevity risk insurance to New Zealanders and it also contributes to more equitable retirement outcomes as it is universal and gender neutral.

2. People need to have confidence to use their accumulated assets to fund their retirement, with a key element being the **provision of appropriate guidance (including "rules of thumb") and advice.** This guidance and advice should be delivered in a consistent manner in a simple system that creates an environment that supports individual decision making, and reduces the possibility for financial decision-making errors.

   Policy Recommendation: The financial services sector, as part of the National Strategy for Financial Capability[2], should work together to use consistent terminology, and supply consistent information and guidance (including "rules of thumb") for the drawdown phase of retirement.

   In no way should the above recommendation be seen as requiring all providers to deliver the same products and services. Product innovation and competition within the drawdown phase should be encouraged. Against this backdrop it is crucial that individuals have sufficient information to be able to select the best product and provider for their requirements.

   Policy recommendation: a tool should be created for comparing managed drawdown products (including KiwiSaver funds, as well as managed drawdown funds outside of KiwiSaver) from a cost and services perspective.

   As there is a choice for KiwiSaver members when they reach age 65, appropriate communication and modelling tools should be provided well in advance. In particular, modelling tools should allow members to understand their options and the consequences of the choices they make, and advice should be provided at the appropriate times, with individualised information.

   Policy recommendations:

   - ***Government should require that all KiwiSaver providers contact members at milestones approaching retirement (55, 64 and 65) to provide them with information and guidance regarding their options (currently only default providers are required to make contact with members at milestones).***
   - ***Government should clarify that the guidance and assumptions for retirement income projections does not prevent providers from developing tools and information for the decumulation phase of retirement.***

2 Aligns with the three goals of the National Strategy: Consistent content; Work together; Demystify money

- *KiwiSaver providers should consider how to make their products more user-friendly and accessible for those who want to use them as a drawdown account. In particular, consideration should be given to the design and information provided on the withdrawal forms to provide better guidance to members who wish to make regular withdrawals.*
- *Te Ara Ahunga Ora already provides guidance on their Sorted website based on the "Rules of Thumb", but in addition to this guidance it is recommended that a drawdown calculator is developed that allows people to use the rules of thumb to help them understand the effect of different choices and the consequences of these choices.*

Finally, as highlighted in this report, having access to administrative data at a disaggregated level is key to ensuring that advice and policy recommendations can be based on evidence of how the KiwiSaver system is maturing.

Policy recommendation: in order to allow continued assessment of the maturation of KiwiSaver, Government should require more detailed disaggregated reporting from KiwiSaver providers, in particular to allow insights across age groups, gender, and fund type.

3. **Home equity release has significant potential to help support retirement incomes.** Given the potential of these products to play a beneficial role in assisting those who are asset (house) rich but cash poor, more needs to be done to understand whether the hesitation to access (and recommend) this product is based on high costs (due to a lack of competition) or whether the products are fairly priced. If they are fairly priced, then there is a need to educate consumers to understand the role that these products could play in their decumulation strategy and efforts should be directed to improving confidence in them.

   Policy recommendations:

   - *Conduct research to assess if equity release products provide value for money.*
   - *Provide accurate information to consumers and advisors about how equity release products work, with a particular focus on understanding the actual cost benefit profile.*
   - *Equity release product providers should consider whether they can provide explanations of how the product works and is priced, that will make it easier to understand, and easier for consumers to assess the cost benefit of the product.*

   Finally, there is a case to be made that developing appropriate housing policies, that allow for older New Zealanders to downsize to suitable accommodation provides another avenue through which equity release can be realised.

   Policy recommendation: Housing policies and planning should take into account the need of older New Zealanders to have access to suitable accommodation options that allow them to downsize their homes.

The rest of the paper is organised as follows: Chapter 2 provides an overview of the latest research and developments in the decumulation landscape since the 2019 review, considering both international and New Zealand specific research. Chapter 3 summarises the key findings from research that was commissioned by Te Ara Ahunga Ora which provides information about KiwiSaver balances by age and sex, and provides insights into the changing nature of KiwiSaver account use for those over the age of 65. Chapter 4 explores the evolution of decumulation products and provides an overview of the current product market in New Zealand. Chapter 5 provides a summary of the gender and ethnicity implications of decumulation products. Finally, Chapter 6 considers the specific policy implications and puts forward recommendations.

Chapter 1 **Background**

Decumulation refers to the process of drawing down savings that have been accumulated over the working life to provide income in retirement. Since the inception of KiwiSaver in 2007, regulators, policy makers and providers have focused on the accumulation phase of saving in KiwiSaver. However, KiwiSaver has been in existence for 15 years, and it is expected that individuals approaching retirement are now doing so with larger sums of money accumulated in KiwiSaver. Therefore, the focus is switching to decumulation and what this means from a product and policy perspective. One area that often receives coverage when discussing decumulation is annuities, however decumulation is broader than annuities, and there are a number of non-annuity type decumulation and drawdown products that are also available. In addition, equity release is another way to decumulate assets (in this case housing wealth).

Decumulation has been a recurring theme in all five of the previous RRIP reports. Previous RRIPs have commissioned a variety of work related to decumulation, and a number of working groups, forums and symposiums have been convened to specifically focus on decumulation. However, limited recommendations have been put forward in final RRIP reports. There appears to have been a "wait and see" approach to this issue, both in terms of recommendations, and also in terms of the Government's response.

The work carried out for previous reviews has highlighted that there is a range of views regarding whether annuity products are required as part of the decumulation options available in New Zealand. Some view them as essential, while others propose alternative drawdown approaches, and the use of guidance and education to assist in decumulation decision-making (see Appendix A for further details). In general, market-based annuities in New Zealand (and in many other markets) are not attractive for a variety of reasons on both the supply and demand side. NZ Super is an annuity as it offers a retirement income stream for life therefore alleviating longevity risk, investment risk and inflation risk, through a product that has the added attraction of being gender neutral. There is a view that as KiwiSaver matures (and KiwiSaver balances increase over time) the market will innovate. Government has indicated it is keeping a watching brief on these developments, however, there appears to be a reluctance to intervene directly, and instead the expectation is that KiwiSaver providers will innovate and offer more drawdown options as the product matures.

The role of equity release and the use of reverse mortgages has been explored in a number of RRIPs. However, other than in 2007 (where it was recommended that the code of practice for home equity release providers, being developed by the then Office for Senior Citizens, be put into legislation) there have been no specific recommendations relating to this aspect. Appendix A contains a summary of decumulation related work and recommendations in the previous five RRIPs.

Although decumulation has been a feature of previous RRIPs, specific policy considerations have generally not been identified, and limited recommendations have been made. This is partly due to the "wait and see" approach as KiwiSaver matures, but there is also a lack of understanding of the magnitude of current, and future decumulation need, due to limited data that provides information on balances across age ranges. Against this background the rest of the report is arranged as follows:

Chapter 2 provides an overview of the latest research and developments in the decumulation landscape since the 2019 review, considering both international and New Zealand specific research. In particular, as part of the decumulation work program undertaken by Te Ara Ahunga Ora following on from the 2019 RRIP, the findings of research undertaken to assist with understanding the current decumulation practices and post retirement spending experiences of New Zealanders is summarised.

As KiwiSaver has been in existence for 15 years, it is expected that individuals approaching retirement are now doing so with larger sums of money accumulated in KiwiSaver. However, only average KiwiSaver balances for all members are publicly available. In order to fill this data gap, Te Ara Ahunga Ora commissioned research in 2021/22 that provided information about KiwiSaver balances by age and sex. This is the first time such detailed data have been available, which provides information to assist in understanding the magnitude of current, and future decumulation requirements. In Chapter 3 the key findings from this research are summarised, in addition, an overview of the changing nature of KiwiSaver account use for those over the age of 65 is provided.

In past RRIPs, a key focus has been on guaranteed annuities, however decumulation is broader than annuities, and there is an evolution in a number of non-annuity type decumulation and drawdown products in other markets. In addition, equity release is another way to decumulate assets (in this case housing wealth). Chapter 4 explores the evolution of products in more detail and provides an overview of the current product market in New Zealand. Chapter 5 provides a short overview of the gender and ethnicity implications of decumulation products. Finally, Chapter 6 considers the specific policy implications and puts forward recommendations.

Chapter 2 **Latest research and decumulation developments**

The focus paid primarily to the accumulation phase of retirement is not unique to New Zealand. The switch from defined benefit (DB) to defined contribution (DC) schemes experienced worldwide over the past number of decades has resulted in many countries focussing on getting people to save for retirement via DC schemes, with less attention paid to the decumulation phase.

One of the key consequences of the advent of DC plans is that they severed the link that existed in DB plans between the accumulation and decumulation phases. Traditional DB plans were structured so that sponsors and sometimes participants made contributions to the plan, the funds were invested, and ultimately the plan participants received a pay-out in the form of a monthly pension for life. However, with a DC plan the link between accumulation and decumulation no longer exists. The structural flaw in DC plans is that they are created without an explicit "exit" strategy. Contributions from participants (and employers in some cases) are invested and grow over time but there is no in-built mechanism to convert the accumulated assets into an income stream post-retirement. This means that participants are left to manage the decumulation phase by themselves (Bailey & Winkelmann, 2021).

However, decumulation, and the management of retirement resources, are receiving increasing attention in many countries for three key reasons. First individuals are living longer post-retirement, which increases the complexity of the decisions they need to make to manage retirement resources effectively over a longer time period; second the shift to DC funds requires retirees to make an active decision about what to do with accumulated DC funds instead of the passive receipt of DB pension income that used to dominate post retirement; third from an aggregate economy or market perspective, as a result of ageing populations in many countries, there are proportionally more older individuals and they collectively hold a larger amount of the economies' wealth in retirement savings/investments. Therefore, the decisions made regarding this wealth has the potential to impact the economy more broadly. The focus on decumulation is expected to increase in importance as increasingly large portions of populations in many countries move into retirement and concerns increase with regard to poverty and inequality at older ages (Crawford & Banks, 2022).

Overview of recent international decumulation research themes

Crawford & Banks (2022) provide a comprehensive overview of the current state of research related to decumulation and the following extracts from their paper highlight key findings from previous research:

Financial literacy and financial decision making at older ages:

- The decisions that need to be made in the decumulation phase are becoming increasingly complex and the stakes are higher if a mistake is made as people reach retirement with increasingly higher amounts of DC wealth.
- A large literature base notes the importance of financial literacy in making good financial decisions, with substantial evidence that financial literacy levels in the general population are low.
- Among older cohorts there is the potential for age related cognitive decline to impact on financial decision making, particularly in decumulation decisions where ongoing decision making is required at older ages.
- There is a concern that a lack of awareness of cognitive decline may contribute to low levels of financial advice seeking at older ages.
- Further concerns relate to older people being targeted in fraud or scams (particularly in light of the large amount of funds they might have access to post retirement).

Overall wealth trajectories:

- A large amount of literature has examined patterns of overall wealth trajectories in retirement, and found that in general retired households do not spend down their wealth rapidly, and this is particularly true of housing wealth

- There are limitations of research findings in this area from a policy perspective
    - Attention is often on trajectories of average wealth, rather than the behaviour of individuals across the whole distribution and particularly at the tails – i.e., those spending down private wealth particularly rapidly or particularly slowly – and the drivers of this behaviour.
    - The empirical literature to date has largely studied households with relatively little DC wealth that can be flexibly accessed.

Annuitisation choices:

- While theory predicts that risk-averse individuals would want to purchase fairly priced insurance against longevity risk, in practice demand for annuities is extremely low internationally (the "annuity puzzle[3]").
- There are a variety of both supply and demand side factors (both rational and behavioural) which have been suggested as reasons for the annuity puzzle.
- There is little consensus as to whether the lack of annuitisation is a problem, particularly as it will vary across different institutional settings (e.g., what is the nature of government provided retirement support?) and individual circumstances (e.g., what other assets are held by the individual or household at retirement?).
- A recent example of policy change and the impact of annuitisation was the removal of the mandatory requirement to annuitise accumulated DC pension wealth in the United Kingdom (UK), which led to a collapse in purchases of annuities (number of new contracts fell by 70%, and in 2019/20 only 10% of funds accessed for the first time were used to purchase an annuity).

Drawdown of DC assets:

- In order to determine what interventions or policies are required to support drawdown, it is important to assess whether there is evidence that those not using annuities are drawing down their wealth in a sub-optimal way (either too quickly or too slowly). However, there are problems with accessing data that allows such conclusions to be drawn as this requires insights into both retirement accounts and other household wealth for a large representative sample of people
    - Findings from research in Australia and the USA indicate that concerns that households will withdraw funds too quickly appear to be unfounded.
    - In jurisdictions where minimum withdrawal rates are set it appears that individuals interpret this as guidance or advice as withdrawal rates are found to cluster around these set minimums.

Insurance choices and consumption smoothing at older ages:

- A further area of research considers the insurance markets for older people, with a focus on the variety of risks related to investment incomes, housing wealth, health, long-term care, and longevity and how this interacts with social insurance provision.
- A key concern is that the above risks are generally analysed individually rather from a collective or portfolio approach.
- Exploration of consumption smoothing behaviour post retirement has been limited by data availability; however, studies have found that health shocks and medical expense risks play a key role in wealth trajectories.

While there has been a large amount of research conducted in this area Crawford & Banks (2022) note that there is an absence of any strong guidance that can be used by policymakers about how to support the management of retirement income.

International decumulation developments

Despite the increase in focus and research in this area there is no clear consensus on how best to manage decumulation, and specifically the role of annuities in the decumulation framework. The OECD has moved away from a stance in 2012 of encouraging annuitisation as protection against longevity risk, to a more flexible approach to products that can be used in

3 The term "annuity puzzle" refers to the discrepancy between the high uptake of annuity products that theoretical models predict compared to the actual use of annuity products in practice (Benartzi et al., 2011)

the decumulation or drawdown phase, as part of their 2021 "OECD Recommendation for the Good Design of Defined Contribution Pension Plans[4]".

The UK has moved away from mandatory annuitisation. In Australia the introduction of the retirement income covenant puts responsibilities on trustees to develop retirement income strategies for their members. This requires a focus on improving retirement outcomes of individuals, while enabling choice and competition in the retirement phase. These developments are discussed in more detail below.

Recent decumulation developments in the UK

In 2015 the UK Government made a number of changes to pension regulation that provided more flexibility when accessing accumulated retirement savings. Prior to the changes people were able to access 25% of their pension savings as a tax-free lump sum, there were limits on drawdown and most people with DC pensions were required to purchase an annuity. There were concerns that the new freedoms would lead to people cashing out funds rather than ensuring they had a sustainable income stream in retirement. A study that asked those nearing retirement what they intended to do under the new more flexible regime reported that about one-third still intended to buy an annuity (Loibl et al., 2019). However actual data from the Financial Conduct Authority shows that in both 2019/20 and 2020/21 only 10% purchased an annuity when accessing their funds for the first time[5]. Very low interest rates during this time period were probably a contributing factor to this low take up of annuities.

A recent review of the change undertaken by the Work and Pensions Committee concluded the following "The pension freedoms gave people the freedom to choose what to do with their money. These new freedoms also brought new risks. On balance, these changes have been a success and we do not want to see them rolled back. However, many savers need more support than they currently receive in order to make good decisions about how they access their pension savings." (Work and Pensions Committee, 2022). The focus is therefore on how best to support decision making as studies have found that there is low use of financial advice, and even the free advice service[6] that is provided as part of the changes in 2015 appears to be underutilised. According to the Financial Conduct Authority, in 2021 only 33% of plans accessed for the first time were accessed by plan holders who took regulated advice (down 3% from 2019/20)[7].

Recent decumulation developments in Australia

The Australian Retirement Income Review of 2020[8] had a number of key observations concerning the decumulation phase. The review noted that insufficient attention has been given to helping people "optimise their retirement income through the efficient use of their savings." There were a number of reasons given for why retirees were generally reluctant to draw down savings in retirement including "complexity, little guidance, reluctance to consume funds that are called 'nest eggs', concerns about possible future health and aged care costs, and concerns about outliving savings."

The review highlighted that there was a need to improve understanding of the system. In particular one major misunderstanding was that 'retirement income' was generated from the return from investing superannuation balances, rather than actually drawing down balances to fund living standards in retirement.

The review noted that if superannuation assets were used more efficiently, and home equity was accessed, this would boost retirement income without requiring additional contributions during the accumulation phase. It was suggested that there were a variety of measures that would help people have more confidence to use their assets more effectively. Suggestions included "focusing retirement planning on income streams rather than balances, better quality and more accessible advice and guidance, and advancing the concept of the Retirement Income Covenant so funds guide members into effective retirement strategies". It was also noted that the current exemption of the principal residence from the Age Pensions asset test disincentivised using home equity to supplement retirement income.

4 https://www.oecd.org/pensions/designingfundedpensionplans.htm

5 Retirement income market data 2020/21 | FCA

6 UK's Money and Pensions Service: In the UK, providers are required to direct retirees to the service and send a 'wake up pack' to retirees at age 50. Retirees are given a free session, which could be seen as 'simple advice'. More complicated cases are directed to a list of 'trusted' financial advisers. The service is funded by an industry levy.

7 https://www.fca.org.uk/data/retirement-income-market-data-2020-21

8 Retirement Income Review - Final Report | Treasury.gov.au

Following on from the review a number of changes are currently underway that focus on how decumulation is managed by trustees. In the past, legal obligations on superannuation trustees focused primarily on the accumulation phase and there are no specific obligations to consider the needs of members in retirement. The retirement income covenant is intended to address this gap.

Retirement Income Covenant in Australia[9]

The introduction of the Retirement Income Covenant from 1 July 2022 requires trustees of a registrable superannuation entity (RSE), to develop a retirement income strategy for fund members who are retired or nearing retirement. The retirement income strategy needs to help members achieve and balance three objectives:

- Maximising their expected retirement income
- Managing expected risks to the sustainability and stability of their expected retirement income and
- Having flexible access to expected funds during their retirement.

There is no prescribed strategy, however the range of assistance provided could include the development of specific retirement income products, developing specific drawdown patterns that allow for higher income throughout retirement, the provision of budgeting tools and expenditure calculators, assisting members with factual information about eligibility for pensions and care, and information about drawing down capital, and different income streams available in retirement.

New Zealand recent decumulation research

In the New Zealand context, the Retirement Policy and Research Centre (RPRC) at University of Auckland and the New Zealand Society of Actuaries (NZAS) Retirement Income Interest Group (RIIG) have published a number of papers related to decumulation over the past 15 years. Many of these papers were submitted or commissioned as part of previous RRIPs, and are referred to in Chapter 1, and Appendix A.

9 https://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r6817_ems_5cff4b6c-34e7-4092-807d-4cc20bac5e27/upload_pdf/JC004201.pdf;fileType=application%2Fpdf

In addition to the papers discussed in Chapter 1 and Appendix A, additional work has been published by RIIG in 2020 and 2021. Most recently RIIG released a paper on "How to make drawdown a success"[10] (RIIG, 2021). The paper gave a framework for how to think about drawdown, using the rules of thumb approach, which was introduced in a 2017 paper that developed a set of "Rules of Thumb" for drawing down retirement savings, with updated guidance published in 2020[11]. The idea behind the "Rules of Thumb" is that it helps people understand what choices they can make to draw down their savings in retirement (RIIG, 2020). The focus is on guidance, rather than products. As not everyone can afford professional financial advice, the rules of thumb provide guidance based on expert knowledge. It is important to keep in mind that these rules of thumb are not "set and forget", rather they need to be reviewed on a regular basis, in particular when an individual's circumstances change. The 2021 paper suggested a "two buckets" framework is used in decumulation. Dividing funds between an emergency bucket, invested in low-risk assets, which is reserved for spending that falls outside of a regular budget, and a longer-term drawdown bucket, invested at a medium risk, that supplies income for regular budgeted spending.

The paper provided an overview of the three policies needed to make drawdown a success. These are the requirement to maintain NZ Super as the foundation of the retirement income system, the need for consistent information to be shared widely, the need for more information on KiwiSaver statements to provide additional context for a range of longevity outcomes and different drawdown strategies. Finally, the paper concludes that more action may be necessary if evidence emerges of poor drawdown decisions, once KiwiSaver balances are larger.

Te Ara Ahunga Ora decumulation research

There is limited research related to actual decumulation and post-retirement financial decision making in New Zealand. In addition, there is a lack of information about KiwiSaver balances across age cohorts and gender (this aspect is dealt with further in Chapter 3).

Noting the research gap, Te Ara Ahunga Ora commissioned work related to KiwiSaver balances (discussed in Chapter 3), as well as two pieces of work to provide further insights into decumulation. First, from a qualitative perspective, interviews were conducted with retirees to understand their spending habits, and second a survey was undertaken to understand the asset drawdown and paid work profile of pre- and post-retirees. The findings from each study are summarised below.

Interviews with retirees on their spending habits[12]

A series of interviews with New Zealand retirees were conducted in 2021 to provide a better understanding of what they are spending in retirement. Case studies explored each person's journey into retirement, including any planning they undertook prior to retirement, what day-to-day life looked like as a retired person, their current expenditure, impacts of unexpected expenses, and any advice they would give to those planning on retirement.

Many noted that they had arrived at retirement without giving financial or lifestyle planning much thought. Participants suggested that regular prompts to converse and consider retirement plans are necessary, as well as sharing sources of advice, support and case studies.

Some observations from the case studies included:

- Significant and disruptive life events (mainly housing and family related) impact on financial wellbeing in retirement
- There is a heavy reliance on NZ Super to meet expenses - supplemented by savings for some and continuing to work for those who can
- Many of those interviewed have not entered retirement mortgage and debt free, and a lack of savings, and the inability to continue to work can lead to debt accumulation in retirement
- Housing costs are a key component of retirement expenditure for those with a mortgage or those who are renting
- Medical costs, especially dental costs are a key concern for those interviewed

10 How-to-make-drawdown-a-success-FINAL-Nov21.pdf (actuaries.org.nz)
11 Rules-of-Thumb-Updated-FINAL.pdf (actuaries.org.nz)
12 https://assets.retirement.govt.nz/public/Uploads/Research-2020/TAAO_-Retiree-Spend-10-depths-Anonymised_28_2.pdf

Many of the same themes were highlighted in more recent research carried out with focus groups of older New Zealanders as part of the forthcoming Te Ara Ahunga Ora research "Older people's voices: qualitative research with New Zealanders aged 65 or older".

Asset drawdown (decumulation) and paid work profile of Pre- and Post-Retirees[13]

The aim of this research project was to learn more about the experiences of work, income, expenses, and financial advice among those close to retirement and those already retired. Of specific interest was decumulation, focussing on how those aged 65 accessed and spent any savings and income (including KiwiSaver).

The research found that ceasing paid work at 65 is common, but over a quarter of participants over the age of 65 are still in paid work. While the majority of them are working because they want to, 30% are working for financial reasons, and this group are less likely to be homeowners, or to own their home outright compared to those not working or working because they want to. The three major reasons for work due to financial need mentioned by participants were housing costs, depleted savings due to redundancy in their 50s or 60s, and health costs (including insurance).

Looking at the aspect of financial advice, approximately 20% of those surveyed indicated that they had someone they considered to be their personal financial advisor and use of a financial advisor was higher among those with higher incomes. The majority were consulting with an Authorised Financial Advisor; however, some consulted an accountant, and a number mentioned they relied on friends/family who knew about money.

The research also examined the factors associated with feeling confident about having enough retirement savings. The results indicate, when controlling for all other factors, property ownership (either in the form of an investment property or being a homeowner) was a key factor in predicting whether someone felt confident in having enough retirement savings. In addition, males, those with financial advisors, those who were already retired, and those over the age of 70 were all more likely to report feeling more confident about having sufficient savings, when all other variables were controlled for.

Considering sources of income in retirement, among those aged 70 and over, 80% rely on NZ Super as their main source of household income, compared to just over half in the 65-69 age group, where income from paid work still accounted for almost 40% of income. Only 7% reported that income from self-funded retirement savings was their main source of income (for both the 65-69 and 70 and older groups).

13 https://assets.retirement.govt.nz/public/Uploads/Retiree-preretiree-report2-v2.pdf

The study also provided specific insights in decumulation expectations and actual behaviour. There was a reasonable proportion of pre-retirees (over a third) who have not yet thought much about how they will manage withdrawals from savings and investments once they retire. Just over a third of those aged under 65 years believe they will make small, regular withdrawals from their KiwiSaver account once they become eligible, and just over one in five say they will withdraw all their funds.

However, when considering the actual behaviour of those over the age of 65 (keeping in mind that they would have had less time in KiwiSaver as it had only existed for 14 years therefore their balances might be smaller than pre-retirees), nearly 60% of those over the age of 65 have not withdrawn any funds from their KiwiSaver account. Those under the age of 65 expect to use KiwiSaver funds for living costs or will add to existing savings. For those over 65, funds accessed were mostly split between living costs, adding to existing savings, and spending funds on something they've always wanted. In addition, some used the funds to pay off mortgages or other debt.

Echoing some of the themes from the Te Ara Ahunga Ora research was a recent survey commissioned by the insurer New Zealand Seniors[14] in early 2022, which surveyed 1000 New Zealanders over the age of 55 and confirmed the notion of "sleepwalking" into retirement. More than a quarter of pre-retirees did not have a financial plan for retirement, with a further 40% only having a vague plan. For those who had already retired their key concerns were related to health issues (68%), however a third reported being concerned about running out of money in retirement.

14 https://www.nzseniors.co.nz/documents/article-document-new-zealand-seniors-the-retirement-living-report-2022.pdf

Chapter 3 **KiwiSaver data insights**

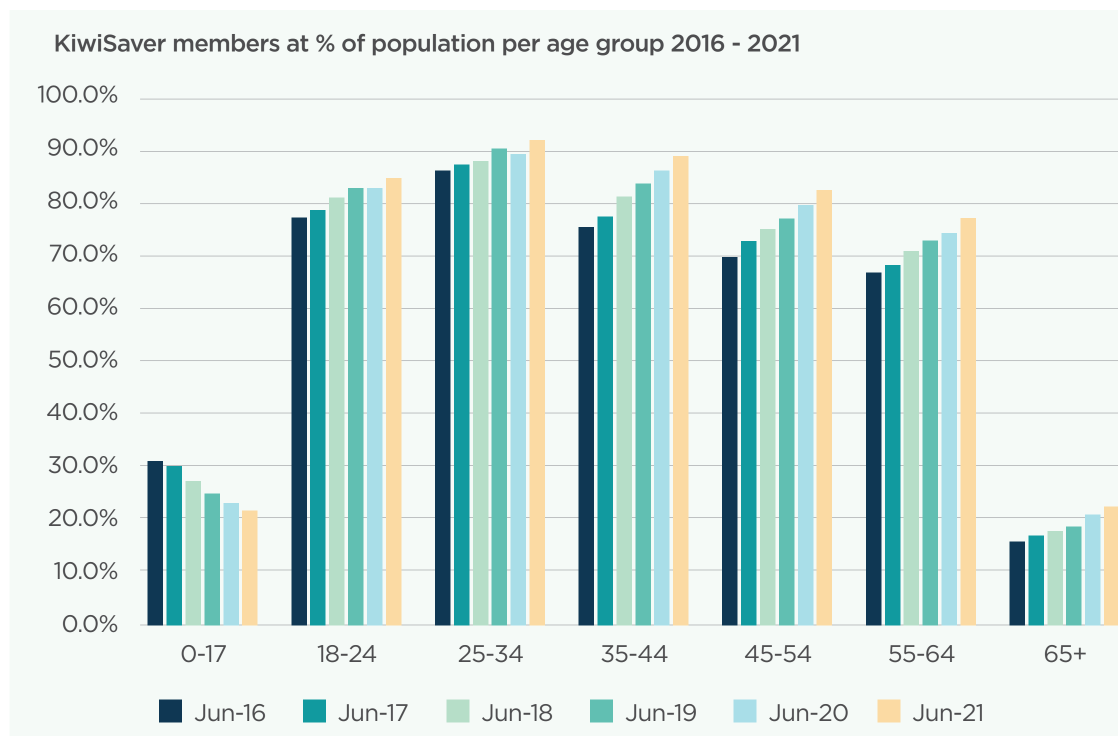
While the surveys discussed in Chapter 2 provide insights into self-reported pre-retiree and retiree behaviour, administrative data relating to KiwiSaver balances and account usage provide a more comprehensive picture of one aspect of decumulation, specifically the role of KiwiSaver. The chapter first considers the administrative data available from FMA and the IRD, followed by a discussion of the key findings from research commissioned by Te Ara Ahunga Ora that provided more detailed insights into KiwiSaver balances across age and gender.

The FMA and IRD both provide regular reports that give insights into KiwiSaver at a macro level. The FMA KiwiSaver annual report[15] provides information at an aggregate level providing an average balance for all members, and aggregate values for withdrawals for first home loans, hardship withdrawals, savings suspensions, and retirement related withdrawals. There is also information about member numbers (but not balances) across age bands and broken down by gender.

The IRD provides KiwiSaver statistics[16] that show trends over time in a variety of categories including members joining and exiting the scheme, along with reasons for closing accounts. From this aggregated data trends over time can be seen in terms of overall member numbers across age cohorts in Figure 3.1 and this provides insights into the growth of accounts for both pre-retirees and those over the age of 65.

All age groups over the age of 18 have had a steady increase in membership numbers over the past five years. The decline in membership numbers for the under 18 age bracket is probably due to the removal of the $1000 kickstart in 2015. There were no government incentives for under 18s to join the scheme post 2015, and there is no compulsory employer match for those under 18. However, growth rates across all other age cohorts appears to indicate that the removal of the $1000 kickstart did not disincentivise participation in the working age population in general.

Figure 3-1 Changes in KiwiSaver member numbers across age groups (2016-2021)



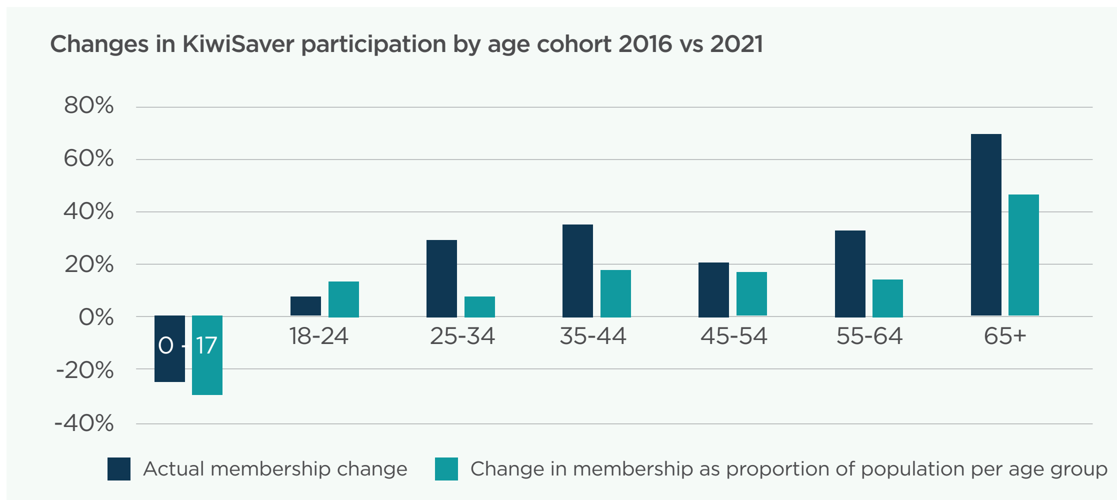
Source: Calculated from IRD KiwiSaver membership data and Stats NZ population estimates

15 KiwiSaver Report | Reports and papers | FMA

16 KiwiSaver statistics (ird.govt.nz)

Taking data from 2016 onwards (prior to 2016 those over the age of 65 were not reported as a separate category), as set out in Figure 3.2, there has been a growth of between 7% and 30% for all age cohorts between the ages of 18 and 65. When considering the growth in numbers as a percentage of the population per age group, the growth in membership ranges between 7% and 18.5%.

Figure 3-2 Changes in KiwiSaver participation across age cohorts between 2016 and 2021



Source: Calculated from IRD KiwiSaver membership data and Stats NZ population estimates

Notably there has been high growth in the number of over 65s who have a KiwiSaver account, where actual number of participants has increased by 70% over the past five years. As a percentage of the population over the age of 65, KiwiSaver membership has increased over the same time period from just under 16% to a little under 23%, translating to 45% growth in membership as a percentage of the population over the age of 65. There are probably two main reasons for this growth. First KiwiSaver only started in 2007, therefore many in the over 65 age bracket in 2016 would have not had access to KiwiSaver during their paid working life, or if they did, it would only have been for a limited amount of time. In addition, it was only in 2019 that membership was opened to those over age 65 who wanted to open a KiwiSaver account for the first time. Since then, it appears as though many over the age of 65 are choosing to keep their KiwiSaver accounts open, either as they are still contributing, or because they are using them as an investment or drawdown account. Others may even have added other savings and investments to their KiwiSaver accounts as it provides them with a relatively low-cost managed fund option post-retirement, with better returns than low interest term deposits (albeit with more risk). This situation may change as deposit interest rates rise.

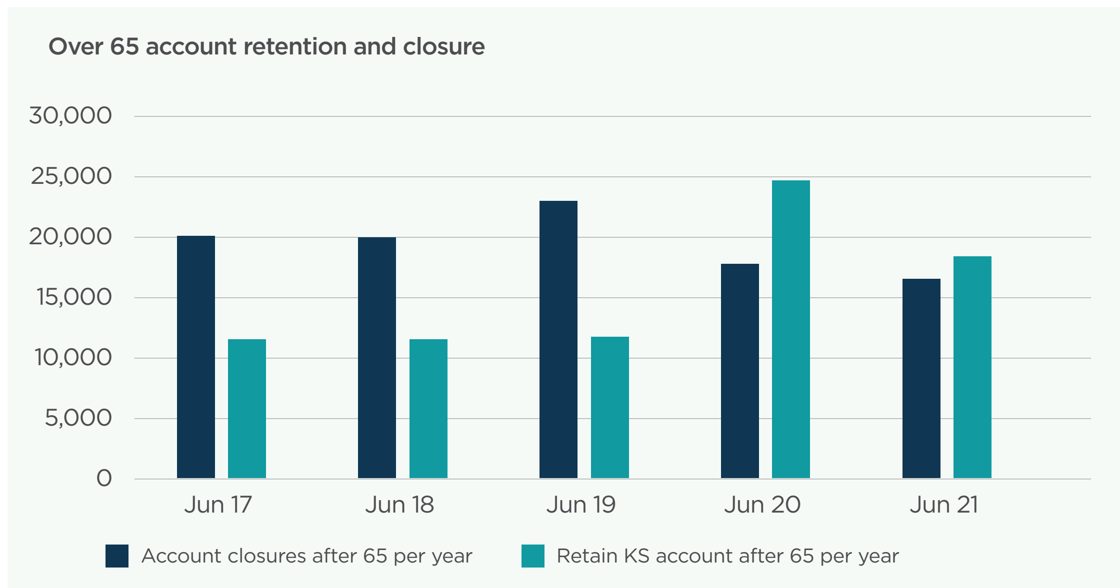
As at the end of March 2022, IRD data indicates that 200,000 people over the age of 65 still had their KiwiSaver accounts open. However, there are also those who choose to withdraw all their funds from their KiwiSaver account and close it after the age of 65. In 2012, the first time that any retirement withdrawals could occur (five years post KiwiSaver start date), two people closed their accounts due to retirement. Since then, data from IRD[17] indicates that on average over the period 2013 – 2021 approximately 20,000 members close their accounts each year due to retirement (in the year to March 2022 just over 18,000 members closed their KiwiSaver accounts due to retirement). The cumulative total number of accounts closed due to retirement since 2012 is just under 200,000 as at March 2022.

Figure 3.3 shows the changing nature of KiwiSaver retention post age 65. In particular, the change in 2019 to allow those over the age of 65 to open a KiwiSaver account for the first time, appears to have had an impact, an uptick in accounts is apparent in the subsequent year. This is supported by IRD data that indicates that generally the over 65 age bracket

17 Members exiting KiwiSaver - statistics (ird.govt.nz) Note: IRD reports cumulative numbers in their statistics for the number of accounts closed due to retirement for the full period from 2012 (when the first retirement withdrawals occurred), therefore the amount closed each year is the difference between the cumulative totals reported by IRD as at the end of each year.

experiences a 10% increase in member numbers per year, however from 2019 to 2020 the increase was 17%. In addition, it is apparent that over time the percentage of over 65s each year who retain their KiwiSaver account is increasing from just over one-third in 2018 to more than 50% in 2021.

Figure 3-3 KiwiSaver yearly account retention and closure post age 65



Source: Calculated from IRD KiwiSaver statistics

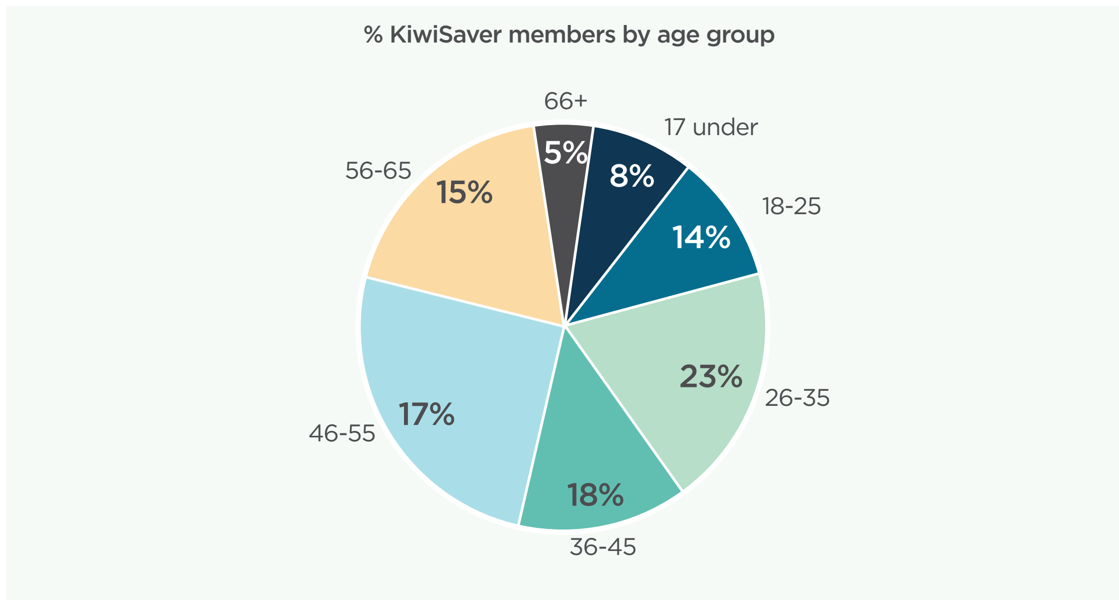
While this aggregate data provides some insights into KiwiSaver and its maturation over the past 15 years, information at a disaggregated level, which considers balances, contribution rates and fund type, is less widely available. To begin to fill this data gap, Te Ara Ahunga Ora commissioned Melville Jessup Weaver (MJW), an independent firm of consulting actuaries, to collect administrative data from KiwiSaver providers to obtain a better understanding of KiwiSaver balances across age cohorts and gender.

Te Ara Ahunga Ora and MJW reports

Te Ara Ahunga Ora commissioned MJW to collect previously unknown data about KiwiSaver balances across age groups and gender[18]. MJW's report contains data on 2,944,050 members with total balances of $85.44 billion as at 31 December 2021. This represents approximately 93% of the total KiwiSaver member base. The MJW report highlights the popularity of KiwiSaver across all ages, including the over 65s (Figure 3.4), and finds that average balances show an increasing trend across age cohorts, with higher average balances for men than women at all ages as shown in Figure 3.5.

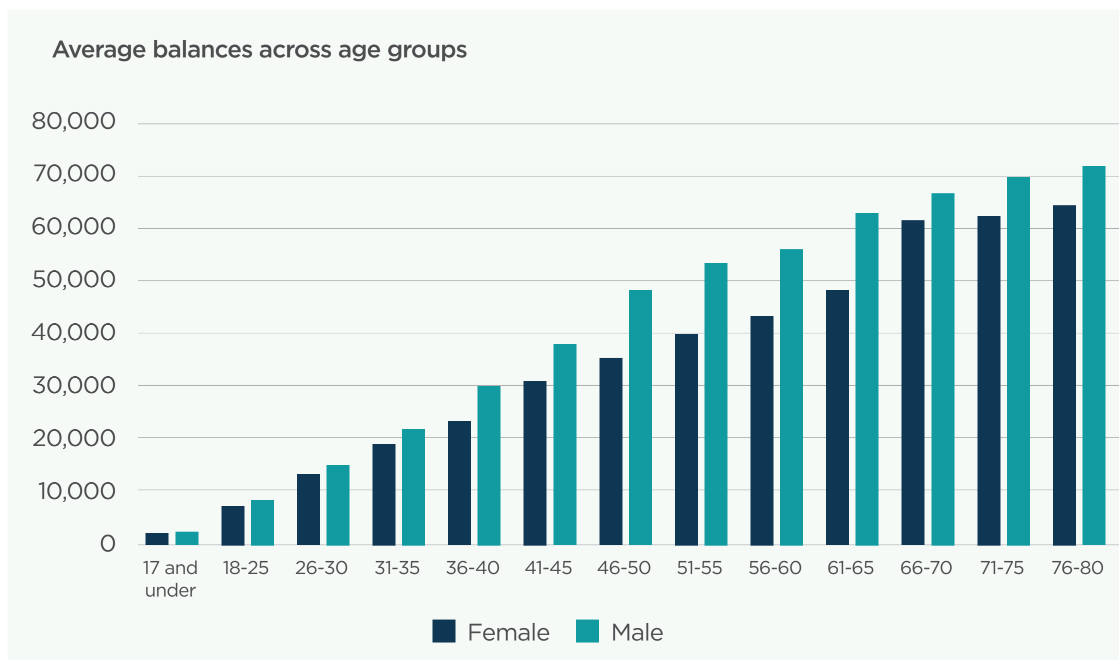
18 https://retirement.govt.nz/news/latest-news/new-data-reveals-for-the-first-time-largest-breakdown-of-kiwisaver-balances-across-all-ages-and-genders/

Figure 3-4 KiwiSaver members by age group



Source: Calculations from MJW report

Figure 3-5 KiwiSaver average balances across age groups



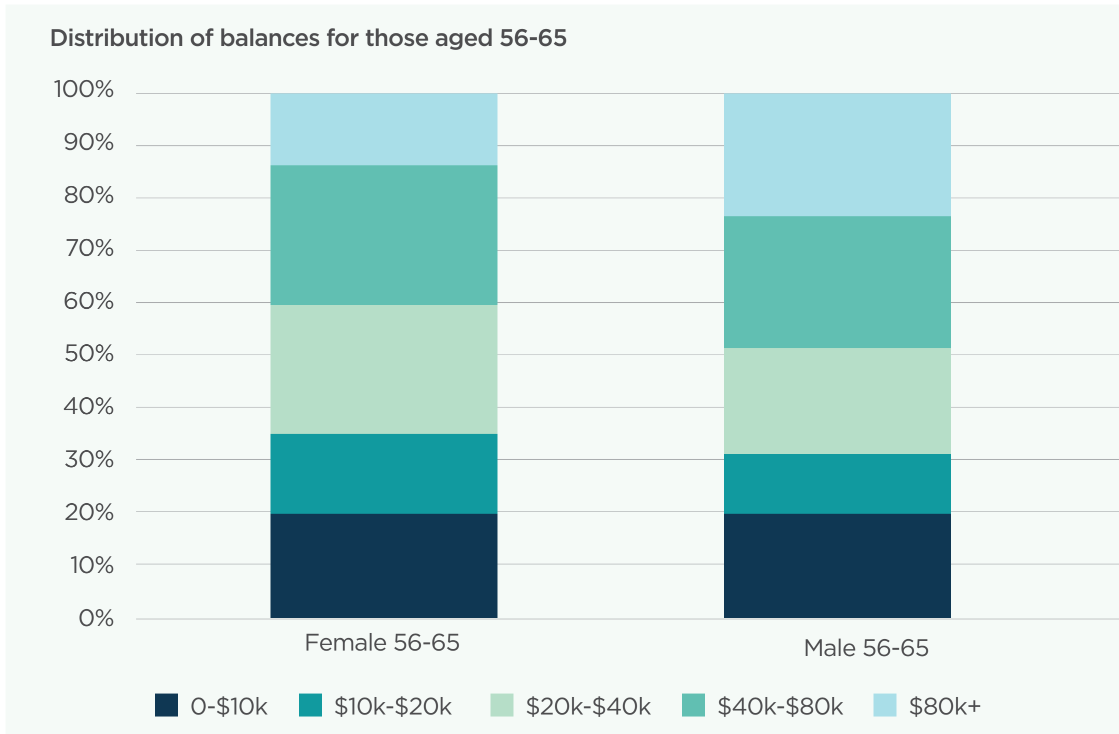
Source: MJW report Note: Ages 81 and over have been excluded because these cohorts account for a small number of members and are distortive to the chart.

Pre-retirees (aged 56-65) observations

As shown in Figure 3.4 there are generally fewer KiwiSaver members aged 56-65 compared to the number of members in younger cohorts. As noted in Figure 3.1 as percentage of the population within each age group, participation is lower among those aged 56-65 compared to younger cohorts (77% compared to between 80% - 90% for younger cohorts), probably reflecting that KiwiSaver was only available later in the working lives of many in this cohort.

On average they have higher balances than younger cohorts. As shown in Figure 3.6, almost 20% of members aged 56-65 have more than $80,000 in KiwiSaver, with males overrepresented at higher balance levels. However, there are also around 20% of members aged 56-65 with balances below $10,000, and females are overrepresented at lower balance levels (almost 60% of females have balances below $40,000 compared to just over 50% of males).

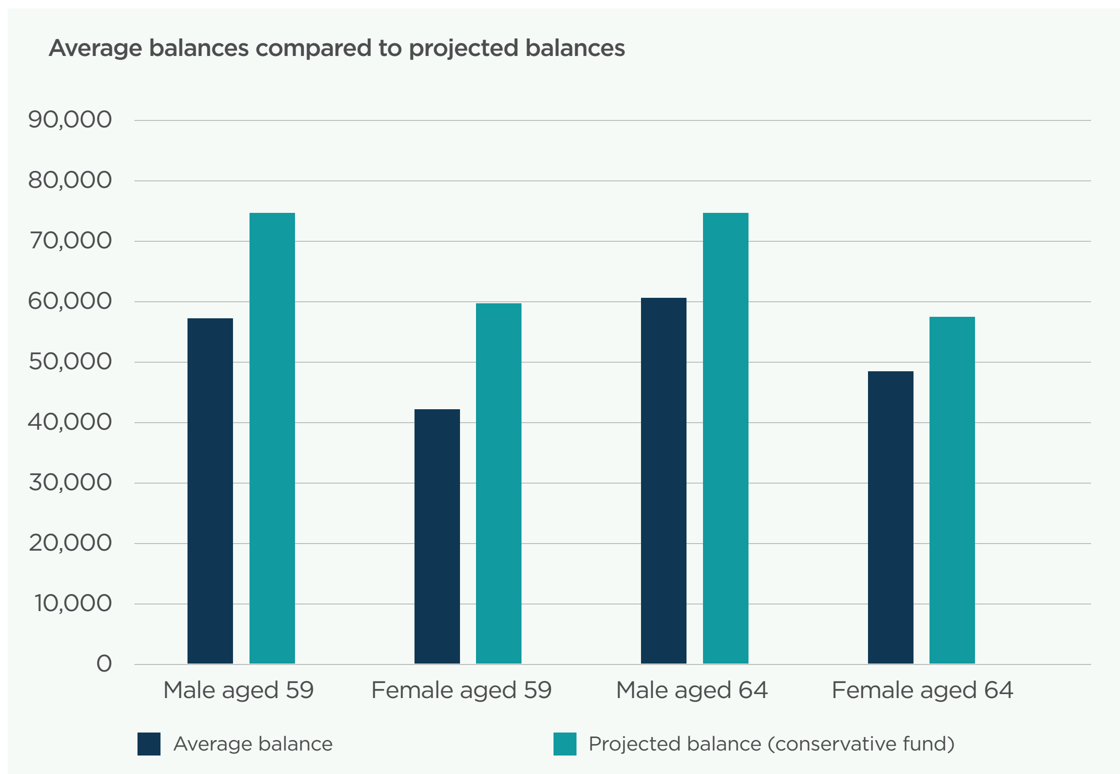
Figure 3-6 KiwiSaver balance distribution age 56 - 65



Source: Calculations from MJW report

MJW also developed hypothetical scenarios for people who had invested in KiwiSaver for 14 years (the maximum time possible) without making any withdrawals and compared them to the average balances. The median wage for each cohort was used to determine the contribution amount (minimum employee and employer) and government incentives were included. When comparing current balances to what would have been possible for a median wage earner to have accrued over the 14 years of KiwiSaver, they are lower, on average, across all age groups. Explanations for this include first home deposit withdrawals, saving suspensions, and members not being in the scheme for the full 14 years. Average balances for those aged 56-60 and 61- 65 are also lower than what would be expected if minimum contributions, with employer match, had been made over the full 14 years, with no withdrawals or savings suspensions. However, the gaps are not as large as for younger age cohorts (the MJW report showed gaps ranging from $20,000 - $35,000 for those aged 50 and under invested in a conservative fund, compared to gaps of between $8,500 and $18,000 for those over 55 invested in a conservative fund), which may reflect that this group was less likely to make use of the first home withdrawal option of KiwiSaver.

Figure 3-7 Comparison of hypothetical projected balance to average balances



Source: Calculations from MJW reports

To illustrate the gaps for those approaching age 65, as can be seen in Figure 3.7, a woman who joined KiwiSaver in a conservative fund in 2007 when she was 50, who is now 64, could have built up a balance of $56,970, but the average balance for those aged 61-65 is $48,457 (as at December 2021), a difference of just over $8,500. A man in the same cohort, could have built up a balance of around $76,000, compared to the average balance of those aged 61-65 of $61,606 (as at December 2021), a $15,000 difference. For a woman aged 45 in 2007, who is now aged 59, the gap is $15,571, while for a male aged 59 the gap is just under $18,000. If the hypothetical scenario is based on investment in a balanced fund these gaps increase to approximately $22,000 and $30,000 for a woman aged 64 and 59 respectively, and $33,500 and $36,000 for a man aged 64 and 59 respectively (not shown in Figure 3.7).

What these gaps illustrate is that on average members in these age groups have participated for less than the full 14 years, either because they did not join the scheme when it first started, and/or because they have taken savings suspensions.

Post 65 observations

From age 65 members can access their accumulated KiwiSaver balances. There are no restrictions on how much can be accessed, and no tax consequences from withdrawals, due to the fact that New Zealand follows a taxed-taxed-exempt (TTE) model as opposed to the exempt-exempt-taxed (EET) model adopted in most other OECD countries[19]. People therefore have the option to access the full accumulated balance as a lump sum, or they can draw down periodic amounts, or take smaller lump sum amounts over time. When considering the position of those after age 65 in this dataset, there are two key observations. First, there are lower numbers of members post 65 compared to younger cohorts, and second, those who remain members in KiwiSaver post 65 on average have higher balances than those in younger age cohorts. This appears to indicate that people are still accumulating through returns rather than simply decumulating after the age of 65.

19 Under the TTE model, contributions are made from taxed income, the income earned from investments is taxed, but the withdrawal of investments is not taxed. Whereas in the EET model contributions are exempt, investment income and capital gains are also exempt but withdrawal of investments are taxed.

In this dataset those over the age of 65 comprise 5.2% of the total sample of KiwiSaver account holders. The lower levels of participation for older cohorts may reflect less interest in the scheme for those who were older, and closer to retirement, when the scheme was first introduced in 2007, and the fact that until 2019, people over the age of 65 could not open a new KiwiSaver account. In addition, lower participation numbers reflect the closure of accounts for those who have withdrawn all their funds at retirement. Primarily KiwiSaver is an accumulation retirement product and therefore at age 65 funds can be accessed and, if a lump sum is taken of the full amount, the account is closed (see above discussion of IRD data about account closures at the start of this chapter).

However, as can be seen in the dataset, not everyone chooses to close their KiwiSaver account once they reach age 65. In some cases, they may still be actively contributing to KiwiSaver if they are still in paid work[20]. Others may have decided to keep their KiwiSaver account to use as an investment vehicle post retirement. For those who retain their KiwiSaver accounts post age 65, average balances are higher for all age cohorts post 65 compared to those aged under 65. The average balances increase for each five-year age cohort over the age of 65.

Those over the age of 65 in this dataset would only have had access to KiwiSaver after the age of 50 as KiwiSaver has only existed since 2007. Although this was a limited time to accumulate funds it may have been offset by transfers into KiwiSaver from other investments and potentially higher wages and/or contributions over the 14-year time period, compared to younger cohorts. In addition, these cohorts would be less likely to have accessed KiwiSaver for a first home deposit. Finally, research in other jurisdictions finds that smaller balances are more likely to be taken as lump sum pay-outs at retirement[21], therefore those with lower balances may already have accessed their funds as a lump sum at age 65, so the subset that remains active in KiwiSaver may be those who, on average, have higher balances.

Finally, it is worth noting that those over the age of 80 in this dataset have significantly higher average balances compared to all younger cohorts. They make up a very small portion of all KiwiSaver account holder in the dataset (769 members representing less than 0.03% of the total) This cohort would not have had access to KiwiSaver before the age of 65. Membership for those over the age of 65 was only permitted after 1 April 2019. Therefore, those aged 80 and above in this dataset would have made a decision to open a KiwiSaver account after April 2019 as an investment vehicle for their already accumulated savings/investments as they would not have been eligible for KiwiSaver membership when it started in 2007 (as they were aged 66+ at the time).

Recent research released by ANZ[22] provides some additional insights regarding post 65 KiwiSaver members using administrative data from their membership base. According to ANZ they manage more than a quarter of KiwiSaver accounts for those over the age of 65, with a combined value of $2 billion. They report that over the past four years average balances for ANZ KiwiSaver members over 65 have increased by 75%, to $48,700. This is lower than the average balance in the MJW dataset (where average balances post 65 were above $60,000). The average balances at ANZ for pre-retirees are $45,700 for 56 to 60 year olds and $47,800 for 61 to 64 year olds (again these are lower average balances compared to these age cohorts in the MJW dataset).

Of the ANZ members who are eligible for withdrawal in the year to April 2022, 71% made no withdrawal, 17% made a partial withdrawal and 12% withdrew all their savings. This reflects a higher rate of account retention post age 65 when compared to IRD statistics of all members (where approximately 50% retain their accounts each year). The ANZ data also shows that 34% of members aged 66 to 75 and 11% of members aged over 75 are still making employee KiwiSaver contributions.

From all the data presented here it is apparent that KiwiSaver participation among those nearing age 65 continues to increase over time. While on average balances are higher than among younger cohorts, there are also many nearing retirement with low balances (not unexpected given that they have only had access to KiwiSaver for 14 years). As younger cohorts will have access to KiwiSaver over their whole working life, in future balances for

20 There are those who continue in paid work post age 65 and they may be continuing to contribute to KiwiSaver, however it is worth noting that employer contributions are not mandatory after age 65, and they no longer receive the Government tax credit
21 See for example: Bütler & Teppa, 2005; Hurd et al., 1998; Hurd & Panis, 2006
22 https://news.anz.com/new-zealand/posts/2022/05/kiwisaver-and-retirement

those nearing retirement are expected to be higher as KiwiSaver continues to mature. It is important to keep in mind that it is only in 2052 that a person reaching age 65 will have had the opportunity to contribute to KiwiSaver over their whole “working life”.

From the data it appears as though KiwiSaver is evolving into an investment/decumulation/drawdown product post retirement as increasing use of KiwiSaver among over 65s is seen. However, as this account was primarily set up for accumulation, there are potential logistical/mechanical issues with ease of access to the account for decumulation purposes, potential gaps in the guidance provided to members who would like to use their account as a drawdown account, and for those who are using KiwiSaver at older ages, potential mismatches between ability to take risk and fund selection. Chapter 4 considers in more detail the use of KiwiSaver as a drawdown account.

Chapter 4 **Decumulation Products**

As noted earlier, decumulation is broader than traditional annuities, and worldwide the market is evolving with the emergence of a number of non-annuity type decumulation and drawdown products. In addition, equity release is another way to decumulate assets (in this case housing wealth). This chapter considers the latest product developments, first focusing on products that are relevant for the decumulation from DC pension plans, and then considering equity release schemes, which facilitate decumulation of housing assets.

Overview of decumulation product landscape for defined contribution pension plans

While the replacement of DB plans with DC plans has had a range of both benefits and drawbacks, as noted earlier, one of the key issues is that it has broken the explicit link between accumulation and decumulation. The resulting "serious structural flaw" is that the basic DC plan is created without an explicit "exit strategy" (Bailey & Winkelmann, 2021). A number of products have been developed to provide an add-on "exit strategy" for the decumulation phase. These products range from those that require the purchase of a new product (e.g. an annuity) from a service provider such as an insurance company, to those that allow ongoing investment in the DC plan post retirement, with the option to withdraw funds on a regular basis (Antolin, 2008).

Generally, decumulation products can be divided into collective or individual approaches. Collective approaches include annuity products that provide guaranteed payments (where an insurer provides longevity risk protection) as well as non-guaranteed arrangements where longevity risk is pooled among participants.

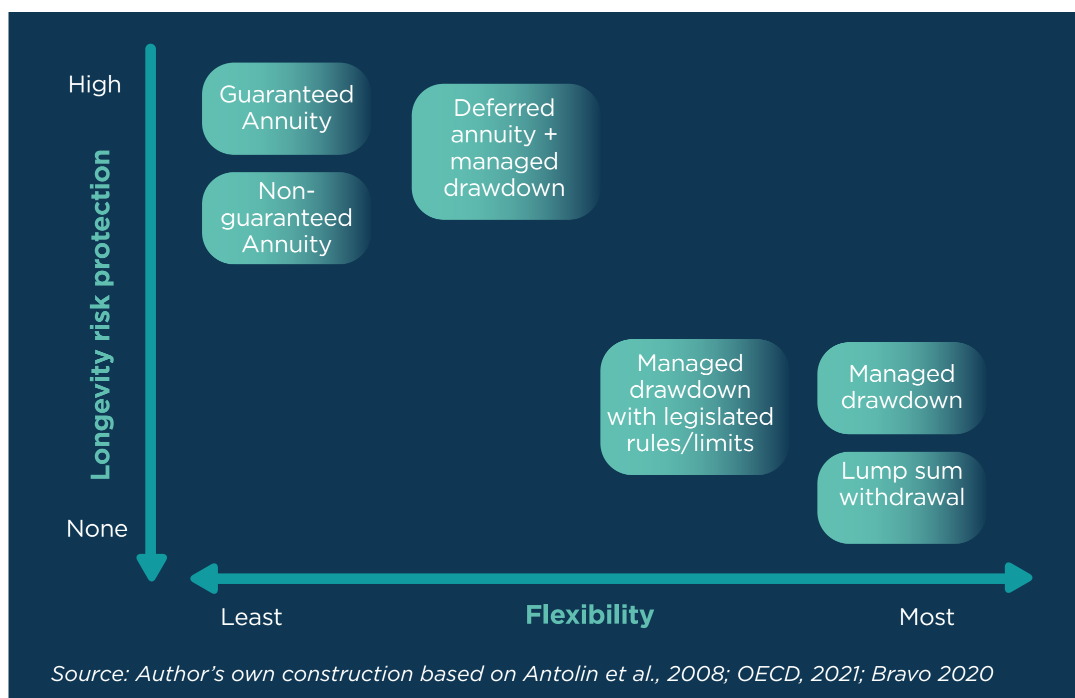
The individual approaches to decumulation include a full lump sum withdrawal, irregular withdrawals, as well as more structured approaches, in the form of periodic withdrawals from an individual investment fund/product. There is a range of terminology used to describe these periodic withdrawal approaches such as managed drawdowns, income drawdown, programmed withdrawals or phased withdrawals. While the terminology differs in essence these approaches are all captured in the following definition of programmed withdrawals "A series of fixed or variable payments whereby the retiree draws down a part of the retirement capital (and continued investment earnings thereon)[23]" (Antolin et al., 2008). Generally, the amount is calculated by dividing accumulated assets by a specific variable such as fixed number of years (which could be linked to life expectancy), or by using a specific withdrawal rate (which may be based on rules of thumb or rate determined on an individualised basis). In certain jurisdictions withdrawal rules and limits may be set by legislation (Antolin et al., 2008; Bravo, 2020).

For the purposes of clarity, the term "managed drawdown" is used to refer to these periodic withdrawal approaches. In general, managed drawdown is defined as any approach that entails drawing down a regular income from a fund, which remains invested and so continues to benefit from investment growth. The income draw down will normally exceed the investment return on the fund and therefore some of the income will come from the fund capital, so the fund will be expected to reduce over time (RIIG, 2021).

The differences between the products and approaches result in trade-offs between flexibility and management of longevity risk, as illustrated in Figure 4.1.

23 Note these drawdowns differ from approaches where retirees only access the income earned from their capital (interest and dividend) rather than drawing down the capital

Figure 4-1 Decumulation products: Flexibility and Longevity Risk Trade-off



Source: Author's own construction based on Antolin et al., 2008; OECD, 2021; Bravo 2020

Collective products provide benefits in terms of offering protection against longevity risk, however they lack flexibility. Once an individual has made a choice to purchase an annuity or entered into a non-guaranteed arrangement, they generally cannot reverse this decision if there are changes to their financial needs or situation. There are also hybrid products that look to provide some flexibility within the annuity product space, for example deferred annuities, which are bought at the time of retirement, using a relatively small portion of accumulated funds, and begin paying an annuity income at a set point in time in the future (e.g., at the age of 85). The individual can then use the rest of their funds in a more flexible manner (Antolin et al., 2008; OECD, 2021).

The use of managed drawdown from investment products provides the flexibility that is missing with these collective products, however there is a risk of outliving funds depending on how well the drawdown from the investment product is managed. This is less of a concern where there is a government pension or social security system that provides a safety net for those who outlive their DC funds, as is the case with NZ Super in New Zealand. Depending on the legislative environment, some of this flexibility may be removed if there are specific rules and limits that govern withdrawal rates. Finally taking a lump sum withdrawal provides a high level of flexibility in terms of the individual being able to use those funds for whatever they choose, however, this is at the expense of any longevity risk protection.

Collective approaches

Much has been written about annuities, both generally, and in previous research commissioned for the RRIP (see Chapter 1, 2, and Appendix A). Two recent literature reviews (Alexandrova & Gatzert, 2019; Lambregts & Schut, 2020) provide an overview of hundreds of studies related to annuities, in an attempt to distil the key reasons for the low level of uptake of these products. In summary the so-called "annuity puzzle" persists and the reasons for the lack of popularity originate from both the demand and supply side, and relate to structural as well as behavioural issues. The key issue is that annuities remain unpopular and, unless there is a legislated requirement to annuitise, there is generally low take-up of these products.

Product innovations to overcome specific drawbacks are continually being developed. One particular focus has been on deferred annuities, which aim to introduce more flexibility compared to traditional annuities. However, a recent review of the international deferred annuity markets found that market share for deferred annuities remains small, and it appears that government intervention in the form of tax incentives and/or regulation would be required to grow the market for these products (Chen et al., 2019).

More recently, there has also been a revival in interest in the concept of pooling risk among plan participants, in the form of non-guaranteed annuities. These products are a modern

version of the tontine product that first emerged in the 17th century and was very popular in the 19th century, until mismanagement and fraud saw an end to the product in most markets, with many countries banning the products early in the 20th century. The basic tontine is a financial arrangement where members form an asset pool and all irrevocably agree to receive pay-outs from it while they are living, and to forfeit their account upon death, with the remaining proceeds apportioned to surviving members. The pay-outs depend on the investment performance of the fund, as well as the mortality experience of the membership pool. While tontines never disappeared completely (for example they remained a niche product in France and the pension system in Sweden has tontine-like features) more recently they are enjoying a resurgence in popularity (Fullmer, 2019).

The renewed interest is primarily driven by the search for alternative retirement income products that may overcome issues associated with a low take up of traditional annuity products. A key benefit of the tontine structure is the reduced cost of the product as longevity risk is insured within the pool and not by the insurer. This risk is borne by the pool participants, if they generally live longer than expected, each one receives smaller payments than originally anticipated (Wettstein, 2018).

Certain jurisdictions are putting in place legislation to allow for the development of products based on the pooled risk approach of tontines. For example, the Variable Payment Life Annuity (VPLA) currently being introduced in Canada[24] and in the UK the launch later this year of collective defined-contribution schemes, known as "Collective Money Purchase" schemes, where pay-outs are based on pooled investment and longevity risk[25].

In Australia, QSuper launched their "Lifetime Pension" product in 2021, which is based on a tontine approach of pooled risk, with additional features to make it more attractive to the market, including a six-month cooling off period, as well as money-back protection which allows payment to your estate if you pass away before receiving income payments equal to your original purchase price[26].

It is too early to determine whether these new products will prove to be more popular than traditional annuities. Generally, they should be more cost effective than traditional annuities, however, is important to note that these products do not overcome many of issues that lead to low up take of annuities, such as lack of flexibility, substitution by government pensions, and adverse selection.

Collective approaches in New Zealand

Collective approaches to decumulation in New Zealand have not had a successful history. Demand for annuities fell during the 1990s and 2000s (St John, 2009), and the last provider exited the market in 2013 as there was no demand for the product (Oxera, 2014). Following a gap of three years, a new annuity insurance product was launched in February 2016, a variable annuity product provided by Lifetime Retirement Group. However, by the end of 2020 the fund closed, with a variety of factors contributing to the closure including the low interest rate environment, additional capital requirements from the RBNZ, and COVID-19 related uncertainties[27].

There are a range of reasons why annuities are unpopular in New Zealand, including many that mirror the general worldwide supply and demand side issues that lead to low take-up rates of annuities. However, two specific issues highlighted in international research as being key reasons for a lack of annuitisation are of particular relevance in New Zealand, substitution by other pensions (e.g. social security, government pension) and adverse selection (Lambregts & Schut, 2020).

New Zealanders already have access to a government provided annuity in the form of NZ Super. It provides inflation, investment and longevity protection, and has additional desirable features such as being universal, gender neutral, and non-work tested (Davey, 2010; St John & Dale, 2019).

While adverse selection is not a problem unique to New Zealand, the small size of the market, and the voluntary nature of the accumulation phase of retirement make it more of a concern in New Zealand than in other jurisdictions that have larger markets, or tax-favoured or compulsory accumulation, which make mandating annuitisation more acceptable (Davey,

24 https://www.benefitscanada.com/expertpanel_/gavin-benjamin/expert-panel-db-dc-pension-predictions-for-2022/

25 Collective Money Purchase CMP schemes get ready for take-off in August 2022 (burges-salmon.com)

26 https://qsuper.qld.gov.au/our-products/superannuation/lifetime-pension

27 https://investmentnews.co.nz/investment-news/lifetime-drops-guarantee-in-retirement-income-reboot/

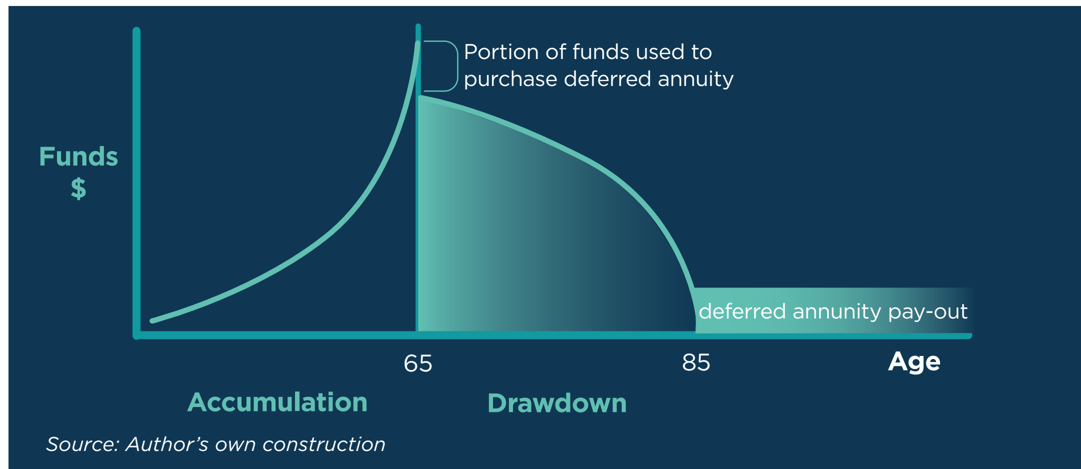
2010; St John, 2006, 2009). As noted by the OECD, imposing mandatory annuitisation in a country with voluntary DC participation runs the risk of reducing overall participation in the DC plans (Antolin et al., 2008).

Finally, it is worth noting that KiwiSaver, where many individuals are accumulating their retirement savings, has existed for only 15 years. Therefore, the current low balances of accumulated funds means that annuity products, if they were available, would provide very low guaranteed income for those currently accessing their KiwiSaver funds to purchase an annuity. While KiwiSaver is maturing, and balances are expected to increase as younger individuals have more time to save, only in the early 2050s will the first cohort reach the age of 65 having had access to KiwiSaver over their full "working lives".

For completeness it is also worth noting that there are currently no deferred annuities offered in New Zealand, and no non-guaranteed annuities either. Similar factors to those described above would also limit the potential for these markets to develop in New Zealand. It is also worth noting that the presence of NZ Super, could be seen as a substitute for a deferred annuity product, as it allows someone to have flexibility to spend their accumulated savings using a managed drawdown approach. Should their funds run out prematurely, NZ Super provides a safety net of ongoing retirement income similar to what would happen with a deferred annuity.

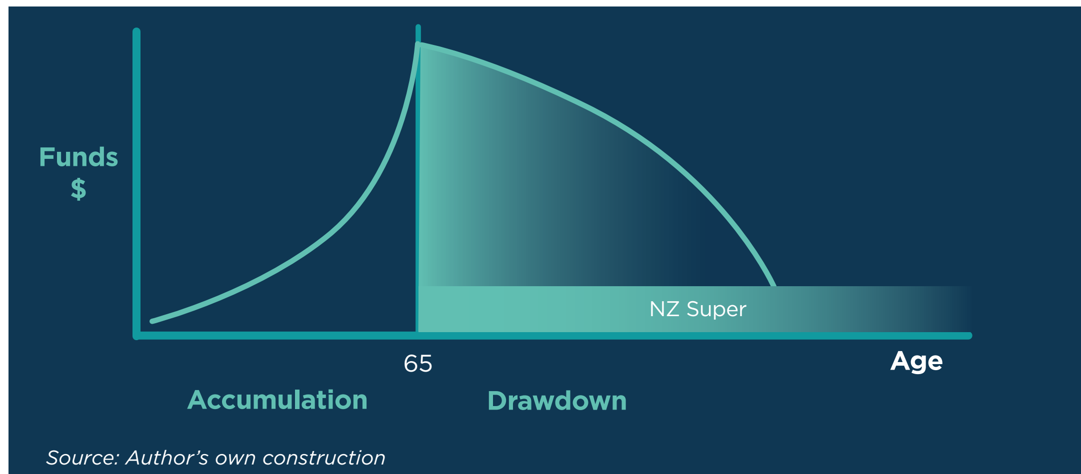
To illustrate the substitutability, a deferred annuity product, combined with managed drawdown is illustrated in Figure 4.2. This can be contrasted with Figure 4.3, which shows how NZ Super interacts with a DC decumulation plan, providing longevity risk insurance, with the benefit of not having to use accumulated funds to purchase it. As it starts at age 65, initial drawdown requirements are reduced allowing accumulated funds to last longer in the drawdown phase.

Figure 4-2 Illustration of decumulation of DC funds combined with deferred annuity



Source: Author's own construction

Figure 4-3 Illustration of decumulation of DC funds with NZ Super



Source: Author's own construction

Individual approaches

Individual approaches to decumulation are generally considered to be more transparent and easier to implement and provide more control and flexibility to retirees. However, this flexibility and control may come at the cost of running out of funds in retirement, depending on how well managed the drawdown process is. Setting parameters or providing guidance to assist individuals in this process are therefore crucially important.

There are three ways that individuals can decumulate funds from their defined contribution accounts: lump sum pay-outs, irregular payments, and managed drawdowns. With a lump sum pay-out the entire balance is withdrawn at a single point in time, whereas irregular payments are ad-hoc withdrawals over time, where the amount is determined by the individual (Bailey & Winkelmann, 2021). In general, lump sum pay-outs are discouraged, and many jurisdictions limit the ability to take all funds in cash at the time of retirement (these restrictions are generally seen in jurisdictions where there is compulsory retirement savings, and retirement savings are tax advantaged (PensionsEurope, 2019)). However, some jurisdictions make allowances for access to a portion of savings in cash at retirement, and others allow lump sums to be cashed out if they are below a certain level. A mentioned in Chapter 3, there is also research that finds that low balances are more likely to be taken as lump sums (Bütler & Teppa, 2005; Hurd et al., 1998; Hurd & Panis, 2006). The key benefit of taking a lump sum is the flexibility that this gives an individual to use the funds for whatever they want, and some uses, such as the payment of debt may be beneficial. However, the risk faced by these individuals is that they may have insufficient funds for the full period of retirement. This is less of a concern when there is a state or government pension that provides income in retirement. However it does lead to concerns of moral hazard in countries with a means tested state pension (Antolin et al., 2008).

Managed drawdowns:

Managed drawdown provides more financial discipline and structure than making irregular ad-hoc withdrawals but may not provide cover against longevity risk as funds could be depleted too quickly. However, depending on the approach used, and how well managed the process is, withdrawals can be set up so that someone potentially receives a retirement income stream until death (although the amount would fluctuate over time and may end up being quite small depending on how long someone lives).

In addition to the flexibility provided by managed drawdown, when compared to annuities, there are also other advantages. These include the ability to respond to unexpected expenses, retaining control over assets, ability to earn returns on assets as they can remain invested in a portfolio of higher return assets, and compatibility with the bequest motive. On the other hand the disadvantages are the lack of protection against longevity risk, and exposure to investment risk (Bravo, 2020). In addition, as there is continued control over assets, this requires the individual to continue to make financial decisions over time, and concerns over cognitive decline at older ages need to be taken into account when deciding how best to manage decumulation from an individual perspective. In this regard a distinction should therefore be made between self-directed managed drawdown, where the individual investor makes decisions about drawdown rates and investment portfolio composition, and managed drawdown where withdrawal rates and/or investment decisions are determined by a product provider.

For self-directed managed drawdown the individual needs to consider both how much to withdraw, as well as their investment strategy. As a result of increasing longevity, in many cases accumulated retirement savings would be invested with a long-term investment horizon in the decumulation phase. However, as long-term investment strategies may introduce short term variability in returns, there is also a need to ensure access to funds that are more conservatively invested for short term and emergency requirements. One suggested approach is the two-bucket approach (RIIG, 2021). As discussed in Chapter 2, in this approach funds are split between an emergency bucket, invested conservatively, and a longer-term drawdown bucket, which can be invested in assets with a higher risk-return profile, for example by investing in a balanced fund.

One further aspect that requires consideration in a self-directed managed drawdown approach is how to embed protection for individuals who are no longer able to make complex financial decisions due to decreases in cognitive ability. Key considerations should therefore be to ensure simple managed drawdown systems without complex choice options,

and ensuring consistent information and guidance is provided. It is also important that guidance is made available about the process for setting up arrangements that can devolve decision making to a nominated individual, for example through an Enduring Power of Attorney.

Individual approaches in New Zealand

In a New Zealand context, it has been suggested that individual solutions could be developed more readily than collective solutions, which tend to be complex and are often perceived as not transparent (RIIG, 2021). The advantage of individual solutions is that they recognise the value that people place on managing their own drawdown and having access to a pot of money as and when they need it. People place a high value on keeping control of their accumulated retirement savings, and individual solutions allow them to have this control.

This is of particular relevance in the context of KiwiSaver in New Zealand, which was deliberately set up to allow choice, flexibility and control in the accumulation phase of retirement, with guidance provided via defaults (O'Connell, 2009). Therefore, in the decumulation phase, especially as it relates to KiwiSaver funds, individual solutions that allow flexibility and control, with guidance provided via defaults would complement the existing approach in the accumulation phase.

In New Zealand individual drawdown solutions are primarily offered by financial service providers, KiwiSaver providers and banks (St John & Dale, 2019). The facility is provided by allowing the investor to access funds held in their investment account with choices ranging from ad-hoc withdrawals to regular periodic withdrawals.

In general, managed drawdown in New Zealand is self-directed, with individuals required to determine the rate at which they want to withdraw savings and what fund(s) to be invested in during the drawdown period. It would appear the only specific managed drawdown product available in the market that provides a personalised withdrawal rate is Lifetime Retirement Income Fund[28]. This fund offers specific guidance regarding a personalised drawdown rate, which is reviewed and updated annually as part of the fee paid for the product. The guidance is provided by an in-house actuary (Hawes, 2022).

There are some other managed drawdown products available in the market, such as First Mortgage Trust's "Managing your cash in retirement" solution[29], and Superlife's "Managed income" solution[30]. These products allow periodic withdrawals, however the withdrawal rate and the investment fund selection, while limited to funds offered by the provider, appear to be up to the individual investor to determine.

Drawdown is offered by most KiwiSaver providers by virtue of the fact that people choose to keep their KiwiSaver account open after age 65, and access funds via ad-hoc withdrawal requests, or by selecting to receive a fixed amount payable on a regular basis (weekly, fortnightly, monthly). As discussed in Chapter 3, an increasing number of people are keeping their KiwiSaver account open post the age of 65 and may be using it as a managed drawdown account.

Drawdown using KiwiSaver accounts

While the KiwiSaver account might provide a convenient way to drawdown funds, as it was not necessarily designed as a drawdown account, the processes for accessing funds and making changes to withdrawal instructions are not as simple as one might expect.

Firstly, there are various legislative requirements that need to be met to access funds after the age of 65 from a KiwiSaver account for the first withdrawal (whether this is a full or partial withdrawal or setting up a regular withdrawal amount). The first time a person requests a KiwiSaver retirement age withdrawal, they must complete a statutory declaration confirming whether their principal place of residence was New Zealand for the full period of their KiwiSaver membership, and if not, they need to provide details of periods of time spent outside New Zealand. This is to allow the provider to determine whether any KiwiSaver government contributions need to be refunded to Inland Revenue[31]. This means that the form needs to be signed in front of a JP, solicitor, notary public, a Registrar or Deputy Registrar of

28 Income for Life (lifetimeincome.co.nz)

29 FMT-Retirement-DL-Brochure-31-3-22.pdf

30 Managed incomes (superlife.co.nz)

31 *KiwiSaver Act 2006 Schedule 1 KiwiSaver Scheme rules*

the District Court or the High Court, or another person authorised to take a Statutory Declaration in accordance with the Oaths and Declarations Act 1957.

Additional documentation required for the first withdrawal include certified copies of identification and physical address, and in most cases a certified copy of a bank statement/deposit slip. Most providers require that this documentation is returned via post (or courier), with many providing a free post address. There are also some providers who allow scanned copies of the documents to be emailed.

Figure 4.4 provides an example of what information individuals need to provide when requesting a withdrawal[32]. As can be seen from this form there are a number of decisions an individual needs to make if they wish to receive a regular payment. Members are filling in a generic form, so they do not have access to information about what their balance is, or what funds they are invested in, as part of the form. A variety of forms were accessed to determine the information and structure of the forms. In all forms accessed withdrawal amounts, other than a full lump sum withdrawal, needed to be stated as a dollar value, percentages could not be used.

Figure 4-4 Example of withdrawal options on KiwiSaver form

I would like to make a (please tick):

☐ *withdrawal of my full available balance[33];*

or

☐ *partial withdrawal of $________ (minimum of $xx per withdrawal)*

or

☐ *regular withdrawal of $_________ (these must total a minimum of $xx per week, fortnight, month)*

Frequency Weekly Fortnightly Monthly

Start date DD / MM / YYYY (allow xx business days for this to be set up)

End date DD/MM/YYYY or until further notice

If you are making a partial or regular withdrawal, the amount specified above will be withdrawn proportionately across each fund that you are invested in.

If you would like to give us specific withdrawal instructions based on your Funds, please specify the dollar amount you would like to withdraw from each fund below

---

Research has found that the information included on a withdrawal form, for example, including individualised details of the $ amounts that will be paid for different withdrawal strategies, or providing an indication of a suggested minimum drawdown rate, has the ability to influence the drawdown decisions made by individuals (Alonso-García et al., 2021; Hagen et al., 2021). The OECD guidelines for the good design of DC schemes (OECD, 2021), also highlights the importance of considering defaults, and limiting the number of options to help simplify decisions that members need to make, including in the pay-out phase.

32 Note this is not any specific provider's form, rather it contains elements common to most withdrawal forms reviewed.

33 Generally, there is some wording to note that this means that the person will no longer be part of the KiwiSaver scheme.

Considering the form and documentation requirements from the perspective of the individual the structure is likely to influence decision making without any specific design or choice architecture being used for these forms. First, due to the statutory declaration included in the form, an individual needs to make arrangements to sign the form in front of the appropriate person. There is also no guidance on the form to assist an individual to determine what withdrawal they should make. However, if one considers how the forms are currently structured, the easiest choice for an individual to make it to take a full lump sum payment. This option does not require them to fill in any details about the dollar amount they are accessing, or carry out a calculation to work out a withdrawal rate. This coupled with the fact that the person may think they need to go through this administrative process every time they want to access funds, means that the easiest choice might be to take a full lump sum payment. In addition, those with low balances are more likely to choose to cash out all their funds, and the evidence from Chapter 3 regarding low balances among pre-retirees would imply this may be an influencing factor.

At the same time, the amount of paperwork required for the initial withdrawal may act as a deterrent to those who might otherwise drawdown their funds, whether as a lump sum, or periodically. In light of the above, and the large body of research relating to choice architecture (specifically the relevance in retirement savings and decumulation decisions) it would appear that more attention should be paid to the design of KiwiSaver withdrawal forms. Insights from Te Ara Ahunga Ora forthcoming research “Older People’s Voices: Qualitative Research with New Zealanders Aged 65+” provides evidence that the above issues are relevant as some people have taken out the whole amount from KiwiSaver and placed it in the bank to “avoid admin”.

Other than the requirement for the initial statutory declaration and documentation, there is flexibility for the provider to create a better user experience for those who use their KiwiSaver account as a drawdown facility. In order to get a better understanding of how providers make use of this flexibility, specific questions were included in the Te Ara Ahunga Ora KiwiSaver provider survey in May 2022[34]. According to the most recent FMA report there are 36 KiwiSaver providers (including five restricted schemes)[35]. As at 27 May 2022 completed responses from 21 providers had been received and an analysis of these responses is included below.

All 21 providers allowed members to regularly withdraw a set dollar amount as income once they have reached age 65. None of the providers said that they charged fees for these withdrawals.

In light of the fact that withdrawal amounts need to be adjusted as time goes by (depending on how they have been set up, and whether a fixed or variable approach is being taken) to understand how easy it would be to make changes to the amount the following question was posed: “If members (aged 65 and over) have provided the required statutory declaration and proof of identification for an initial withdrawal from KiwiSaver, can subsequent withdrawals and changes to regular withdrawal amounts be made via an online client portal?”. The majority of providers indicated that they did not have an online portal for members to use, rather they require members to download a withdrawal form for each subsequent withdrawal or change to instructions, this form then needs to be completed and returned to the provider either via post, fax, or email. There were however six providers that said they had an online portal that could be used by people to make changes to withdrawal instructions or request additional withdrawals on an ad-hoc basis.

In order to understand how much assistance or guidance is provided to a member who is trying to determine a withdrawal amount the following question was asked: “Do you provide members with decumulation “rules of thumb” to help them work out a withdrawal/drawdown rate once they reach the age of 65?” The providers could select whether they provided this guidance on their website, on the withdrawal form, or via a calculator that allows members to see the effect of applying various drawdown rules of thumb.

The majority of providers (62%) do not provide any guidance. Five providers said that they have a drawdown calculator on their website, while three providers have both a calculator and guidance on their website, one provider only has guidance on their website. In general,

34 Te Ara Ahunga Ora conducts a survey every 6-months of KiwiSaver providers to understand their service offering as part of the work to provide service level rankings on the Sorted KiwiSaver fund finder tool. In May 2022, additional questions were added to assess what services and guidance was provided for those post age 65.

35 Kiwisaver-AR-2021.pdf (fma.govt.nz)

there is no withdrawal guidance provided on the forms, two providers said that they included rules of thumb on their withdrawal form. However, when these forms were accessed to consider what information was provided, there was no specific guidance or rules of thumb apparent on the forms.

A follow up review of provider websites, to assess the drawdown calculators, found that most calculators on the publicly accessible parts of their websites were focussed on the accumulation phase, and provided a view of drawdown amounts per week after retirement, based on the accumulated balance projected at retirement and a number of assumptions (which appeared to be based on the projection assumptions set by Government[36]). These calculators did not allow adjustments to take into account different drawdown approaches or rules of thumb. While some providers might have specific drawdown calculators in a member-only part of their website these can't be accessed to determine how flexible the calculators are, or whether they provided specific guidance about how to make use of rules of thumb to work out different withdrawal outcomes. A press article from December 2021[37] mentions that Milford Asset Managers has created a drawdown calculator, which they call "Spend my KiwiSaver", which at the time was seen as a unique tool not available from other KiwiSaver providers. This tool appears be accessible only to members.

A concern was raised that some providers may be reluctant to provide drawdown rules of thumb or alternative approaches to working out drawdown amounts in retirement as they feel constrained by the projection assumptions set by Government as outlined by the FMA relating to retirement income projections on annual statements[38]. In particular the following wording appeared on the FMA website "Many KiwiSaver providers offer projection calculators. From April 2020 these should use the same underlying return, tax and inflation assumptions as your statement but may enable you to add in more precise calculation details". However, this guidance appears to relate to the accumulation phase of retirement and projections of retirement income while still in the accumulation phase, rather than tools and guidance for those who are considering decumulation decisions.

Providers were also asked to indicate whether they proactively checked in at specific milestones, around the age of eligibility for accessing KiwiSaver (age 55, 64 and 65) triggering relevant messages regarding contributions and fund choice. Currently only default providers are required to engage with members at these milestones, however the FMA indicated that this should provide a cue to all providers as to when they should be engaging with members[39]. All of the default fund providers who answered the survey were providing engagement at all three milestones. In addition, of the non-default providers, 44% contacted members at age 55, 63% contacted them at age 64 and 56% contacted them at age 65.

Providers were also asked to indicate if they had any other products or services they offered to clients in the drawdown phase. One provider mentioned that clients had the option of investing in another fund, outside of KiwiSaver, that had lower management and administration fees. Another provider had a dedicated section for over 65s on their website, with case studies to help customers. A third provider was in the process of expanding their digital advice tool to include over 65s to help them set the most appropriate level of income from their KiwiSaver savings. There were also two providers who offered automatic transfer of dividends and interest from higher-risk funds to a lower risk fund for members over the age of 65.

Equity Release products

The previous section considered the availability of products that can be used by an individual who has a lump sum of money that they would like to convert to retirement income. These products could be used by anyone who has accumulated retirement savings (either through KiwiSaver or similar schemes, or via managed funds, or through the sale of businesses or other assets). The other source of wealth people can tap into to fund retirement is housing wealth. There are a number of Equity Release Schemes (ERS) that can facilitate this process as set out in Figure 4.5.

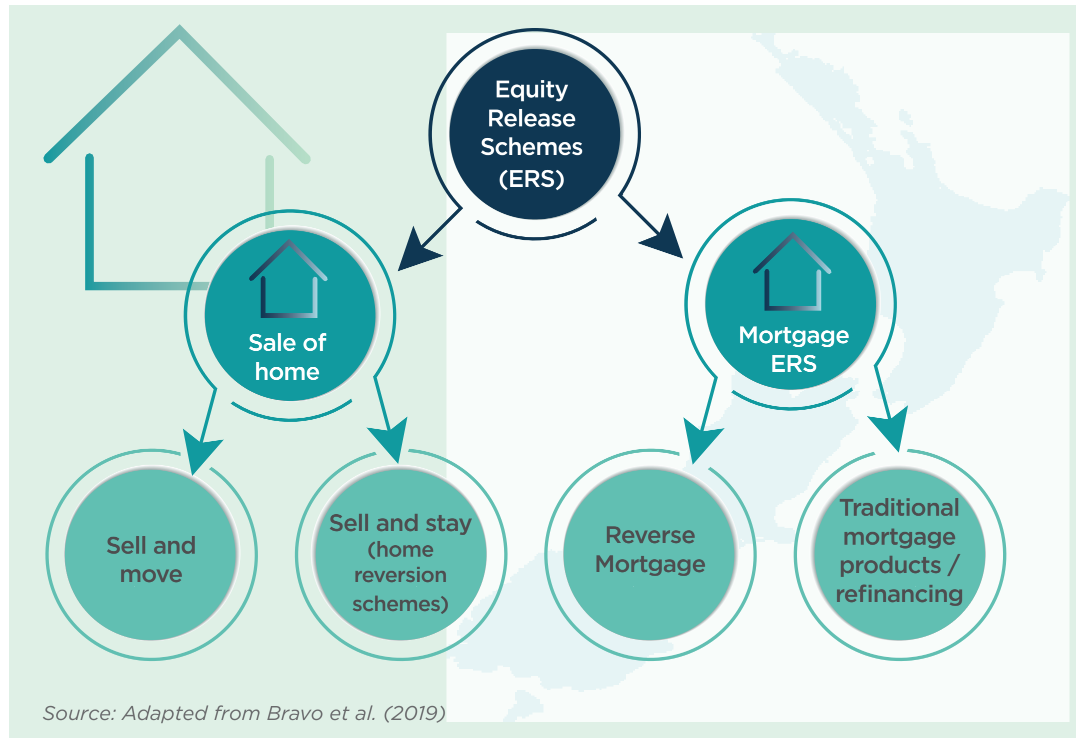
36 https://www.fma.govt.nz/investors/resources/kiwisaver-projections/

37 https://www.stuff.co.nz/business/127273102/retirement-spending-why-managed-drawdown-is-the-future-of-kiwisaver

38 https://www.fma.govt.nz/investors/resources/kiwisaver-projections/

39 https://www.fma.govt.nz/news-and-resources/fma-stories/new-default-engagement-kiwisaver-requirements/

Figure 4-5 Equity Release mechanisms



Source: Adapted from Bravo et al. (2019)

The two main options are either to sell the house or to use a financial product, such as a reverse mortgage, to access accumulated wealth while continuing to live in the house. Those who choose to sell their house can either move somewhere else that is less expensive (downsizing), or make use of home reversion scheme products that allow the person to remain in the house after sale (Bravo et al., 2019).

A home reversion scheme entails the partial or complete sale of the property, with the homeowner retaining the right to remain in the property for life. In general there will be an up-front lump sum payment, and thereafter a monthly stipend is paid (Haurin & Moulton, 2017). A variation in some European countries is a buy-and-lease-back arrangement where the purchaser pays the seller an annuity until death, and in return receives the home when the purchaser dies (Knaack et al., 2020).

There are also traditional mortgage products and refinancing options that a homeowner can use to access equity in their home. However, in most cases the homeowner is still required to make regular payments on these mortgages, and therefore they may be less effective at freeing up resources to fund retirement consumption.

The most well-known ERS is the reverse mortgage, also known as lifetime mortgages. While there is variation across different markets, the products offered generally share a number of common features (Haurin & Moulton, 2017; Knaack et al., 2020). At the time the loan is originated the borrower can receive proceeds as a lump sum, a line of credit, or a monthly disbursement. There is no obligation to make monthly repayments, and the borrower retains ownership of the property. As no payments are made the loan balance grows over time as interest accrues. If the borrower uses the facility as a line of credit, or accesses small monthly amounts to cover day to day living costs they pay interest only on the current balance which starts small and grows. In contrast to a lump sum which starts out large and incurs proportional interest. The value of the loan will need to be set at a level sufficiently below the appraised home value to ensure that the collateral covers both the initial loan, and the accrued interest over time.

There are usually some restrictions on who can access the product, mainly linked to age and the amount of equity available in the home. The only asset that is of relevance when assessing how much of a loan to grant is the value of the house that is being pledged as collateral, other factors such as ability to repay are not assessed. However, in some jurisdictions lenders will consider the borrower's ability to continue to meet insurance and rates payments. Lenders take into account a number of factors when assessing the value of the loan, such as current and future expected interest rates, estimates of future value of home

equity, as well as estimated loan duration based on actuarial models of life expectancy. Higher loans will generally be granted when interest rates are lower, borrowers are older, and there is more equity built up in the home. The resulting loan may be subject to regulatory caps in some jurisdictions. Various fees are incurred at origination and at closing, servicing fees are charged, and in most cases, there is a mortgage insurance premium. Termination usually takes place when the borrower dies, or the property is sold (sometimes this results in prepayment fees). However, there are other circumstances which may lead to a termination including if various property fees are not paid, the property is not maintained, or the property remains vacant for a specified period of time.

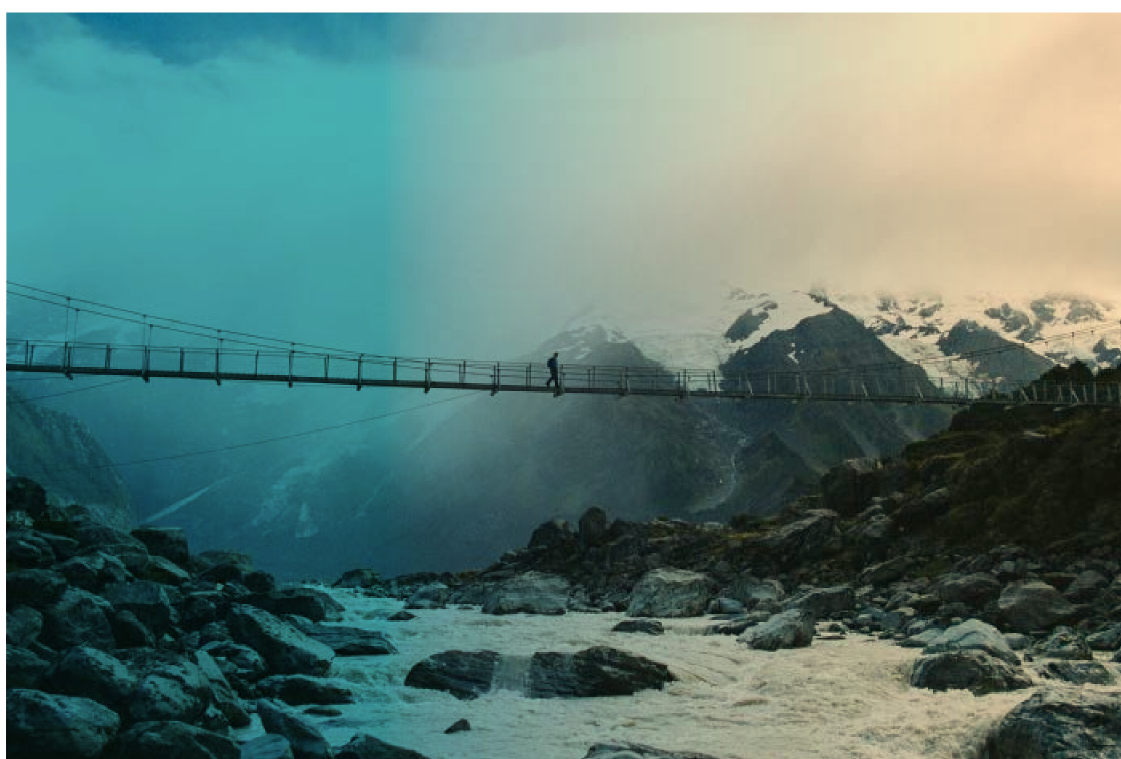
It is also common that there is non-recourse feature, which generally entails that the property owner, or their heirs cannot be held liable for repaying any negative equity (i.e., if the loan amount exceeds the value of the home). In most markets lenders do not bear the risk of negative equity as they are insured, this is often mandated by regulation. For example, in the US, the risk is insured by the Federal Housing Agency, however the cost of insurance is paid in full by the borrower and not the lender. In Britain negative equity insurance premiums need to be paid to the Equity Release Council (a self-regulatory industry group) (Haurin & Moulton, 2017; Knaack et al., 2020)

International perspective

In many countries around the world housing wealth makes up a large share of the wealth of many older adults. However, home equity is often overlooked as a potential asset to fund consumption during retirement. This can lead to the situation of people being asset (house) rich but cash poor. There seems to be a resistance to use home equity to finance consumption in retirement, with research finding that home equity tends to be the last asset that individual's consume in their life time (Mayer, 2017). While the illiquidity of home equity is a contributing factor, products such as reverse mortgages provide a way to overcome this constraint.

There are a range of potential benefits from using reverse mortgages to strengthen retirement security. First and most importantly they allow consumption smoothing and overcome the difficulty of being house rich but cash poor. They provide access to home equity without the cost associated with selling a home, and they also provide a risk transfer as homeowners are generally insured against a sharp downturn in the housing market due to the non-recourse feature (Baily et al., 2019)

In markets such as the US and many European countries, high homeownership rates combined with house price appreciation over the last few decades would suggest that there is good potential for the use of ERS such as reverse mortgages (Baily et al., 2019; Bravo et al., 2019). However, only a small portion of retirees make use of reverse mortgages, with many



considering it as a way to access funds in an emergency or as a last resort, rather than seeing it as a product that can help fund general consumption in retirement (Pearson & Lacombe, 2021). Around the world the market for reverse mortgages is small. Reverse mortgages are mainly available in advanced economies and, given that older people are the target market for these products, they are mainly found in markets with relatively high median age. The US has the oldest and largest reverse mortgage market, and smaller markets exist in other countries including Canada, Australia, Hong Kong SAR, China, Spain and the UK. Other European countries have introduced different ways to release home equity, such as buy-and-lease-back agreements (Knaack et al., 2020). In the US, where reverse mortgages have been around the longest, less than 2% of households over the age of 62 have a reverse mortgage (Moulton & Haurin, 2019).

There are a range of reasons for low uptake, with both supply and demand side constraints. From a supply side perspective some of the key issues relate to the challenges of properly addressing the risks that are inherent in the product and adapting to changing regulatory requirements. There are generally only a small number of providers, even in developed markets, as a result of market failures, such as adverse selection, moral hazard and the introduction of costly regulation to deal with these issues. Moral hazard results from situations that may occur when loan balances exceed the market value of the property, leaving limited financial incentives for the borrower to maintain the property or pay property taxes. In addition, there may be a reluctance to evict older homeowners due to reputational risk and adverse publicity. Adverse selection would relate to homeowners having asymmetric information about their longevity, or their expected duration they will remain in the house (Baily et al., 2019; Bravo et al., 2019; Knaack et al., 2020).

Two of the main demand side constraints include perceptions of poor value for money and a lack of understanding of a complex financial product. Studies across various jurisdictions have found that the complexity of the product, coupled with a lack of knowledge about how the product works, contribute to low levels of demand, this is potentially exacerbated by generally low levels of financial literacy and declining cognitive abilities as people age (Haurin & Moulton, 2017). It has been suggested that efforts to improve knowledge about how these products work, and consideration of changes to product design to make them easier to understand may result in increased take-up rates (Davidoff et al., 2017).

While the high cost of the product, in particular origination costs, is often given as a reason for low demand, studies have shown that the beneficial features of the product offset this cost (Davidoff, 2015). It should be noted that this study relates to Home Equity Conversion Mortgage (HECM) loans[40], which generally have costs that can range from approximately 3 – 7% of home value, however these costs are potentially higher in other markets. Additional costs that need to be factored in include paying taxes and insurance, as well as maintaining the home (Knaack et al., 2020). While origination costs seem high, when compared to traditional mortgage products, if compared to costs associated with downsizing as an alternative to free up home equity, the origination costs are generally lower (Baily et al., 2019; Haurin & Moulton, 2017). It would therefore appear that concern around costs could once again be linked to product complexity, and misunderstanding the product's actual cost benefit profile, which may be something that could be resolved through better education about how the product works.

Other demand driven factors that lead to low take-up of reverse mortgages include keeping home equity as a buffer against future medical expenses, and individual preferences to leave bequests for future generations, with many seeing their house as the most valuable asset they can pass on to their children. In addition, well-publicised international cases of mis-selling and fraud have tainted the reputation of these products. Finally there is also evidence that low take-up is linked to the relatively small amount of equity that can be accessed via a reverse mortgage, and there is also a reluctance to take on debt at older ages (Bravo et al., 2019; Haurin & Moulton, 2017; Knaack et al., 2020).

Australia

The recent Retirement Income Review in Australia highlighted the importance of home ownership in retirement, both from the perspective of the importance of providing security in retirement (removing the need for income to pay rent), and also as it provides an asset that

40 Home Equity Conversion Mortgage (HECM) loans are available to US homeowners aged 62 and over, they are originated and serviced by private lenders, but all carry FHA insurance. The FHA was authorized to insure HECM loans by the 1987 Housing and Community Development Act.

can be drawn on to supplement retirement income. On average, for Australians aged 65 and above, equity in the family home represents the largest share of net wealth. Housing is considered to fall within the "voluntary savings" pillar of the three pillar Australian pension system; however, some suggest housing should be seen as a separate pillar. The report highlighted that despite it being one of the largest assets for many retirees, retirees in Australia avoid using housing wealth to fund retirement. The review noted "The existence of many 'asset rich, income poor' retirees on the Age Pension suggests home equity release has significant potential to help support retirement incomes." A number of areas identified in the review as constraining the growth of the market mirror the demand and supply factors highlighted in other jurisdictions as discussed above, including that people wish to retain their home equity to use to fund future expenses such as aged care services.

Another factor that plays a role specifically in Australia is that the value of the principal residence is excluded from the Age Pension means test, and therefore any equity release options that may affect a retiree's Age Pension eligibility are not attractive. There is also a negative perception about the products, with people believing they take advantage of vulnerable people or contribute to elder abuse. There are concerns from providers about reputational risk if retirees release equity in their residence without informing beneficiaries (Callaghan et al., 2020).

The number of providers offering reverse mortgages in Australia reduced dramatically after the Global Financial Crisis from more than 20 to only four in 2019. The major banks have all exited the market, with negative market perceptions about interest rates and fees potentially a contributing factor. Other contributing factors to the decline in providers has potentially been driven by increased regulation. Initially there was no specific legislation governing reverse mortgages, other than general consumer credit laws, until 2012 when enhanced responsible lending obligations for reverse mortgages were introduced into the National Consumer Credit Protection Act 2009. More recently the new Code of Banking Practice, approved in 2018, requires banks to take extra care with customers who may be vulnerable, including those who are experiencing elderly abuse (ASIC, 2018; Knaack et al., 2020; Whait et al., 2019)

In addition to the private sector provision of reverse mortgages, the Australian Government has run a scheme since 1985 to encourage the use of housing equity to fund retirement consumption. The scheme was historically known as the Pensions Loan Scheme but was rebranded in 2022 and is now called the Home Equity Access Scheme[41]. The scheme has historically not been popular, and a number of reforms were introduced from 2019 to make the scheme more attractive and expand the coverage of those who were eligible to include self-funded retirees (before it was limited to eligible age pensioners). Changes included increasing the amount that could be accessed to 150% of the maximum fortnightly rate of the Age Pension. The interest rate set at as January 2022 is 3.95% and there are safeguards to limit the maximum loan that can accrue. From July 2022 a no negative equity guarantee will also be introduced to this product and lump sum withdrawals will be possible.[42] The number of participants in the scheme has increased from 642 in 2018 to 2288 by March 2020, with 1500 new loans written in the nine months to March 2020 (Callaghan et al., 2020). The Retirement Income Review noted that this scheme provides an effective option for accessing equity in the home for both age pensioners and self-funded retirees (Callaghan et al., 2020).

New Zealand equity release schemes

There are limited equity release options in New Zealand. Those who wish to sell their house and downsize find it hard to find a smaller and more affordable dwelling. One option is to move into a Retirement Village, where in general the price for units is about 70 to 80% of the cost of houses in the surrounding areas. Most villages operate on a licence to occupy (LTO) model, which means that there is an upfront payment of a capital sum, which is returned (less a deferred management fee usually between 20 and 30% of the capital sum) when the unit is reoccupied following termination of the contract. Weekly fees are charged during the term of the contract. These financial arrangements generally mean that the equity released in downsizing is used by many to meet the ongoing weekly charges (Saville-Smith et al., 2016). From a bequest motive point of view, due to the fact that most LTOs do not share capital gains, the estate will receive the initial capital sum less the deferred management fee. Only a small portion of older New Zealanders choose this option, approximately 14% of over 75s currently living in a retirement village[43].

41 Home Equity Access Scheme - Services Australia

42 2021: That reverse mortgage scheme the government is about to re-announce, how does it work? - University of Wollongong – UOW

43 https://retirement.govt.nz/retirement-villages/monitoring-and-reports/legal-framework-report-2021/

From the perspective of specific equity release products, similar to Australia, many providers of reverse equity mortgages exited the market after the Global Financial Crisis (GFC). There are currently only two banks that offer reverse mortgages, Heartland Bank[44] and SBS[45]. While there has been renewed interest in the product, with lending growing by 16% over the past two years, this is off a low base, and as a percentage of overall lending in New Zealand it represents 0.14%. Lifetime Income has announced their intention to enter the ERS market, and they will be providing a home reversion scheme product. The product will be structured in such a way that the homeowner will sell a small portion of their home, every year over a period of 10 years. Homeowners will lose equity in their home (up to a capped amount, which appears to be in the region of between 35-45%[46]) in much the same way as they would with a reverse mortgage. The benefit of this product is that they will not incur interest payments, which would normally compound and be added to the outstanding balance under normal reverse mortgage products[47]. There are limited details available regarding this product, and clarity would be required on the full terms and conditions in order to assess the risks and benefits of this proposed product.

While the usual supply and demand side constraints for reverse mortgages discussed earlier also apply to New Zealand, an additional constraint is that the product is generally not seen in a positive light in New Zealand and is considered a last resort. The Auckland District Law Society released a report in 2007 that reached the following conclusion[48] "Reverse mortgages should be entertained only by those who have carefully explored and eliminated their other options, investigated the specific product under consideration and taken independent legal advice – and, perhaps, who are over 70 and not looking to borrow more than a small proportion of the value of their home."

As covered in Appendix A, the 2007 RRIP included a research paper that reviewed home equity release products in New Zealand. The paper identified barriers to take up including consumer attitudes and suspicion of schemes, coupled with a lack of knowledge. The paper noted that equity release had the potential to improve quality of life for older people (Davey, 2007).

In 2008 the Ministry of Social Development released a code of standards for reverse mortgages. The code is voluntary and not legally binding. The code was facilitated through the 2005 Budget, which enabled the Office for Senior Citizens to develop an industry Code of Practice. Its standards include: lifetime occupancy; "no negative equity"; clear explanations of the conditions, charges, costs and responsibilities; independent legal advice before you sign up; access to an independent complaints process. The code has largely been superseded by changes to the financial services legislation since 2008. However, the standards relating to lifetime occupancy and "no negative equity" are very specific to ERS, and do not appear to be explicitly included in financial services or consumer protection legislation. Both Heartland Bank and SBS appear to adhere to the standards, including providing lifetime occupancy and no negative equity guarantees.

Despite the inclusion of these protections, the negative perceptions of the product appear to remain, and this is evident from reviewing the guidance currently provided on a number of consumer websites regarding reverse mortgages:

Moneyhub[49]: "We believe reverse mortgages should be a 'last option' given the long-term borrowing costs involved. We are also cautious about the various fees charged, which make this kind of financing very expensive. While retirement can be expensive, there are alternatives to reverse mortgages."

Consumer NZ[50]: "Reverse mortgages are not ideal for everyone or every situation. Carefully consider what you need the money for – and how long you intend to stay in that particular house. You could be better off looking at other options."

Canstar[51] "Signing up with a reverse mortgage lender is not something to rush into. These types of mortgages can be controversial and its important to do your homework. Get financial and legal advice before signing up. We also recommend consulting with your family."

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44 https://www.heartland.co.nz/reverse-mortgage
45 https://www.sbsbank.co.nz/home-loans/reverse-equity-mortgage
46 https://www.lifetimeincome.co.nz/retirement-life/retirement-news/2019/september/have-you-considered-a-home-equity-release/
47 https://tmmonline.nz/article/976520146/reverse-mortgages-set-new-record
48 https://www.interest.co.nz/sites/default/files/ReverseEquityMortgages.pdf
49 https://www.moneyhub.co.nz/reverse-mortgage.html
50 https://www.consumer.org.nz/articles/reverse-mortgages
51 https://www.canstar.co.nz/home-loans/what-is-a-reverse-mortgage/

Most of these consumer websites raise concerns about high interest rates (which are set above normal mortgage interest rates due to the features of the product), high initiation costs, and the compounding of interest leading to high loan amounts in a relatively short time period.

From a cost perspective, the concerns relating to high interest rates and initiation costs mirror issues raised in international markets. In general costs are higher than normal mortgages as a result of the features contained within the product and the resultant risk taken by the provider (longevity risk, no negative equity guarantee etc.). At the same time there might be legitimate concerns about high costs in New Zealand given the limited number of providers and lack of competition in the market. Concerns related to quickly escalating balances would be less of an issue if reverse mortgages were being used to regularly withdraw smaller amounts to fund consumption needs, rather than accessing larger lump sums for specific expenditure. However, it would appear that the latter use is far more common in New Zealand currently, as Heartland Bank reports that only a third of customers use their reverse mortgage for covering day-to-day expenses.

There are also concerns that these products limit choices to sell up later to move elsewhere as there would generally not be sufficient equity remaining to buy another home or purchase a licence to occupy a unit in a retirement village. In addition, it limits the option to make use of home equity as collateral for the residential care loan scheme, for those who do not qualify for residential care subsidies.

The inflows from equity release products may also affect various benefits paid by Work and Income. Lump sum payments from equity release are not assessable income for tax purposes, but if someone receives an Accommodation Supplement, Temporary Additional Support or Special Benefit they will need to notify Work and Income of any additional income they receive. They also need to notify Work and Income if they: invest the money they get from the equity release and earn interest, as it will be counted as income; don't use the payment for major expenses, but everyday goods and services; get regular home equity conversion payments[52].

Te Ara Ahunga Ora's forthcoming research "Older people's voices: qualitative research with New Zealanders aged 65 or older" echoed concerns in the literature. Even though many had reached the realisation that equity is locked up in their home and not available to support them, there was a strong dislike of reverse mortgages. Some themes were:

- Unwillingness to release equity on a home they've worked hard to retain
- Inflation, interest rates: the belief that the interest owing will eventually mean the house is owned by the bank (the increases in capital gain were never mentioned)
- Concern over 'sharks' taking advantage of older people

In addition, in a separate Te Ara Ahunga Ora report "Housing intentions for people living in New Zealand aged 45-64" prepared for the RRIP 2022, two-thirds of people aged 45-65 who were surveyed were aware of mechanisms for equity release, however of those only 5% indicated that they were intending to use equity release to fund their retirement.

Reverse mortgages could potentially play an important role in freeing up capital for older New Zealanders who have home equity, but limited income. The products currently offered in New Zealand appear to adhere to the customer-centric design approach suggested by the OECD for reverse mortgages (OECD, 2020). In particular limiting the amount that can be borrowed and product controls that prevent negative equity situations arising. Other recommendations from the OECD include a requirement to seek independent advice. Both Heartland and SBS require clients to get independent legal advice, and both advise clients to also seek independent financial advice (although this is not a requirement).

However, in light of the general guidance and view in New Zealand that these are a product of last resort, more may need to be done to ensure that those providing guidance and advice feel that they are in a position to recommend this product as a way to assist those who could potentially benefit from freeing up their home equity. The launch of a home equity reversion scheme may also lead to higher demand for ERS in New Zealand as it could remove a key constraint, which is the accumulating balance from interest rate compounding.

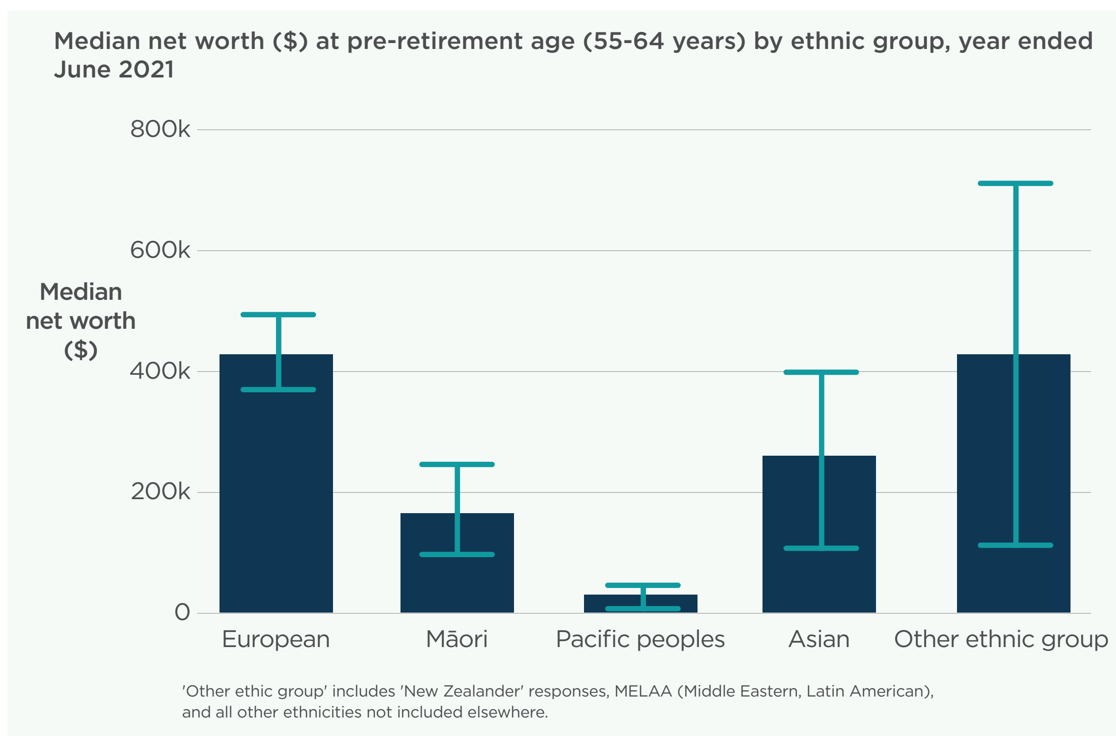
52 https://www.workandincome.govt.nz/on-a-benefit/tell-us/income/one-off-payment/home-equity-lump-sum.html

Chapter 5 **Demography and decumulation**

As a result of the design of decumulation products, both those used in managed drawdown, and ERS, there are a number of implications from both a gender and ethnicity perspective that are briefly outlined in this section.

Firstly, from an ethnicity perspective, Figure 5.1 from Stats NZ data provides insights into the variation in wealth across ethnicities at pre-retirement age (55-64). This wealth variation implies that both Māori and Pacific People have substantially lower median net worth in the years approaching retirement, and therefore both groups have less assets to decumulate in retirement.

Figure 5-1 Median net worth at pre-retirement age (55-64) by ethnic group



Source: Stats NZ[53]

Considering the decumulation of KiwiSaver assets in particular, as KiwiSaver balances reflect both the gender and equity pay gaps in New Zealand, women, Māori and Pacific People will on average have lower balances available to decumulate in retirement. While ethnicity data for KiwiSaver is not available, the MJW report provides insights into the gender KiwiSaver balance gap (as discussed in Chapter 3), with females approaching age 65 being overrepresented at lower balances and underrepresented at higher balances compared to their male counterparts.

NZ Super therefore remains a key way in which the retirement income system provides a gender-neutral retirement income stream. However, due to shorter life expectancies for Māori and Pacific People, there are still inequities in the system from an ethnic perspective as NZ Super is only paid from age 65. According to the March 2022 MSD benefits fact sheet release, for all NZ Super recipients with a record of ethnicity, 83.4% are European, 6.9% are Māori and 3.4% are Pacific People[54]. While this is in line with the percentage of each of these ethnicities for the New Zealand population over the age of 65, reflecting the universal nature of the pension, as a percentage of the total population in New Zealand 70% are European, 16.5% Māori and 8% Pacific People[55].

53 https://www.stats.govt.nz/news/distribution-of-wealth-across-new-zealand-households-remains-unchanged-between-2015-and-2021
54 https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/index.html
55 https://www.stats.govt.nz/news/new-zealands-population-reflects-growing-diversity

When considering other decumulation assets, such as ERS, options for accessing equity are only available to those who own their homes. In New Zealand homeownership rates among Māori and Pacific People are much lower than for New Zealand Europeans[56]. In addition, both Māori and Pacific People are more likely than NZ Europeans to live in multigenerational households, which makes any equity release arrangement more complicated and unattractive as these products are not structured to accommodate multigenerational households.

From a gender perspective, there is a view that reverse mortgages may be a particularly useful instrument to help homeowning women increase their retirement income and offset some of the risks from longer life expectancies (Knaack et al., 2020). Research in the US found that almost 45% of reverse mortgage borrowers are single females, compared to just under 20% single males, and 36% couples (Shan, 2011).

Finally, it should be noted that declining homeownership rates among pre-retirees across gender and ethnicity, will potentially impact on the viability of ERS as a solution to supplementing retirement income for future generations.

56 https://www.stats.govt.nz/reports/housing-in-aotearoa-2020

Chapter 6 **Specific policy considerations & recommendations**

The decumulation landscape continues to change and evolve as retirement systems around the world adapt to changing demographics and the continued move towards individual responsibility for retirement accumulation and decumulation decisions. There is a new focus on balancing longevity risk with choice and flexibility, as well as the consideration of how best to use accumulated assets, including home equity, to contribute to retirement wellbeing. There is an emphasis on providing people with confidence to use their assets to fund their retirement, the notion of cracking open the nest egg, with a key element being the provision of appropriate guidance and advice.

In particular, the way in which individuals access funds they have built up in defined contribution retirement plans is a key area in which the focus has shifted from an approach that favoured annuitisation as the gold standard, to a recognition that there are a variety of ways in which these funds can be accessed, to get the right balance between protecting against longevity risk and providing flexibility. There seems to be growing support for the idea that, as long as there is protection against longevity risk, whether provided by government or through other pensions, individuals should have some flexibility related to decumulation decisions (OECD, 2021; PensionsEurope, 2019).

As mentioned in previous sections, the OECD has shifted its emphasis from annuitisation to a consideration of more flexible options. In particular OECD (2021) provides the following recommendation relating to good design of DC pension plans in the decumulation phase:

> *"Ensure protection against longevity risk in retirement. DC pension plans should provide some level of lifetime income as a default for the pay-out phase, unless other pension arrangements already provide for sufficient lifetime pension payments. Lifetime income can be provided by annuities with guaranteed payments or by non-guaranteed arrangements where longevity risk is pooled among participants. The choice of the type of arrangement will depend on the desired balance between the cost of guarantees and the stability of retirement income. Flexibility could be provided by allowing for partial, deferred or delayed lifetime income combined with programmed withdrawals. Full lump-sums should be discouraged in general, except for low account balances or extreme circumstances."*

In the New Zealand context, longevity risk protection is already provided by NZ Super as it gives universal access to a lifetime income in retirement for eligible New Zealanders[57]. While there may be concerns about the sufficiency of the income provided by NZ Super, the other way to consider its part in the OECD framework is from the perspective of it fulfilling the role of a deferred annuity, which was discussed in Chapter 4. The combination of NZ Super and flexible managed drawdown of accumulated DC funds (mainly KiwiSaver) would therefore be aligned with the OECD good design framework.

A further consideration from the perspective of DC funds in the New Zealand context is that KiwiSaver is still a relatively new scheme. While it has been in existence for 15 years, this is still only a very short period of time in the context of maturity of a DC scheme. The scheme will reach full maturity only in the early 2050s when it will have been in existence for the full working life of the cohort who had access to KiwiSaver when it was established in 2007. Considering the data insights from Chapter 3 balances reflect that the scheme is still relatively new, and while balances are expected to grow over time as the scheme matures, it will be another three decades before it is a mature scheme. It is also important to consider that, even when the scheme is mature, KiwiSaver will still mirror the labour market. KiwiSaver balances will continue to reflect workplace inequalities from the gender and ethnic pay gaps, occupational segregation and various levels of labour market participation. Therefore, KiwiSaver cannot be seen as a substitute for NZ Super, which is universal and gender neutral.

57 New Zealand citizens and resident visa holders who have lived in New Zealand for 10 years since age 20, with 5 of those years from age 50 or older living in New Zealand, the Cook Islands, Niue or Tokelau (or a combination of these). Other may qualify with less than 10 years residence if they have migrated to New Zealand from a country that New Zealand has a social security agreement with. Starting in July 2024, this residency requirement is gradually increasing to 20 years by July 2042.

Policy recommendation: NZ Super must continue to be a key pillar of the New Zealand retirement income landscape. It fulfils a vital role in providing longevity risk insurance to New Zealanders and it also contributes to more equitable retirement outcomes as it is universal and gender neutral.

Managed Drawdown

This section considers how individuals can be best supported within the decumulation phase, particularly as it relates to drawing down KiwiSaver funds, and what this implies in terms of recommendations for the various stakeholders in the retirement income system. A key factor that needs to be considered from a policy perspective is that simple systems that are easily understood and where consistent guidance is provided, create an environment that supports individual decision making. This in turn reduces the possibility for financial decision making errors (Crawford & Banks, 2022). The OECD alludes to this in their guidelines where they highlight the importance of limiting the number of options to help simplify decisions that members need to make, and considering the use of defaults, in the pay-out phase. Individuals need to be provided with the financial products, tools, resources and advice to help them make financial decisions about how best to drawdown their financial assets.

From the perspective of products, as highlighted in Chapter 4, there are limited specific managed drawdown products in New Zealand, however KiwiSaver funds have by default morphed into drawdown funds for many who keep their funds in their KiwiSaver account after age 65. While KiwiSaver is still relatively new, trends are starting to emerge about how people are accessing their KiwiSaver after 65 and this has highlighted areas where policy interventions can assist.

As a starting point it is vital that consistent terminology, information and guidance is provided to assist individuals to understand drawdown. This would include consistency in terminology used to describe types of drawdown products (e.g., differentiate between products that are managed on behalf of the individual versus those where individuals need to select drawdown amounts and fund type; KiwiSaver account or a non-KiwiSaver product etc). Along the same lines as adopting common terminology, in an effort to ensure consistency it is recommended that a common approach is adopted for providing general guidance on managed drawdown strategies using the NZAS RIIG “Rules of Thumb: an update”[58].

There is no one-size-fits-all decumulation plan as retirement experiences are diverse. While it is acknowledged that some individuals will be in a position to access individualised financial advice, for those who cannot afford this option the Rules of Thumb provide an alternative cost-effective approach based on expert guidance. In particular RIIG (2021) highlight the importance of using one framework for drawdown, one set of Rules of Thumb, and one truth on longevity data to ensure consistency. It is noted that the rules of thumb are not “set-and-forget”[59], drawdown plans should be regularly reviewed, particularly when individual circumstances change. There will also be a need to provide guidance related to the investment strategy that is appropriate in the drawdown phase, and considerations of sequencing risk for those in the drawdown phase. Approaches such as the “two buckets framework” proposed by RIIG (2021), could be used to provide general guidance.

One further aspect that requires consideration is how to embed protection for individuals who are no longer able to make complex financial decisions due to decreases in cognitive ability. One way is to ensure that the system is simple and standardised information is provided to create a choice environment that is simple to navigate. In addition, it is important that guidance is also made available about the process for setting up an Enduring Power of Attorney so that these arrangements are put in place before they are needed.

Policy Recommendation: The financial services sector, as part of the National Strategy for Financial Capability[60], should work together to use consistent terminology, and supply consistent information and guidance (including "rules of thumb") for the drawdown phase of retirement.

In no way should the above recommendation be seen as requiring all providers to deliver the same product and services. Product innovation and competition within the drawdown phase

58 https://actuaries.org.nz/wp-content/uploads/2020/12/Rules-of-Thumb-Updated-FINAL.pdf

59 Three of the four proposed “Rules of Thumb” proposed by RIIG actually require an annual reset

60 Aligns with the three goals of the National Strategy: Consistent content; Work together; Demystify money

should be encouraged. Against this backdrop it is crucial that individuals have sufficient information to be able to select the best product and provider for their requirements. This implies that they need a way to compare the costs and features of the various products on offer for managed drawdown (whether this is within the KiwiSaver scheme or through managed drawdown funds offered outside of KiwiSaver).

Policy recommendation: a tool is created (similar to the Sorted KiwiSaver Fund Finder tool, which assists individuals to select funds for the accumulation phase) for comparing managed drawdown products (including KiwiSaver funds, as well as managed drawdown funds outside of KiwiSaver) from a cost and services perspective.

As there is a choice for KiwiSaver members when they reach age 65, appropriate communication and modelling tools should be provided well in advance. In particular modelling tools should allow members to understand their options and the consequences of the choices they make. Individuals are using KiwiSaver funds for drawdown, and as seen in Chapter 4 very little guidance is being provided to those who are using their KiwiSaver accounts for managed drawdown. As discussed in Chapter 4, the current withdrawal forms provide no guidance, and may at worst encourage cashing out of a full lump sum. The large body of research relating to choice architecture, and specifically the relevance in retirement savings and decumulation decisions, would suggest that that more attention should be paid to the design of KiwiSaver withdrawal forms.

Providers may be reluctant to produce tools and guidance that provide the ability to make different assumptions about longevity and pay out rates in the decumulation phase than the government guidelines provided for projections. However, the government guidelines relate to the accumulation phase of retirement and projections of retirement income while still in the accumulation phase, rather than tools and guidance for those who are considering decumulation decisions. Nevertheless, clarity is required on this to ensure that providers do not feel constrained to develop tools and resources to support members in decumulation.

Policy recommendations:

- ***Government should require that all KiwiSaver providers contact members at milestones approaching retirement (55, 64 and 65) to provide them with information and guidance regarding their options (currently only default providers are required to make contact with members at milestones)***
- ***Government should clarify that the guidance and assumptions for retirement income projections does not prevent providers from developing tools and information for the decumulation phase of retirement.***
- ***KiwiSaver providers should consider how to make their products more user-friendly and accessible for those who want to use them as a drawdown account. In particular consideration should be given to the design and information provided on the withdrawal forms to provide better guidance to members who wish to make regular withdrawals.***
- ***Te Ara Ahunga Ora already provides guidance on their Sorted website based on the Rules of Thumb, but in addition to this guidance it is recommended that a drawdown calculator is developed that allows people to use the rules of thumb to help them understand the effect of different choices and the consequences of these choices.***

Finally having access to administrative data at a disaggregated level is key to ensuring that advice and policy recommendations can be based on evidence of how the KiwiSaver system is maturing.

Policy recommendation: in order to allow continued assessment of the maturation of KiwiSaver, Government should require more detailed disaggregated reporting from KiwiSaver providers, in particular to allow insights across age groups, gender, and fund type.

Equity Release

Decumulation discussions and education generally focus on drawing down accumulated retirement savings (for example from KiwiSaver), but it is also crucial that people are assisted to identify what other assets may be available to use for decumulation, including understanding the benefits and drawbacks of accessing other assets. Housing equity is a large part of household wealth in New Zealand, and as such is an important asset that could potentially be used to fund retirement.

As discussed in Chapter 4 the low take-up of equity release products such as reverse mortgages is not unique to New Zealand. Worldwide there have been calls to encourage use of home equity to supplement retirement income. In particular the UK Select Committee on Public Service and Demographic change stated "People with housing equity should be enabled to release it simply, without excessive charges or risk. The Government should work with the financial services industry to ensure such mechanisms are available, and to improve confidence in them"[61]. However, at the same time, evidence from markets such as the US, indicates that policies that focus on increasing the number of equity extraction products available, or introducing government guarantees to instil confidence in the products, have had only marginal impacts on the take-up of products (Haurin & Moulton, 2017). Other suggested policy approaches to increase low take-up rates are to focus on consumer education that highlights the positive benefits of using home equity and provides information so that consumers clearly understand the actual cost benefit profile of the product.

In New Zealand, in addition to the usual supply and demand constraints in other markets, it appears that there is a generally negative view of these products, and the guidance provided about equity release is that it is a product of last resort. Given the potential of these products to play a beneficial role in assisting those who are asset (house) rich but cash poor, more needs to be done to understand whether the hesitation to access (and recommend) this product is based on high costs (due to a lack of competition) or whether the products are fairly priced. If they are fairly priced, then there is a need to educate consumers to understand the role that these products could play in their decumulation strategy and efforts should be directed to improving confidence in them.

Policy recommendations:

- Conduct research to assess if equity release products provide value for money
- Provide accurate information to consumers and advisors about how equity release products work, with a particular focus on understanding the actual cost benefit profile.
- Equity release product providers should consider whether they can provide explanations of how the product works and is priced, that will make it easier to understand, and easier for consumers to assess the cost benefit of the product.

Finally, there is a case to be made that developing appropriate housing policies, that allow for older New Zealanders to downsize to suitable accommodation provides another avenue through which equity release can be realised.

Policy recommendation: Housing policies and planning should take into account the need of older New Zealanders to have access to suitable accommodation options that allow them to downsize their homes.

61 https://publications.parliament.uk/pa/ld201213/ldselect/ldpublic/140/14003.htm

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Appendix A: Decumulation in previous RRIPs

What follows is an overview of how decumulation has been included in previous RRIPs, and resulting recommendations and response from Government. The majority of the information in this section is summarised from the report *Titiro whakamuri kōkiri whakamua Looking back to move forward: A Review of Past Reviews of Retirement Income Policies in New Zealand*[62] prepared by Malcolm Menzies for the Commission as part of the 2019 RRIP, and the research reports and papers that were commissioned for each review.

2007 Review of Retirement Income Policies:

Decumulation related terms of reference[63]:

- Identification of the problems facing efficient utilisation of assets accumulated pre-retirement to meet the need for regular and predictable income at different stages of ageing, and suggestions as to potential solutions
- Commentary on the risks, opportunities and barriers relating to the use of home equity products and any suggestions for change

Decumulation work commissioned for the review:

There were two pieces of work commissioned for the review that related specifically to these Terms of Reference:

Hurnard, R. (2007). Managing assets and income in retirement

The paper noted that compared to the accumulation phase, less attention has been paid to decumulation choices. The paper set out the supply and demand side problems with annuities encountered in many countries, and highlighted that New Zealand was under less pressure to solve any annuity problems due to the absence of a compulsory retirement savings scheme, and the presence of NZ Super. While there were ways to improve the functioning of annuities markets, through the tax treatment and facilitating the emergence of a greater range of products, the paper concluded that focusing attention on other factors influencing people's decumulation strategies might be a better strategy to pursue.

Davey, J. A. (2007). Home equity release products in New Zealand: risks and opportunities

The paper provided an overview of equity release schemes, with the main commercial scheme identified as reverse mortgages. While these products were in existence in New Zealand since the early 1990s, take up has historically been extremely slow. The paper identified barriers to take up from both a supply and demand side perspective, and highlighted consumer attitudes and suspicion of schemes coupled with a lack of knowledge as a key demand side barrier. However, it was noted that surveys of clients who have made use of equity release products had generally high levels of satisfaction. The paper concluded that equity release had the potential to improve quality of life for older people.

Review Decumulation Recommendations:

There were a number of recommendations related to decumulation included in the final 2007 Review of Retirement Income Policy report, and these, along with an assessment carried out in 2010 to ascertain progress against the recommendations is set out in Table A.1.

62 https://assets.retirement.govt.nz/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/The-big-picture/Historic-Review-of-the-Reviews-of-Retirement-Income-Policies.pdf

63 No specific numbering was used for the Terms of Reference in this review.

Table A.1

2007 Recommendation	Assessment as at December 2010
That the Ministry of Social Development monitors trends over time in the size and distribution of financial assets held by older people, in order to give some indications of the issues facing older people in managing assets in retirement, including the potential demand for annuity and home equity release products.	The Commission understands that the Review of Economic Statistics will be assessing which data is required to enable the required monitoring.
That the Retirement Commission, by end 2008, updates and extends its information about options for managing assets throughout retirement, and provides that information to older people in ways other than the internet, including liaising with other providers of information to older people.	The booklet "Your Money in Retirement" was published and widely distributed. Qualitative research was undertaken to understand how to assist older people make sound financial decisions following which two nationwide communication campaigns were released in 2009 and 2010. There is much ongoing work with older-people interest groups.
That Inland Revenue, by end 2008, reports on the feasibility and implications of achieving tax neutrality in the treatment of annuity products.	Not achieved. This continues to be an item on the IRD's work programme.
That the Ministry of Economic Development, by end 2008, put the code of practice for home equity release providers, being developed by the Office for Senior Citizens, into legislation.	In September 2008 a voluntary Code of Practice for home equity release providers was agreed on. Some aspects of the Code have been addressed by regulatory reforms. The Office of Senior Citizens continues to keep a watching brief regarding the adequacy of protection to consumers
That the Ministries of Economic Development and Social Development and the Inland Revenue Department together, by end 2008, look at all the interfaces of home equity release products with state benefits to confirm a consistent policy that can be communicated to consumers in a straightforward way.	The government has reviewed this and is satisfied that the treatment of home equity release products is consistent.

2010 Review of Retirement Income Policies:

There was no explicit consideration of decumulation in the Terms of Reference for 2010, however in the report produced for the review it was included as a topic linked to *Term of Reference 2: The role of New Zealand's financial services sector in relation to retirement income provision.* More specifically the report considered "Availability of decumulation products for retirees".

Decumulation work commissioned for the review:

Davey, J.A. (2010). Income streams in retirement – Managing income and assets.

The paper outlined the current decumulation options of releasing home equity and annuities. With respect to reverse mortgages, the report highlighted that the recent financial crisis had resulted in several providers leaving the market. It noted that the current annuities market in New Zealand (and numerous other economies) was in decline and there were a number of barriers to the market's development. It was suggested that substantial government involvement would be required, in partnership with the private sector, to ensure a thriving annuities market. It was suggested that there was a wide spectrum of options for effective management of income and assets in retirement ranging from improved education and advice to introducing new financial products. The paper noted that the increase in KiwiSaver balances over time was expected to produce a "new mass market" for investment products.

Review Decumulation Recommendations:

There was one recommendation related to decumulation included in the final 2010 Review of Retirement Income Policy report:

Recommendation 5.4

That the Retirement Commissioner's 2013 Review of Retirement Income Policy should include a thorough assessment of Kiwi Saver, including the emerging pattern of withdrawals and reinvestments by people aged over 65.

This recommendation was taken into account in the 2013 review, and was included as Term of Reference 3, discussed below.

2013 Review of Retirement Income Policies:

The 2013 Review included a specific focus on the role of private savings in retirement, including looking at withdrawal patterns of those retiring from KiwiSaver. The specific wording was as follows:

Term of Reference 3:

An assessment of the role of private savings for retirement. This assessment should cover:

- *Trends in KiwiSaver, particularly withdrawal patterns of those retiring and the issues that these may raise*
- *The role of the financial services sector in helping to ensure the adequacy of retirement income for New Zealanders*

Decumulation work commissioned for the review:

The primary input for the review were the insights provided from the decumulation symposium held in November 2012 "Spending the Savings: Decumulation and Middle-Income Retirement"[64] co-hosted by the Retirement Policy and Research Centre (RPRC) at University of Auckland and the Retirement Commission. The problem debated at this Symposium by retirement industry and financial sector experts and university researchers was: *How can middle-income retirees best use their savings for what might be a very long or very short retirement, either in good health or in catastrophically expensive ill-health?*

The seminar covered a range of topics including decumulation policy and products as well as home equity release. One of the key conclusions from the symposium was that the multifaceted dimensions of decumulation span many aspects of policy, and piecemeal, incremental progress that this brings is unlikely to provide the required policy leadership or solutions.

Review Decumulation Recommendations:

There was one recommendation related to decumulation included in the final 2013 Review of Retirement Income Policy report:

7. That the Government agree to the Retirement Commissioner convening a broadly representative review to determine the viability of different approaches to the voluntary annuitisation of savings, including KiwiSaver balances on retirement.

The Minister responded in his letter of 24 June 2014 that "The Government supports this recommendation. There is currently a lack of financial services providers offering voluntary annuities products. However, there are indications that new entrants are looking to fill this gap. As KiwiSaver fund balances grow there are likely to be greater numbers of providers seeking to meet any market demand".

In line with recommendation the Retirement Commission undertook a round of consultations on the viability of different approaches to the voluntary annuitisation of retirement savings. Discussions with government agencies (MSD, Treasury, Inland Revenue, Reserve Bank) were followed by two private sector round tables. The private sector discussions noted several unique characteristics of the New Zealand market, which played a role in the viability of annuities. Among these was that there was already an annuity available in the form of NZ Super. This coupled with a small market and inherent problems of annuity products, including tax disadvantages of the product in NZ, meant that there was no real market for annuities in NZ, and therefore there was a need to think of other products and not just annuities when considering decumulation. Consumer education and access to trusted advice were also raised as key issues that needed to be addressed in decumulation decisions.

64 http://docs.business.auckland.ac.nz/?title=2012%20RPRC%20Symposium%20Proceedings

As part of the review, the New Zealand Society of Actuaries (NZSA) released a paper on "Income Streaming in Retirement: Options for New Zealand"[65] that reached a number of conclusions including that it was unlikely that there would be an appropriate one-off "standard" or "default" strategy that would be suitable for everyone. They noted that a guaranteed lifetime annuity was not the best product for everyone, or for all funds held by an individual, and in addition it would be difficult to develop a viable commercial market for lifetime guaranteed annuities at reasonable cost in New Zealand. It was noted that the gradual rise in KiwiSaver balances as the scheme matured provided time for the market to innovate. It was felt that it was important that Government signal its interest in state intervention in annuities provision as soon as possible to avoid stifling market innovation. Finally, it was noted that a guidance focus, such as approved "rules of thumb" and independent financial guidance at suitable moments during retirement may be seen to be more appropriate than a product focus.

The Minister of Commerce and Consumer Affairs, speaking at an event to launch the above paper on 25 February 2015 highlighted that, while income streaming in retirement was not currently critical, it was "looming on the horizon". However, he noted that it was too early for serious consideration to be given to Government intervention. He pointed out that there were various initiatives emerging through the market and it was better to watch and see how these developed. It was noted that government does have a role as regulator, to ensure consumers can have confidence in whatever products they purchase. He emphasised the important role that information and education have in ensuring people planned for the drawdown phase and encouraged KiwiSaver providers to engage with their members on this aspect.

The key conclusions from the Retirement Commission's project and the government response were that the decumulation problem was emergent rather than urgent, that a one-size-fits-all approach was not viable, and that high levels of uncertainty surrounding retirement required a flexible response. Government did not intend to intervene and would watch to see how the market developed. A key focus would be guidance and consumer education, including the use of rules of thumb, which would be designed in consultation with the NZSA.

2016 Review of Retirement Income Policies:

The 2016 review included decumulation in Term of Reference 4:

With respect to all private savings (including KiwiSaver): Decumulation and how retirees manage their assets along with risk and return during their retired lifetime including:

a) *Withdrawal patterns;*

b) *The development and use of annuity and equity release products; and*

c) *The impact of a low interest rate environment on retiree asset management.*

Decumulation work commissioned for the review:

The 2016 review followed a different format from that of previous years, as seven major themes were explored across seven months, with decumulation being one of these themes. A variety of activities were undertaken during the decumulation month[66]:

- The 'Tales from the Tent' mobile video recording studio captured the public's thoughts at the Waiuku Steel and Wheels festival
- Decumulation forum: 80 delegates heard from local and international experts.
- An online public survey was completed by 1,240 people
- Media stories & blogs were published online about living off savings and assets in retirement

In addition to the above, there were also specific reports on decumulation:

Dale, C. (2015). Options for Dis-saving 'Safely' [67]

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65 https://actuaries.org.nz/wp-content/uploads/2015/pdf/NZSA%20Income%20Streaming%20Full%20Paper%20June15.pdf
66 https://retirement.govt.nz/policy-and-research/2016-review-of-retirement-income-policies/decumulation/
67 https://assets.retirement.govt.nz/public/Uploads/2016-Review-Of-Retirement-Income-Policies/Decumulation/Heavy-Stuff/83c2ac9119/217-Decumulation-RPRC-options-for-dis-saving-safely-09-16.pdf

This paper drew in particular on the forum, "Decumulating retirement savings: making the options work", co-hosted by the RPRC and the Retirement Commission in November 2014 at the University of Auckland. This paper was primarily descriptive and updated further developments since the forum to provide a snapshot of New Zealand's situation in early 2015. The paper concluded that the development of decumulation products in New Zealand was slow and fragmented. It was noted that while drawdown products of various kinds, including home equity release products, were becoming more readily available, they did not provide protection against the risk of outliving savings. It was the view of the authors that Government needed to take an active role in encouraging rational decumulation products including a consideration of subsidisation and/or direct provision and underwriting.

A further decumulation related paper was submitted as part of the public submission process by the RPRC: St John, S. (2016) KiwiSpend: How to spend like a Kiwi[68]. The paper suggested the idea for a new product "KiwiSpend" to complement KiwiSaver. This product would a 'capped value' annuity product with generic branding, default provisions and oversight by the Financial Markets Authority (FMA).

O'Connell, A., Edgar, C., Ormrod, C., Mussett, D., Shirley, J., Benbow, J., Eriksen, J. & Channon, M. (2015). Income Streaming in Retirement: Options for New Zealand[69]

In contrast to Dale (2015) and St John (2016), this paper emphasised the need for a broader focus on guidance and rules of thumb, rather than products as ways to assist decumulation decisions. Note this was the same paper as was presented as part of the voluntary annuitisation working group formed after the 2013 review (see summary of paper in previous section).

Saville-Smith, K., James, B., Rehm, M. (2016). Equity release – Realities for older people[70]

This paper considered whether the view that older people should be "downsizing" housing wealth to release equity tied up in housing assets was practical for older people. The paper reached a number of conclusions, including that finding a smaller and more affordable dwelling was not easy, equity realisation if achieved is relatively modest, and some use the released equity to pay off mortgages or other debt. For those who downsized and moved into retirement villages, almost half used the realised equity to pay for day-to-day living costs, for those who moved within the community, just over a third were able to direct this released equity to make investments.

Review Decumulation Recommendations:

There were two recommendations related to decumulation included in the final 2016 Review of Retirement Income Policy report:

1.13 More work required (in the future) on decumulation options

2.1. More work required on tools and information, along with identification of needs.

The Government response to the recommendation was as follows: "The Government will continue to monitor current decumulation options and potential future products. Providers are beginning to offer more options for accessing funds in retirement. The Government agrees that as KiwiSaver balances and demand increases, it is expected that KiwiSaver providers will innovate and offer more drawdown options for members."

2019 Review of Retirement Income Policies:

The 2019 review included decumulation in Term of Reference 8:

An assessment of decumulation of retirement savings and other assets, including how the Government can ensure New Zealanders make the most of their money in the decumulation phase.

68 https://assets.retirement.govt.nz/public/Uploads/2016-Review-Of-Retirement-Income-Policies/Decumulation/What-NZ-Told-us/e796d8bbda/236-Decumulation-Submission-RPRC-Pension-Commentary-2016-KiwiSpend-Decumulation.pdf

69 https://assets.retirement.govt.nz/public/Uploads/2016-Review-Of-Retirement-Income-Policies/Decumulation/Heavy-Stuff/23a8f673d7/219-Decumulation-NZSA-Income-Streaming-Paper-07-15.pdf

70 https://assets.retirement.govt.nz/public/Uploads/2016-Review-Of-Retirement-Income-Policies/Decumulation/Heavy-Stuff/40b899b25b/218-Decumulation-equity-release-for-older-people-Saville-Smith-James-Kay-08-16.pdf

Decumulation work commissioned for the review:

St John, S. & Dale, C. (2018). Decumulation: Time to act[71]

The paper built on previous work of the authors and reiterated that the development of decumulation products in New Zealand was slow and fragmented. The report noted that drawdown products of various kinds are becoming more readily available, but these, and home equity release products, do not provide protection against the risk of outliving savings. The authors emphasised the need for safe, fair, affordable decumulation products. The authors were of the view that the risk is that, rather than engaging with the complexities of decumulation, the Government will sidestep the issues by putting its faith in better professional advice or guidance, further individualising the problem of decumulation. The authors identified five key areas where the state could act as a catalyst through better resourcing of retirement policy development, ensuring that debate is more inclusive, removing the bias towards using property as a retirement asset, build on the success of KiwiSaver by introducing a "KiwiSpend" life annuity product, and finally consider tax incentives/subsidies in the decumulation space.

Huang, Y. & Curtin, J. (2019). International trends and reforms in pension policy and delivery: comparative models for accumulation and decumulation[72]

This paper provides an overview of the annuities markets in three European markets, Netherlands, where it is compulsory to annuitise, and Denmark and Germany where annuities are voluntary. The analysis of these three markets led the authors to conclude that state involvement in building tax incentives, subsides and legislative and regulatory frameworks is important, even when annuities are privately administered. They highlight the possibility of designing a mixed system of decumulation where policies encourage the products to be provided by both private funds and public institutions. They note that New Zealand is one of the few countries where a universal government-funded pension remains the primary source of retirement income, and there appears to be limited appetite for mandatory accumulation, or decumulation through annuities.

The authors suggest that a good first step is to build public support for, and education around, both existing and new decumulation options. They conclude that whatever model of decumulation is adopted it is critical that it is supported by a clear and accessible education and communication plan.

Review Decumulation Recommendations:

No recommendation related to decumulation was included in the final 2019 Review of Retirement Income Policy report.

The following extract from the report provides the rationale for this omission:

"In contrast with the wide agreement among New Zealanders of the value of NZ Super, we cannot yet see any consensus on how Government can best support New Zealanders to manage their own assets and savings through the decumulation phase of life. While some say they would welcome advice and support from the Government to help them manage decumulation, others say that they want no role for the Government in helping them manage their own money or constraining how or when it could be spent. More work is needed to find out how many New Zealanders need assistance to manage savings and income once they reach the decumulation phase of life, hence no recommendation is made regarding this term of reference. The Retirement Commissioner intends to advance a decumulation work programme as a priority in 2020"

71 https://assets.retirement.govt.nz/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/Ak-Uni-RPRC-Decumulation-Research-Report.pdf

72 https://assets.retirement.govt.nz/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/Making-your-money-stretch/Ak-Uni-PPI-Decumulation-International-Comparison.pdf

Te Ara Ahunga Ora Retirement Commission

Level 15, 19 Victoria St W, Auckland and Level 6, 11 Chews Lane, Wellington.
PO Box 106-056, Auckland City 1143. Phone +64 9 356 0052.
retirement.govt.nz sorted.org.nz sortedinschools.org.nz