

# From the macro to the micro of New Zealand savings

Does the data tell us we are saving enough us?

NZIER report to:  
**Commission for Financial Literacy and Retirement Income**

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## About NZIER

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Each year NZIER devotes resources to undertake and make freely available economic research and thinking aimed at promoting a better understanding of New Zealand's important economic challenges.

NZIER was established in 1958.

## Authorship

This report was prepared at NZIER by Dr. Kirdan Lees.

# 1. Is New Zealand saving enough?

## It depends...what are we saving for?

Any assessment of the adequacy of a particular national savings profile needs to focus on the purpose of saving.

At a national level the government balance sheet interacts with private saving.

A short-run solvency question naturally arises with respect to the adequacy of the government balance sheet: is the government balance sheet sufficiently robust to meet shocks such as natural disasters, where the government's additional spending and ability to raise taxes makes it well placed to help New Zealand weather such events.

Since Government debt requires costly servicing a second question arises to whether the Government's debt position is sufficient to offset any future expenditure commitments relative to revenue. That is, does debt servicing imply currently policy settings (such as taxation rates) are insufficient to meet structural expenditure commitments such as superannuation and health costs?

National savings combines both the private and public balance sheets. While the New Zealand government's balance sheet is prudent and sound, private sector borrowing, primarily to fund housing for domestic consumption and investment purposes, is high.

Many economists (see André 2011, Steenkamp 2011 and the conference covered in Smith 2011) have expressed angst about the impact of the savings position on macroeconomic imbalances. These imbalances include New Zealand's persistent current account deficit – that reflects the offshore borrowing of domestic households.

The argument runs like this. Imbalances have led to higher real interest rates. Higher interest rates provide the mechanism to equilibrate domestic households' penchant for borrowing and foreign investors need to be compensated via a risk premium for lending to New Zealand, which has historically been perceived to be riskier than advanced economies. Higher interest rates reduce domestic investment in the real economy and increase the real exchange rate, reducing export competitiveness.

## What does the macroeconomic data tell us?

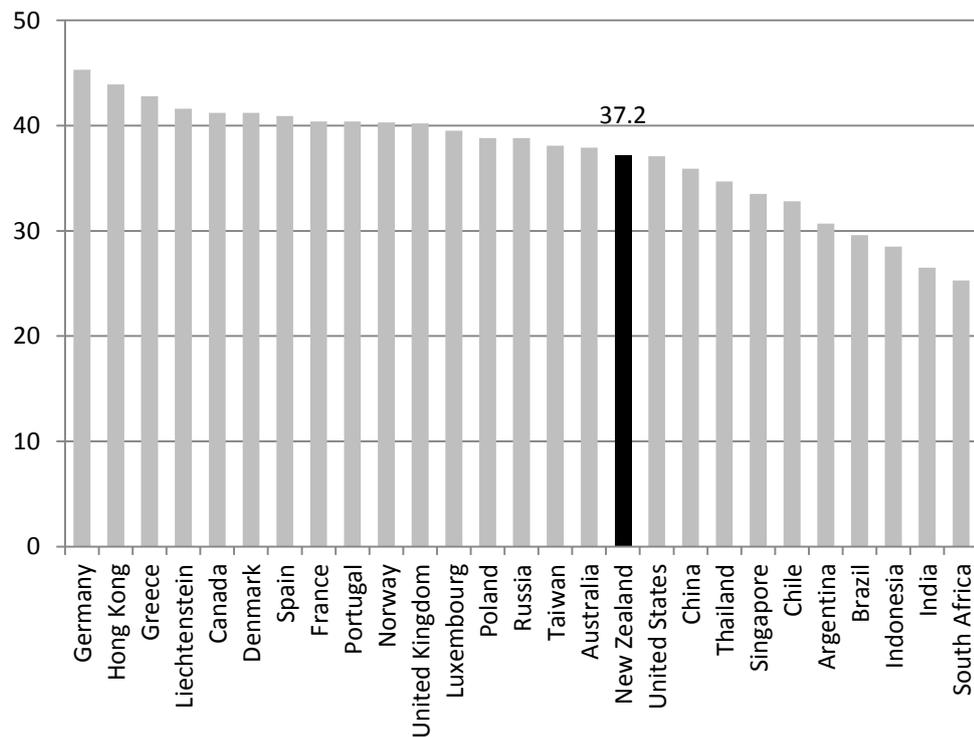
Government debt levels in New Zealand are relatively low. So at least in the short run, the level of government saving is sufficient to mitigate and guard against future shocks.

And on an income basis, New Zealand has a relatively wide tax base and the government has ample room to increase taxation rates – so there is little risk to the government's longer term income stream.

But figure 1 shows that New Zealand sits in the middle of an ageing pack of countries where superannuation and health care costs are expected to rise in the future.

**Figure 1 New Zealand is middle of an ageing pack with increasing costs of ageing**

Median Age for selected countries



Source: CIA World Factbook (<https://www.cia.gov/library/publications/the-world-factbook/fields/2177.html>)

New Zealand Treasury has consistently recognised the costs of ageing (see Bell et al 2010 and Bell 2012) as future liabilities that are currently unfunded, that is, not backed by expected increases in revenue. This suggests increasing pressure on government to either: (i) adjust expenditures elsewhere in the budget; (ii) increase taxation; or (iii) rapidly increase government savings to help fund these future liabilities.

Of course, the future is very uncertain so that makes setting policy very risky (see Upton 2013). Deepening our understanding of how robust macroeconomic policy settings are to shocks would improve settings. Extending stochastic approaches like Creedy and Scobie (2003) look like a useful area for future studies to assess the adequacy of savings at a macroeconomic level.

## 2. Getting granular: but are individuals saving enough?

### How much is enough?

Assessing whether New Zealanders are saving “enough” is very difficult. Such an assessment means making a judgment call on what a sufficient income stream is likely to be.

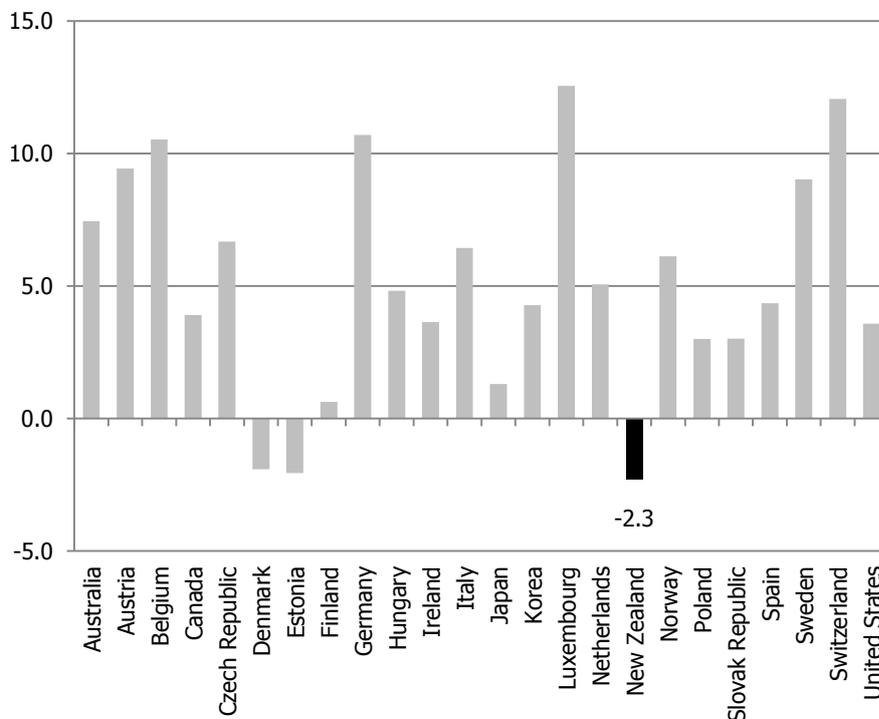
But that assessment is likely to be very different for different income groups. Different quintiles may have quite different savings patterns that make generalisations not very helpful from the perspective of what to do with policy.

And worse than this the data is not ideally suited to assessing whether New Zealanders are saving enough (see Claus and Scobie 2002 for example).

But at least at an aggregate level, we know New Zealand households save at a much lower rate than OECD peers (see figure 2).

**Figure 2 Aggregate data show New Zealand has a low saving rate compared to peers**

Average net savings rate as a fraction of disposable income, OECD countries, 2013-2012.



Source: OECD

### **What goals are people saving for?**

Mostly, people are saving for retirement. One approach to assessing the adequacy of savings for retirement is to model outcomes that incorporate the behaviour of the whole of the economy, including interest rate and wage rates.

Guest, Bryant and Scobie (2003) take this approach and conclude that population ageing is unlikely to mean needing to increase savings policy. Lees (2013) adopts an alternative approach that endogenises the retirement saving. That paper suggests that savings needs to increase to accommodate extra years of retirement but shows that increasing real wages offset falling real interest rates. So while saving rates need to increase the adjustments –if made early – are not particularly severe.

## **What does the microeconomic data tell us?**

### **What are the key data sources?**

While microeconomic data offer the best opportunity to deepen our understanding of which groups of society might not be saving enough, microeconomic data sources are underdeveloped compared to macroeconomic data sources. Key data include:

- SoFIE - the Survey of Family, Income, and Employment (SoFIE) collects data on respondents' work, family, income, and importantly net worth. The survey consists of eight annual waves. The same individuals are re-interviewed in each wave.
- The one off Household Savings Survey that was a cross-sectional nationwide survey on the net worth (assets minus liabilities) of New Zealanders. The survey was commissioned in 2001 by the Retirement Commission and was conducted by Statistics New Zealand.
- The regular Household Expenditure Survey (HES) that offers the opportunity to reconcile microeconomic data with macroeconomic measures of saving in the National Accounts.

### **What does the evidence show?**

Perhaps surprisingly given Figure 2, much of the microeconomic evidence suggests that most New Zealanders may well be saving sufficiently for retirement. While the data is often equivocal, the weight of evidence suggests there is little of evidence of widespread lack of saving. Rather, it is specific segments of society that are likely to be at risk.

For example:

- Scobie, Gibson and Trinh Le (2010) uses data from the Household Savings Survey to tentatively conclude: “...there may not be widespread undersaving for retirement”
- Trinh Le, et al (2012) suggest that “saving is more strongly correlated with income than with wealth”. Most likely lower income deciles cannot save. Trinh Le, et al (2012) note: “Across the income distribution, saving is largest for the top four deciles, while median saving for the bottom 50% centres around zero”
- Scobie and Henderson (2009) conclude that: “There is a strikingly wide distribution of saving rates. For example, across many categories of

individuals around 40% are estimated to have had a decline in net wealth, implying a negative rate of saving.”

This suggests that it is unlikely that there is widespread undersaving in New Zealand. But on balance, there are some sections of society that are not able to save enough for retirement. For example, Scobie and Gibson (2003) suggest birth cohorts matter.

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