

31 May 2013

Diane Maxwell
Interim Retirement Commissioner
Level 3, 69 – 71 The Terrace
PO Box 12-148
WELLINGTON

Dear Diane,

Commission for Financial Literacy & Retirement Income 2013 Review of Retirement Income Policy

Workplace Savings NZ submits the following thoughts and comments relating to the 2013 review of Retirement Income Policy. We have noted the particular aspects and topics provided in the Terms of Reference, however we have not restricted our submission to the topics included in the TOR.

Workplace Savings NZ believes that the following aspects should be considered as part of this year's review. This list is not exhaustive but includes those areas that we think are important to consider at this time. We believe though that retirement income policy needs to be dynamic and suggest that a programme of ongoing research and debate is vital.

1. NZ Superannuation (Tier 1 provision)

- 1.1. ***Debate on future sustainability.*** The continued availability of universal NZ Super, on the current basis, has been the subject of ongoing national discussion for many years. Major political parties appear to either want to "do nothing" & not discuss long-run sustainability (e.g. National), or, to "tinker at the margin" (e.g. Labour's commitment, if elected, to lift the eligibility age to 67 years).

1.2. Workplace Savings NZ believes that renewed debate on long-run sustainability is vital. We believe options for the future can be appropriately considered and any desirable change (from the NZ Inc. perspective) can be implemented without undue haste. We contend that debate under the following headings remains appropriate:

- 1.2.1. Age of entitlement. In common with many other developed countries, NZ has an ageing population; a baby-boomer bulge is fast approaching the current eligibility age for NZ Super, along with improving longevity for those aged over 65. These factors point to significant escalation in the cost for NZ Super. Many jurisdictions in the developed world have reacted to the demographic and longevity issues by announcing a phased increase in entitlement age over the coming decades. We believe, that as a first step, New Zealand should be doing the same.
- 1.2.2. Universality of Benefit. Largely, NZ Super provides the same benefit irrespective of income received or capital held. This factor may encourage greater workforce participation by older workers. However, in our view, for universality to truly exist NZ Super needs to be individualised. That is, the relationship status and accommodation anomalies now need to be removed from universal NZ Super.
- 1.2.3. Flexibility of Access. The United Future party has suggested that the eligibility age for NZ Super could be made flexible. That is, on an actuarially assessed cost containment basis, that NZ Super could be accessed from age 60 at a lower per annum rate. And conversely, the taking of NZ Super could be deferred and subsequently accessed later in life when a higher per annum rate would apply. Workplace Savings NZ supports the introduction of this kind of flexibility as a part of a move towards greater retirement self-responsibility.
- 1.2.4. Current quantum of NZ Super. Currently set, for a couple, at 66% of the National Average Weekly Wage (NAWW) we contend that the level of benefit should be individualised. Whether NAWW is the most appropriate measure has been the subject of debate with various suggested alternative measures having been debated. We would support a measure which is equitable, and readily understood by all New Zealanders.
- 1.2.5. Asset and/or Income testing. This element for managing sustainability (or scarcity) is not something new for those in retirement as it already exists in relation to aged care. Workplace Savings NZ believes there should be a commitment to publicly debate this issue, if as we suspect, it is the intention of the government to make self-responsibility for funding future retirement life-

styles an integral part of the wider mix for aggregate future retirement incomes. Certainty of policy settings is central for those planning for their post work lifestyles.

- 1.3. Workplace Savings NZ applaud the current government for its commitment in the 2013 budget to recommence contributions to the NZ Superannuation Fund when annual surpluses permit.

2. Self-responsibility for Retirement Income

2.1. KiwiSaver

- 2.1.1. KiwiSaver is fast becoming the retirement savings product of choice with more than 2 million Kiwis now enrolled as members.
- 2.1.2. KiwiSaver Compulsion ('hard' compulsion versus the current 'soft' compulsion approach). Arguments for and against making it compulsory for New Zealanders to forgo current consumption, and prescribing where that money is invested (i.e. exclusively in KiwiSaver or other managed funds products) to partially maintain themselves in retirement needs to be exhaustively debated and the issue put to bed. Workplace Savings NZ does not support 'hard' compulsion. Government does not compel people to invest in owner occupied housing for example. We believe that if the government has an agenda for a greater proportion of retirement income to be generated from self-responsibility behaviors, then government should openly declare its position. Whatever form rational individuals chose to use to financially prepare for the post working phase of their life usually needs very long timeframes and policy stability. Individual choices should be able to be made based on very clear central government messages, a neutral framework for the taxation of investment income and capital gains regardless of the type of investment, an exceptional regulatory environment, and very stable long term policy.
- 2.1.3. KiwiSaver Default investment funds. Workplace Savings NZ support the 'soft' compulsion format deployed under KiwiSaver. We also applaud the current government for its commitment to follow-through with the one-off KiwiSaver auto-enrolment (of all workers not currently enrolled) when budget surpluses allow. That said, while we acknowledge that growing financial literacy is a key plank in the government's KiwiSaver strategy, and that informed investment choice should be available for all KiwiSaver members, we contend that it would not be seen as raising the white flag on financial literacy should government see its way clear to introduce a "whole of life investment strategy"

for disengaged members. Behavioral economics points to the fact that because auto-enrolment relies on inertia, over time there will always be a rump of KiwiSaver disengaged members. We contend that choosing a globally recognised best practice retirement savings solution for such KiwiSaver would benefit the long-run retirement savings outcome for member who do contribute but stubbornly remain disengaged on how their savings are invested.

2.2. **Adequacy of retirement savings.**

There remains a need for ongoing research:

- 2.2.1. In 2012 Workplace Savings NZ, in conjunction with Massey University, launched the *Retirement Expenditure Survey*. This survey is a snapshot of what current retirees spend based on the Statistics NZ Household Expenditure Survey. The purpose of this research is to assist all New Zealanders understand what they could realistically expect to spend on a retirement lifestyle broken down into two different categories; "no frills" and "choices".
- 2.2.2. We hope that over time this research will help to inform the savings patterns of New Zealanders as they look to close the gap between NZ Super and the monetary quantum described under "no frills" and "choices" categories.
- 2.2.3. Additionally, we hope that the research findings also help to inform government, and that as a result government implements positive incremental steps to move the KiwiSaver minimum contribution rates upward from the current 6% (i.e. employee 3% plus their employer 3%) to an aggregate rate that will produce a more meaningful outcome over a full cycle (i.e. an individual's full working life). Workplace Savings NZ would support lifting the aggregate contribution rate to 12% (gross) in line with the super guarantee contribution rate in Australia.

2.3. **Taxation of 'managed fund' retirement savings investment returns.**

- 2.3.1. We applaud the work of the Savings Working Group, the Tax Working Group, and more recently Treasury in the area of recommending the introduction of tax neutrality for all forms of personal financial investment.
- 2.3.2. We loudly call for the removal of the severe tax treatment difference between managed funds returns (government's preferred soft compulsion form of retirement savings) and returns from investment in non-owner occupied residential housing.

3. Retirement Savings decumulation post the eligibility age for NZ Super (proxy for 'retirement')

- 3.1. Requirements for capital on, or in, retirement. Individuals and households do not consume all of their capital on day one of retirement. Many will continue to invest, living on earnings while running capital down over time.
- 3.2. It is probably still too early to see a discernible behavioral pattern developing in relation to post age 65 withdrawals from KiwiSaver. This is because after just five years balances are perhaps considered 'not material' as would be the case if the product was in its maturity phase.
- 3.3. That said though, government needs to think clearly about how it might guide the forms KiwiSaver withdrawal should take at retirement age. For example, Australia introduced tax favoured "Allocated Pensions" (i.e. draw-down strategies) in an attempt to change investors' behavior away from full withdrawal and the resulting consumerism.
- 3.4. Many countries promote a diverse range of retirement income options for retirees. Government should be encouraging research in this area to facilitate a wide choice for retirees in New Zealand. Perhaps this should also extend to government taking an active role in low cost home equity release for elderly retirees.

A Retirement Income Policy for New Zealand

Lastly, we would strongly suggest that New Zealand needs to consider an integrated approach for the outcomes of our nations Retirement Income Policy debate.

In our view the much needed debate about the sustainability of NZ Super cannot take place without the inclusion of:-

- research based discussion/debate on what constitutes retirement income adequacy;
- the role of personal 'self-responsibility' in the provision of retirement savings; and
- the wider role government plays for those in retirement around the provision and cost of health care, social housing, the other forms of income support (i.e. over and above NZ Super).

I would be pleased to discuss our comments or answer any queries in relation to this submission.

Thank you for the opportunity to make this submission. We hope that our comments will be of assistance in the review process and look forward to our ongoing participation.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Bruce Kerr', with a large loop at the start and a trailing flourish.

Bruce Kerr

Executive Director

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