

## **Comments on “Focusing on the Future; A discussion document 2013 review of Retirement Income Policy”**

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I congratulate the Commission for Financial Literacy and Retirement Income on their discussion paper, which presents the issues clearly and readably, addressing the terms of reference of the review. I believe that the document will encourage discussion and I especially welcome the inclusion of sections on housing and employment, which I believe are relevant to retirement income policy.

I am in strong agreement with many of the conclusions presented and most of the recommendations. Here are my comments, following the discussion paper format.

- I agree that there are a number of reasonable policy responses available to preserve the sustainability and affordability of NZS (p.47). Several of these are presented in the document. Initiatives are needed to model these options; explore their implications and present them to New Zealanders for informed discussion. It can only be hoped that decision-makers and politicians will take notice of the review’s conclusions and rise above party political stances.
- It is indeed unworkable to suggest that the age of eligibility for NZS should be differentiated according to personal factors such as ethnicity, income or health status (p.36). On the basis of life expectancy, should smokers receive NZS earlier than non-smokers? Variable ages of eligibility would indeed reduce fairness in the system (p.46).
- Increasing life expectancy, especially healthy life expectancy, suggests that older people are capable of prolonged participation in the paid workforce (p.36). This indeed has “implications for the dependency ratio”. However, I think that this measure is increasingly meaningless and perhaps should no longer be used (p.35).
- There are numerous arguments in favour of raising the age of eligibility for NZS (p.39). They include intergenerational equity and fiscal sustainability. Wide and open discussion of this move should be encouraged as it is increasingly gaining public acceptance.
- The proposal to tax interest on savings based only on the extent to which interest exceeds the rate of inflation (p.52) is an eminently sensible suggestion and would encourage savings at all levels.
- I support the proposal to investigate how KiwiSaver contributions could be continued while members are on parental leave (p.65).
- Information on how KiwiSaver sums at maturity are being used at present is extremely useful. I agree that the tendency to spend these lumps sums is a cause for concern if it becomes a common trend (p.74). It is urgent that means are found for KiwiSaver lump sums to be invested to provide income in later life and/or orderly decumulation. It is well

worth considering a public annuity fund; the extent to which the private sector can respond with safe annuity schemes and the possibility of requiring full or partial conversion of lump sums to annuities. Private sector responses must, however, provide a good “deal” for investors. I am concerned that people will be penalised by making poor decisions about the investment of their KiwiSaver lumps sums, in the same way as they can be by choosing the “wrong” KiwiSaver scheme initially.

- KiwiSaver is not guaranteed by government (p. 62). The risk is placed on savers and they must bear the consequences of disadvantageous choices of scheme and of the vagaries of the finance market. It would be easier and fairer to make the scheme compulsory if there was a guarantee.
- The arguments against making KiwiSaver compulsory are set out on p.66. While many of these are valid, I think the question of compulsion should be looked at again if we are to ensure income adequacy in retirement. The range of incomes in retirement will widen and this will be even more so if some people have no KiwiSaver accounts at all.
- It is important to consider the potential use of funds tied up in housing to support incomes in later life, so this discussion is relevant and useful. I am surprised, however, at the negative tone of the sections on down-sizing and on equity release schemes. For example, downsizing is discussed only in terms of risks (p.78). The conclusion is that it is unlikely that trading down will be a solution for more than a minority (p.79). Where is the research to support this?
- What is meant by “facilitating the intergenerational use of housing equity” (p.79)? Does this imply that older people must not touch their home equity but preserve it for bequest?
- Continued employment is an important part of options for later life and a potential way of increasing not only retirement income but also social and psychological wellbeing and health. It is therefore important that the discussion paper covers this (p.79).
- The section on the “lump of labour’ debate (p.80) is very well put. I strongly agree with it.
- The importance of “timely discussions” between employers and employees about retirement intentions (p.81) should be stressed. These should occur in good time and should take place in an atmosphere where there is no suggestion or risk of discrimination.
- The options for increasing older people’s participation in the workforce (p.83) should be followed up.
- “Age management planning” needs investigation and promotion in the NZ context. (p.83).
- I agree that care must be taken to consider the ways in which any changes in NZS conditions could interact with and influence older people’s decisions about workforce participation (p.83). There remains a strong linkage between the age of 65 and expectations of retirement (despite the absence of any compulsory age of retirement). This is not helpful and should be played down as much as possible.
- The importance of regular re-skilling for older workers is acknowledged (p.80). There should be a recommendation that government take action on this; adult education and training has been neglected recently. Who should be “offering retraining opportunities” (p.82)? There is a strong case for government action in this area.

- There is acknowledgement that older workers are being sought out by far-sighted employers and that they can be seen as valued employees (p.82, 83). This section could give more emphasis to the attractive characteristics of older workers (which come through strongly in my research). They must be given greater encouragement as their economic contribution will be needed in future, given predicted labour and skills shortages.
- I agree with the recommendation for work on older people's participation in the paid workforce (p.83). I am currently involved in a research programme through the University of Waikato, under contract with MBIE, which is directly relevant to this. Its findings will throw light on many of the issues raised in the discussion document.