Continuity and change:
Retirement income preferences in New Zealand, 2014 - 2022


Andrew Coleman (RBNZ)
Jelita Noviarini(University of Otago)
Trudy Sullivan (University of Otago)

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UNIVERSITY of OTAGO
Te Whare Wānanga o Otāgo
NEW ZEALAND

Disclaimer

The analysis and views expressed in this report are those of the authors and do not represent their employers or any other people.

We would like to thank Suzy Morrissey for her endless patience over the delays that have occurred getting this project done.

Introduction

In 2014 the Retirement Commission and the New Zealand Treasury jointly sponsored a research project investigating retirement scheme preferences in New Zealand

(Au, Coleman, Sullivan 2015,2019)

- The study used sophisticated survey techniques to examine preferences over 7 aspects of retirement income policy
- It found
  1. widespread opposition to means-testing,
  2. a strong preference to raise current taxes rather than future taxes,
  3. strong support for compulsory savings,
  4. divided views over increasing the retirement age

Introduction

- In 2022 the survey was repeated to ascertain whether attitudes to retirement income policies had changed

- This paper reports the results of the new survey, and compares them to the 2014 survey to find out what New Zealanders say they want.

The plan

1. Outline the survey technology and the 2022 survey
2. Results from 2014
3. Results from 2022
4. Comparison of the two results

1000Minds Surveys

- The software helps people work out their preferences by decomposing complex problems into a series of simpler steps

- Respondents are asked to indicate their preferences about two scenarios that have different combinations of two criteria (or aspects) of a choice.

- Each scenario combines one high level option from one criterion and a low-level option from the other criterion

SOME SURVEY QUESTIONS: EXAMPLE 1

Which of these two scenarios do you prefer the most?
(given they're identical in all other aspects)

You should not be concerned about whether either of these policies can be delivered.
We simply want to know if you prefer one scenario more than the other.

Age when NZ Superannuation starts **65 years (current policy)** Extra taxes to be paid now? **everyone pays 2% more taxes (EXAMPLE: $20 more each week if earning $50,000)**	**or**	Age when NZ Superannuation starts **67 years (2 years later)** Extra taxes to be paid now? **no extra taxes**
this scenario		**this scenario**

« undo last decision

they are equal

skip this question for now »

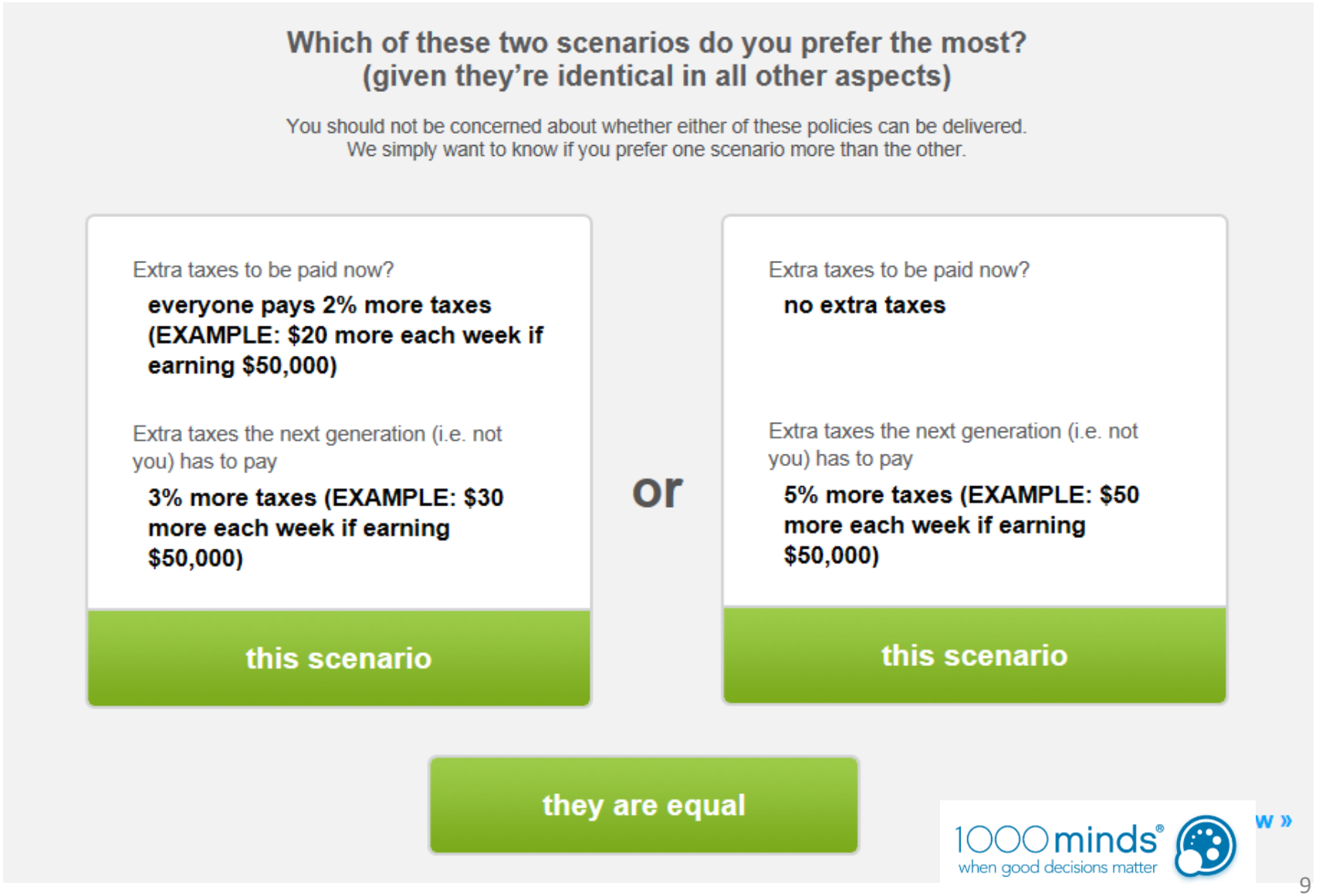
1000minds® when good decisions matter

1000Minds Surveys

- We have 7 criteria.

- Once one scenario is chosen, the software repeats the process with two different criteria.

SOME SURVEY QUESTIONS: EXAMPLE 2



1000Minds Surveys

- The survey finishes when the software can estimate the relative importance of the various criteria from the responses.

- The output for each person is
  - a rank vector indicating the relative importance of each criteria eg { 2 6 3 1 7 4 5} (7 is good)
  - A weight vector showing relative importance

    eg {0.06, 0.23, 0.10, 0.25, 0.04, 0.15, 0.17}

- The survey criteria are almost exactly the same as 2014

SURVEY CRITERIA

Table 1: Important features of retirement schemes

Universal scheme	**Compulsory Saving Scheme**
The amount of the pension.	The desirability of accumulated savings.
The age of eligibility.	The importance of saving flexibility.
The desirability of means testing.	
The willingness to increase current taxes to pay for the pension.	
The willingness to increase taxes on future generations to pay for the pension.	

SURVEY CRITERIA

1. Amount of NZ Superannuation everyone receives **(Pension Amount)**

- $460 a week (current level)
- increases by $30 a week to $490

This is the only change, raised from $360 pw

2. Age when NZ Superannuation starts **(Age 65/67)**

- 67 years (2 years later)
- 65 years (current policy)

3. Extra taxes to be paid now? **(Current Taxes)**

- everyone pays 2% more taxes (EXAMPLE: $20 more each week if earning $50,000)
- no extra taxes

4. Extra taxes the next generation (i.e. not you) has to pay **(Future Taxes)**

- 5% more taxes (EXAMPLE: $50 more each week if earning $50,000)
- 3% more taxes (EXAMPLE: $30 more each week if earning $50,000)

5. Will everyone receive the same amount of NZ Superannuation? **(Means Testing)**

- No, people with retirement savings greater than $200,000 have their NZ Superannuation reduced by $60 per week
- Yes, everyone gets the same NZ Superannuation

6. The amount of your personal savings to spend or invest when you retire **(Wealth Amount)**

- 2 years of your average annual income (don't worry how you get this amount)
- 3 years of your average annual income (don't worry how you get this amount)

7. Savings flexibility **(Flexible Savings)**

- it is compulsory to save 5% of your income each week (EXAMPLE: $50 put aside each week if earning $50,000)
- you can save when and how you like

SURVEY POPULATION AND RESULTS

- Most people answered 12 questions in 5 minutes
- The survey has a consistency test – the easiest 2 questions are repeated.
- People who don't answer consistently are dropped
- 1066 people in 2014,
- 1299 people in 2022

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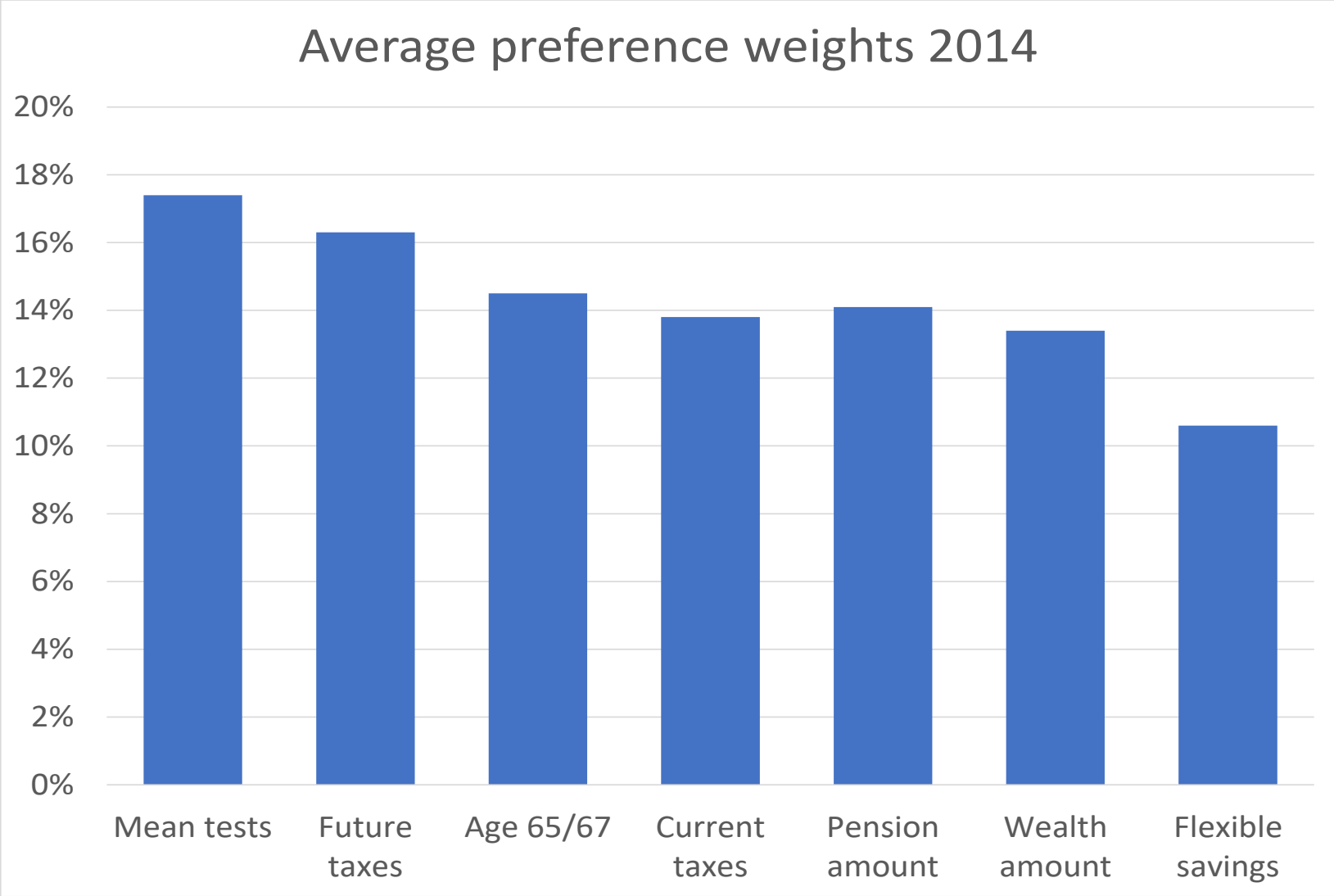

Most Important ⟷ Least Important

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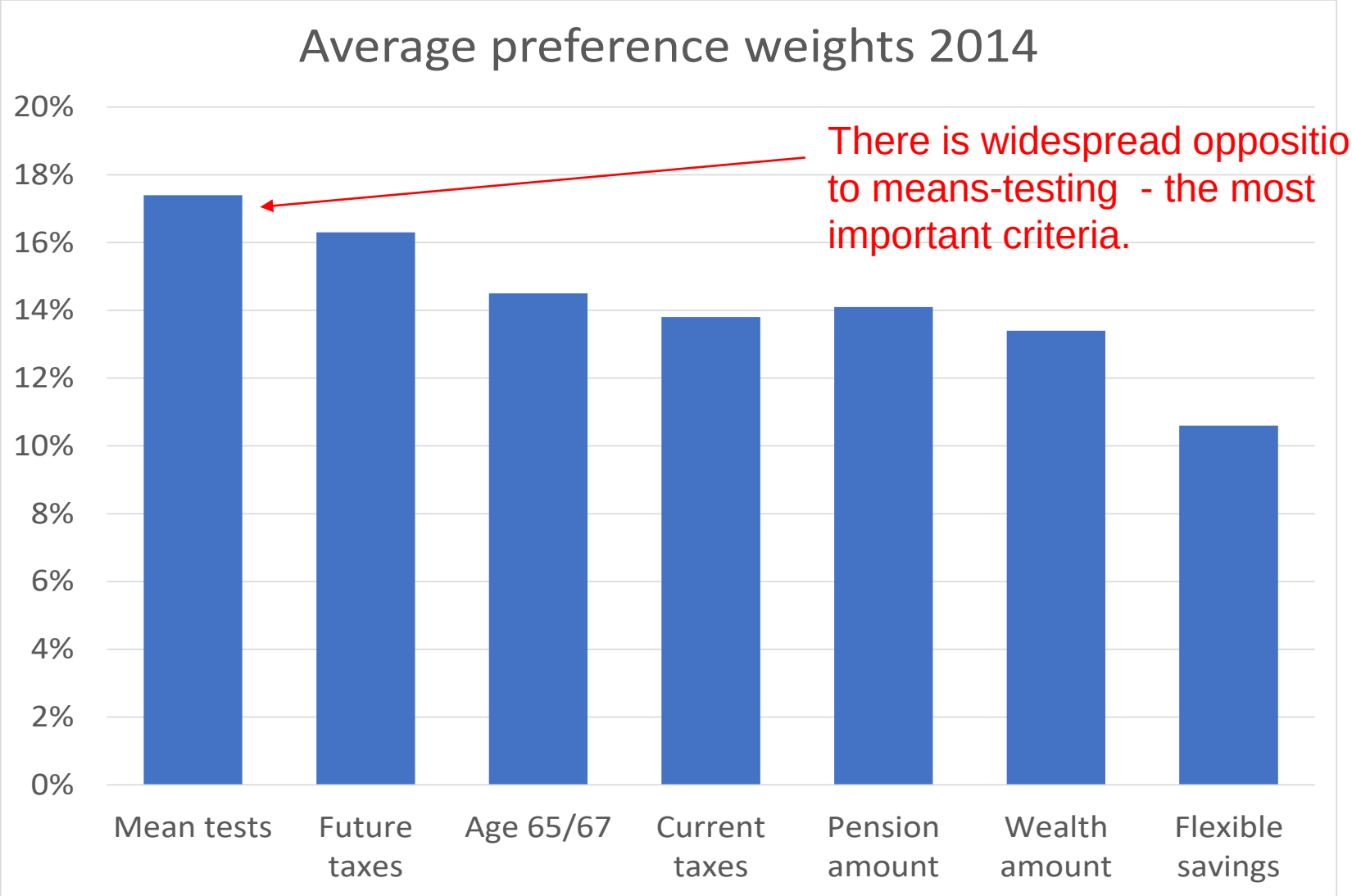

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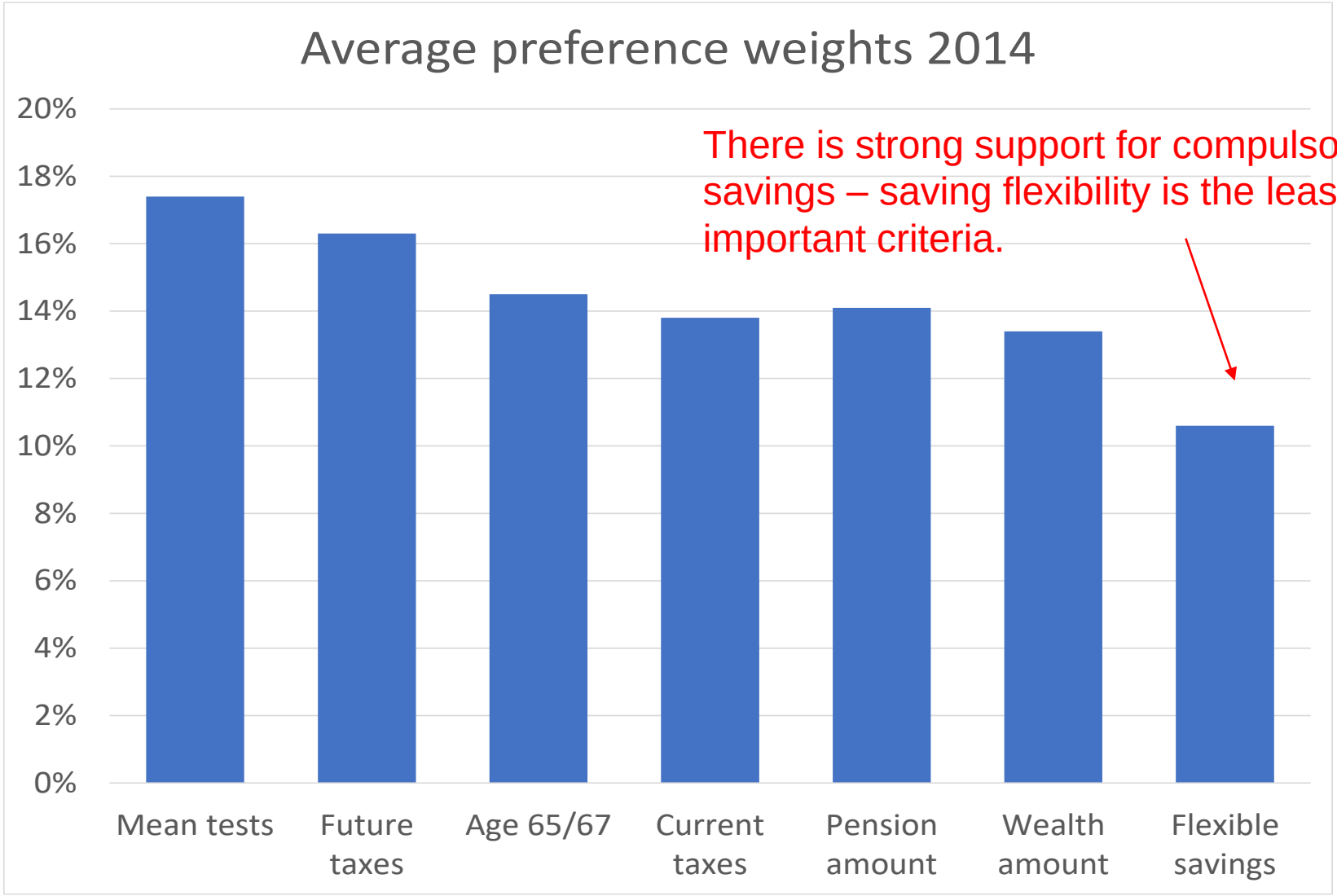

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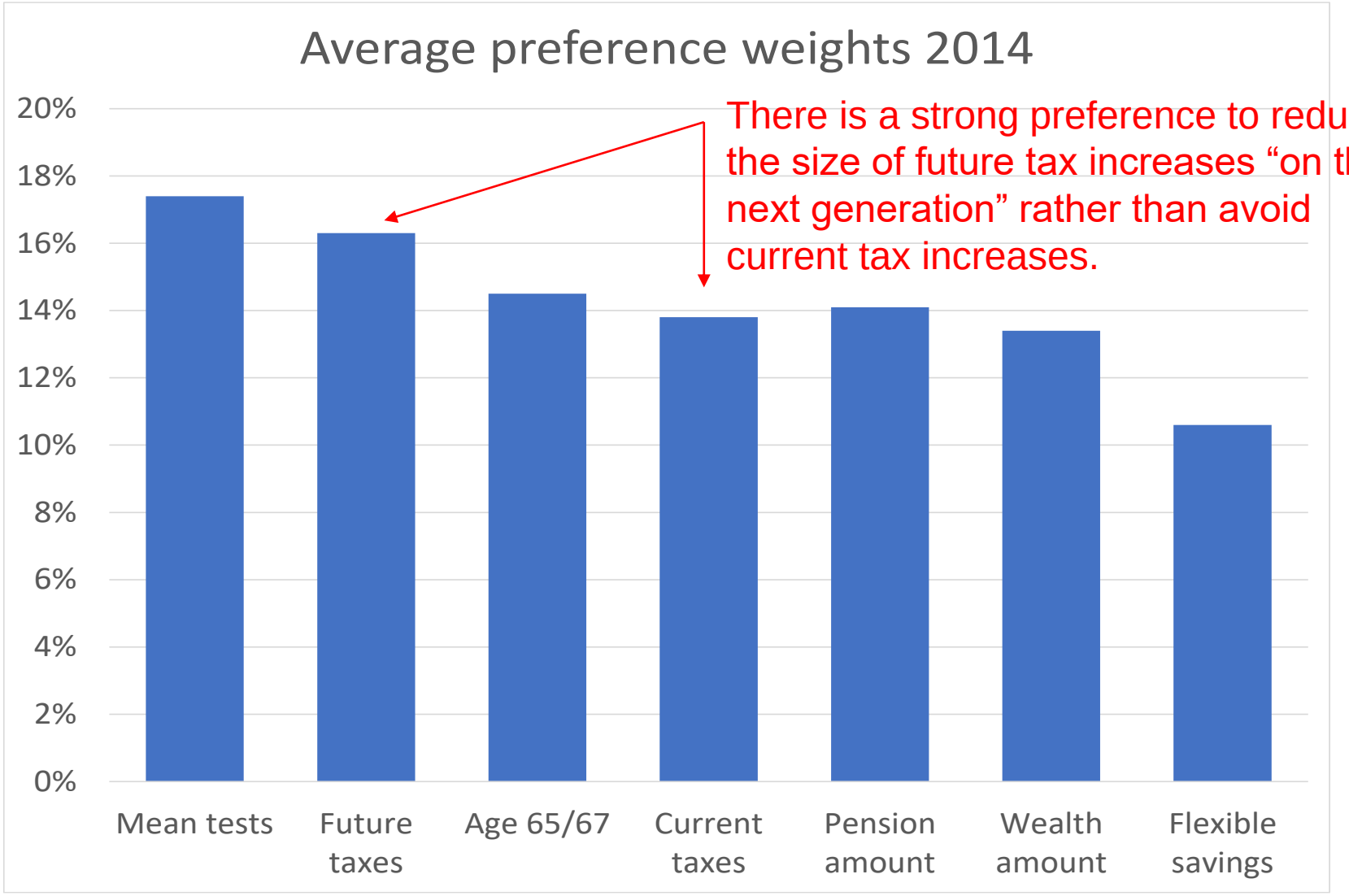

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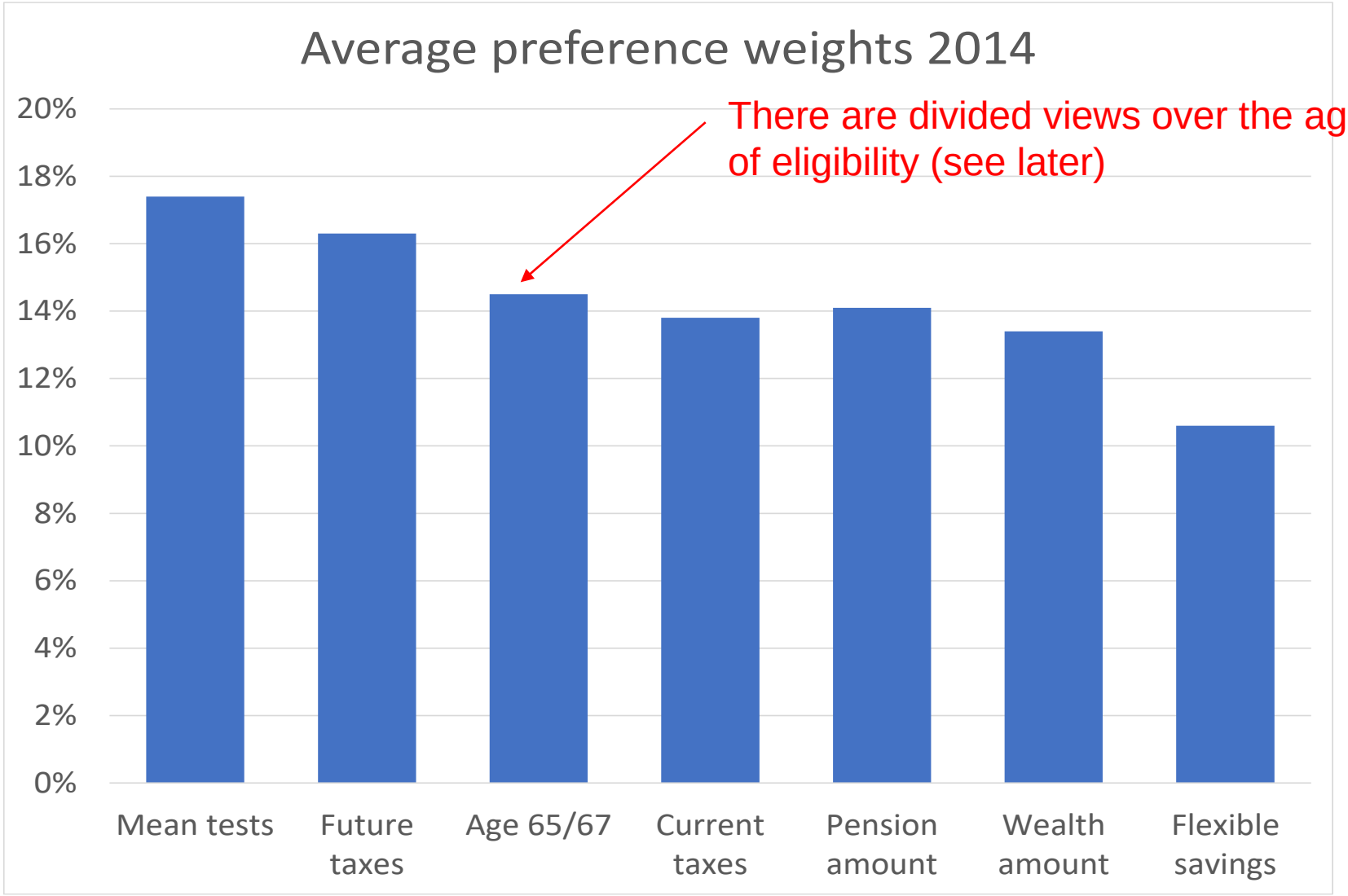

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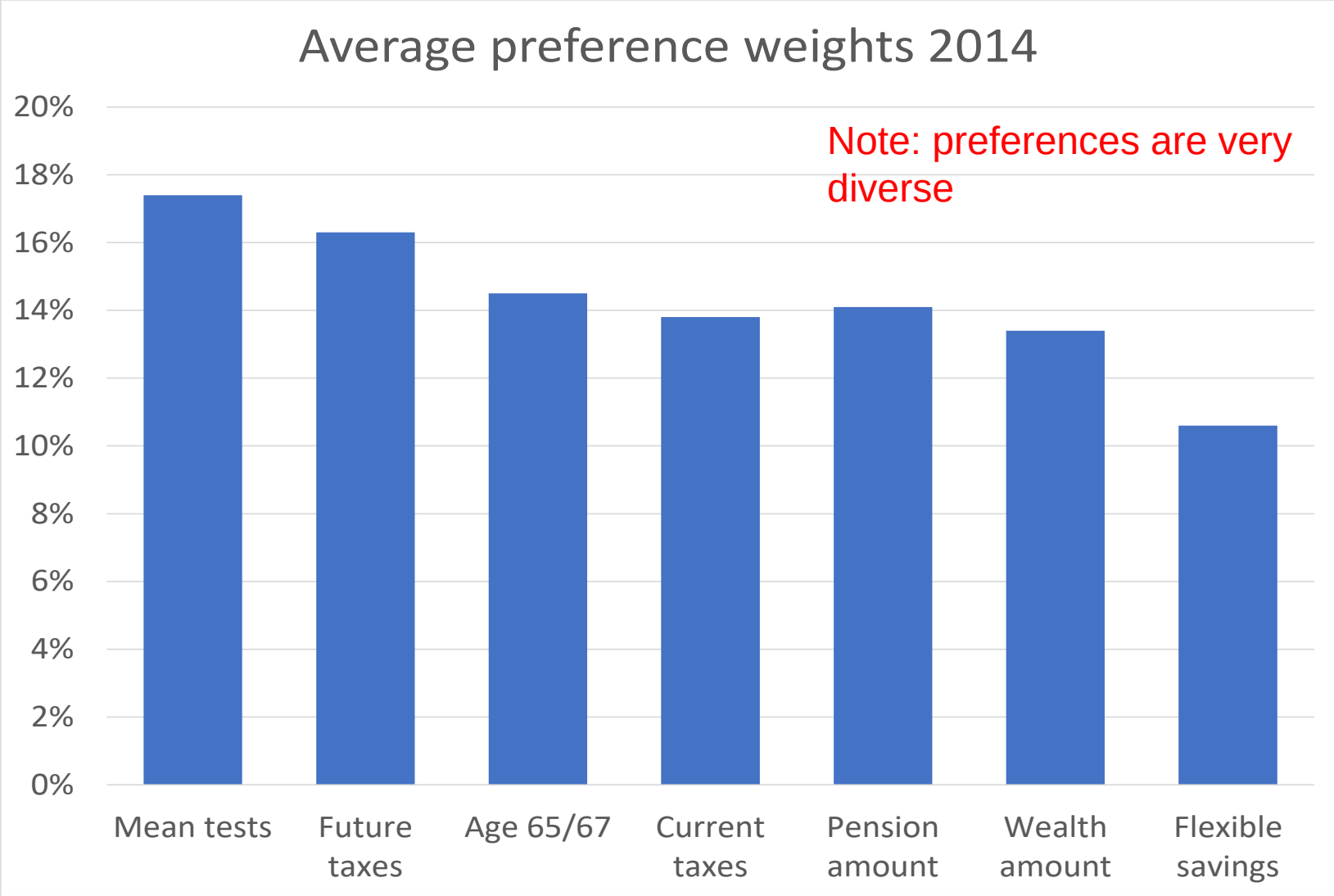

Most Important ⟷ Least Important

PAIRWISE COMPARISON 2014: TAXES

Do we raise taxes now to prevent higher taxes on the next generation?

- 65% people said "Yes"
- 30% people say "No"

- Similar across all social-economic groups

- Clear evidence of a desire for intergenerationally neutral and sustainable policies
- Can be achieved by more aggressive prefunding via NZ Superannuation Fund

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2022 SURVEY – KEY FEATURES

1. Survey occurred August 2022
2. 1299 valid responses
3. It is random but not representative
    1. Too many women (58%)
    2. Too many young and insufficient older representatives (29% < 35; 14% > 65)
    3. Ethnically representative
    4. But it doesn't matter too much (discussed later)
4. 15% decline in those saying that they are somewhat or very confident they will have a comfortable retirement

Table 2. Selected economic and demographic characteristics of the survey respondents, 2022

Category	2022	Change	Category	2022	change	Category	2022	change
Gender			Age (years)			Household income		
Male	42%	-4%	18-24	14	{+13%	<$30,000	12%	{-5%
Female	58%	+4%	25-34	25%	{	$30,000-$50,000	15%	{
			35-64	47%	-12%	$50,000-$100,000	31%	-10%
			65+	14%	-1%	$100,000+	32%	+5%
Education			Ethnicity			Employment status		
Degree	46%	-2%	European	71%	-5%	Full-time	54%	+1%
Post-sec. school	19%	-1%	Māori	18%	+6%	Part-time	14%	-3%
High school	34%	+2%	Pacific	5%	-1%	Not working	19%	+4%
			Asian	12%		Retired	13%	-2%

Table 2. Selected economic and demographic characteristics of the survey respondents, 2022

Category	2022	Change	Category	2022	change	Category	2022	change
Geographical spread			Children			Marital status		
Auckland	32%	-1%	Yes	46%	+6%	Married	41%	-20%
Other North Island	44%	+3%	No	54%	-6%	De facto	22%	+7%
South Island	23%	-3%				Single	37%	+13%
Confidence in retirement			KiwiSaver member?					
Not confident	18%	+10%	Yes	78%	+11%			
Not too confident	32%	+5%	No	21%	-11%			
Some confidence	42%	-7%						
Very confident	8%	-8%						

Source: Authors' calculations derived from the survey responses. "change" is the difference between 2022 and 2014 surveys.

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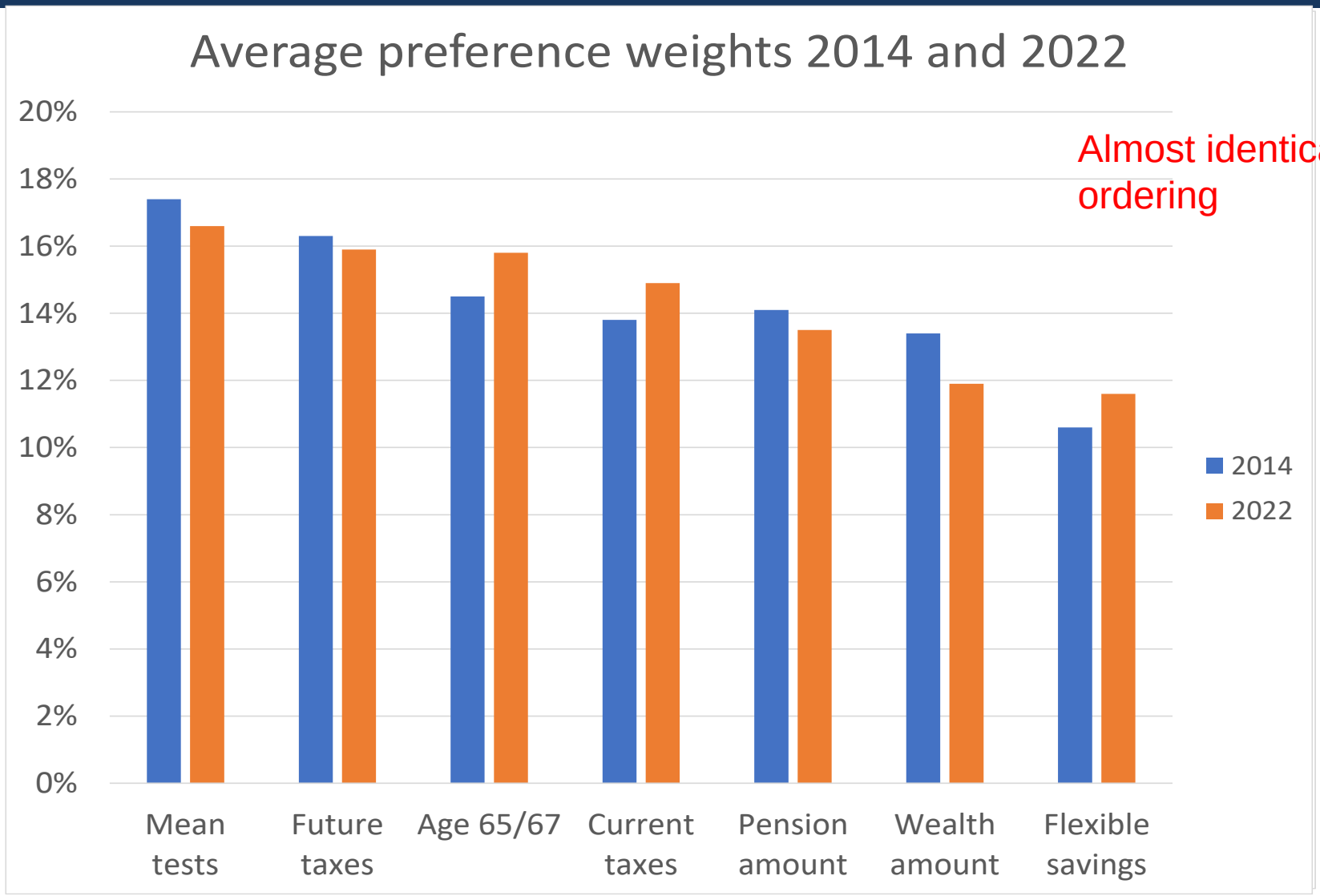

Most Important ⟷ Least Important

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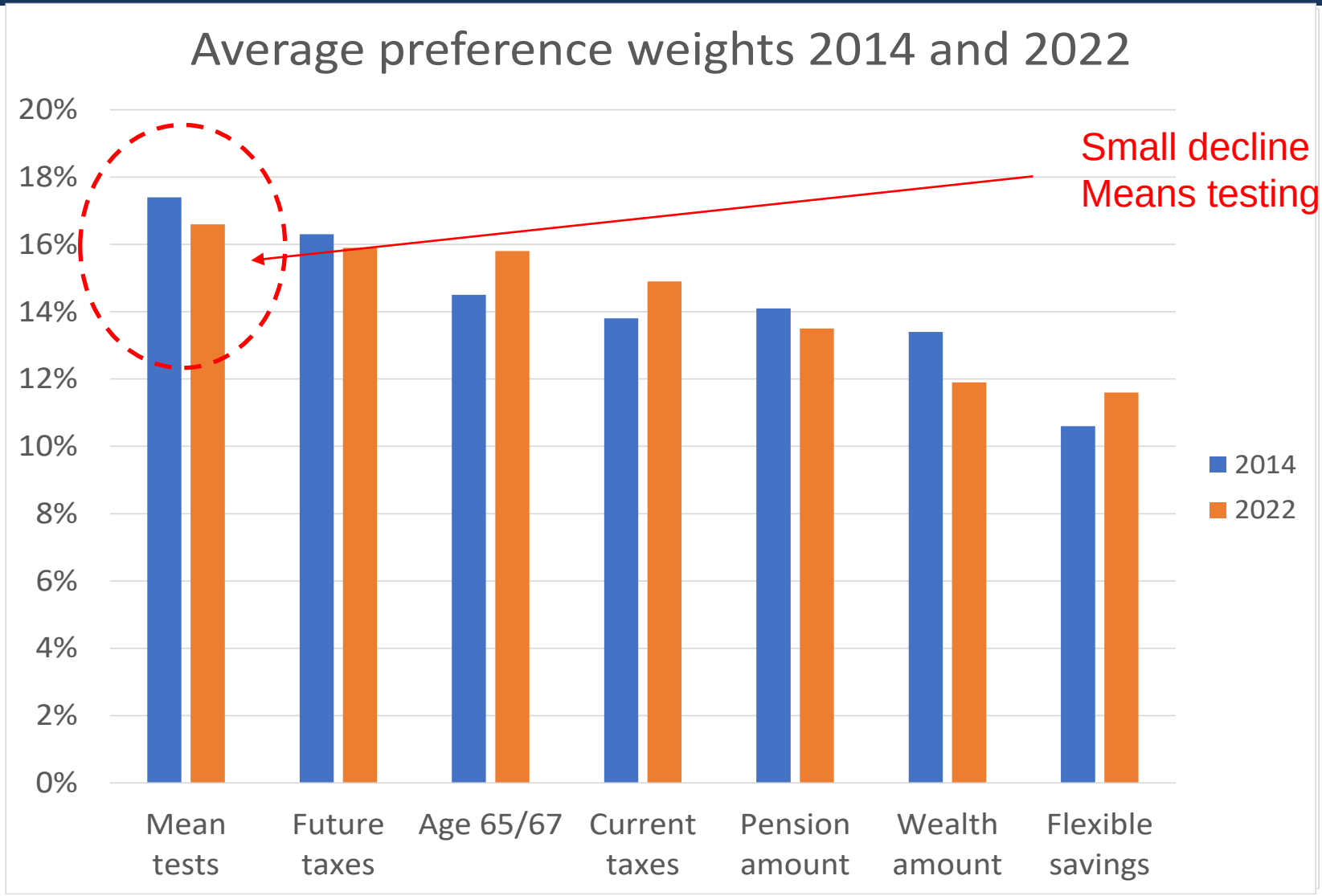

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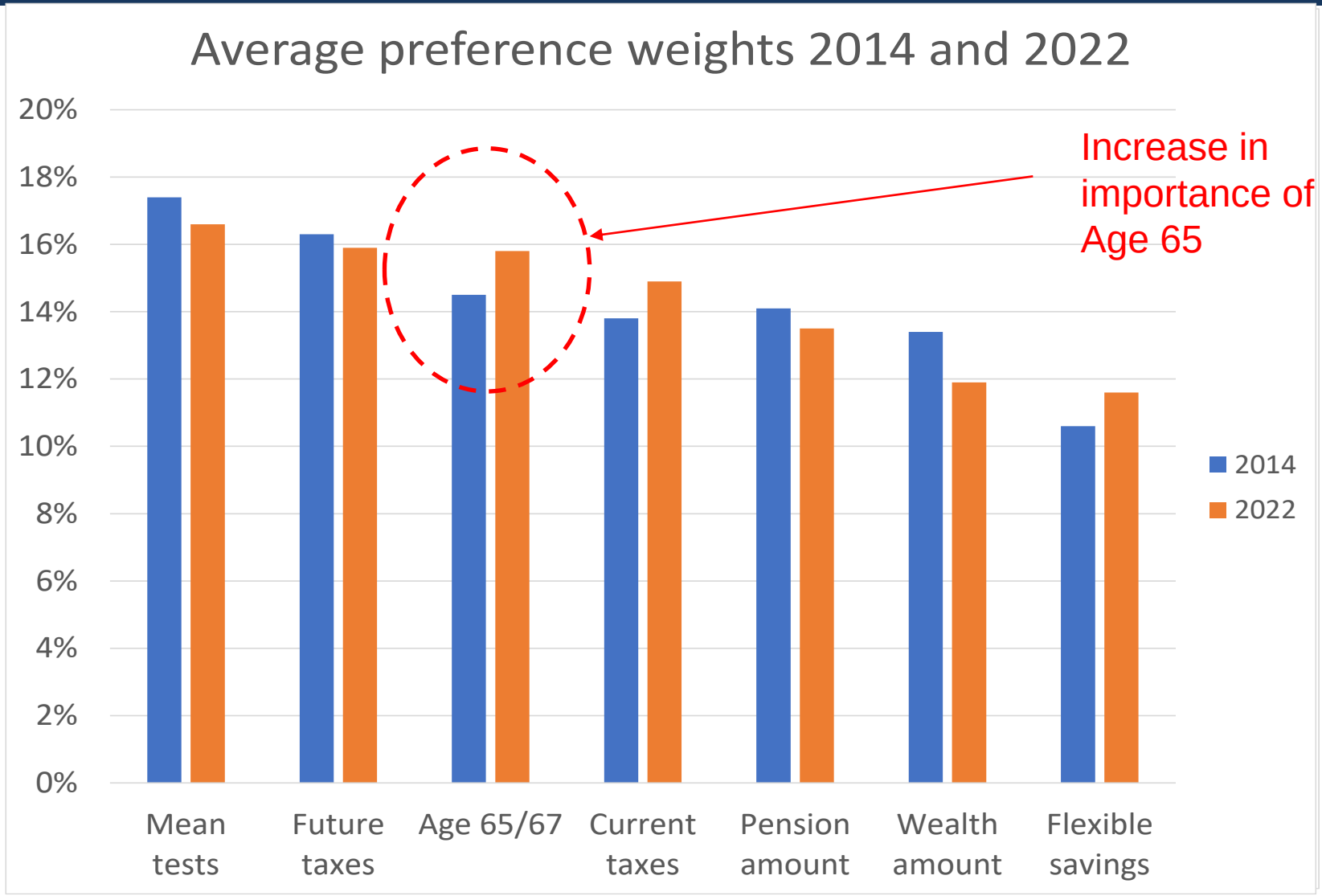

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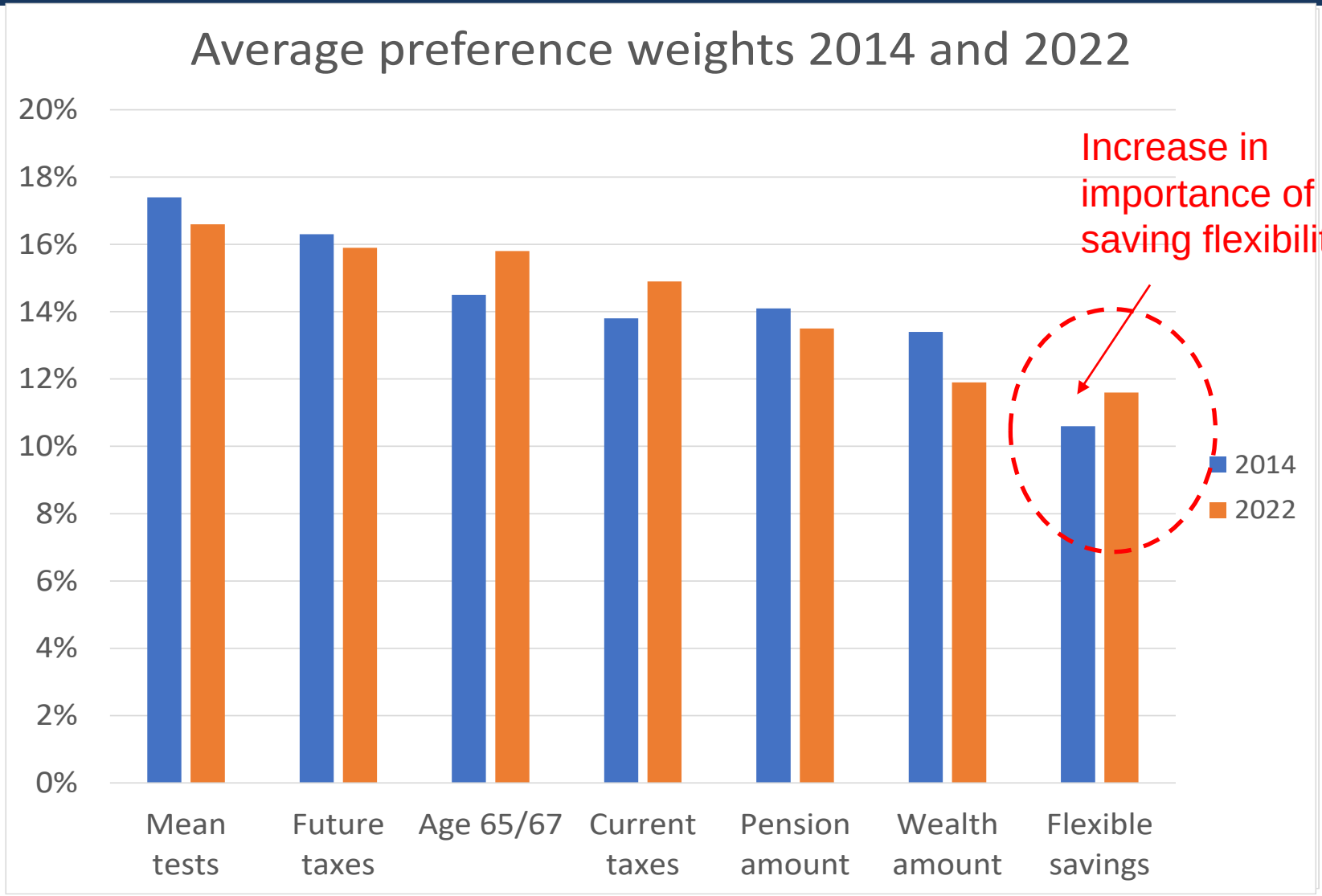

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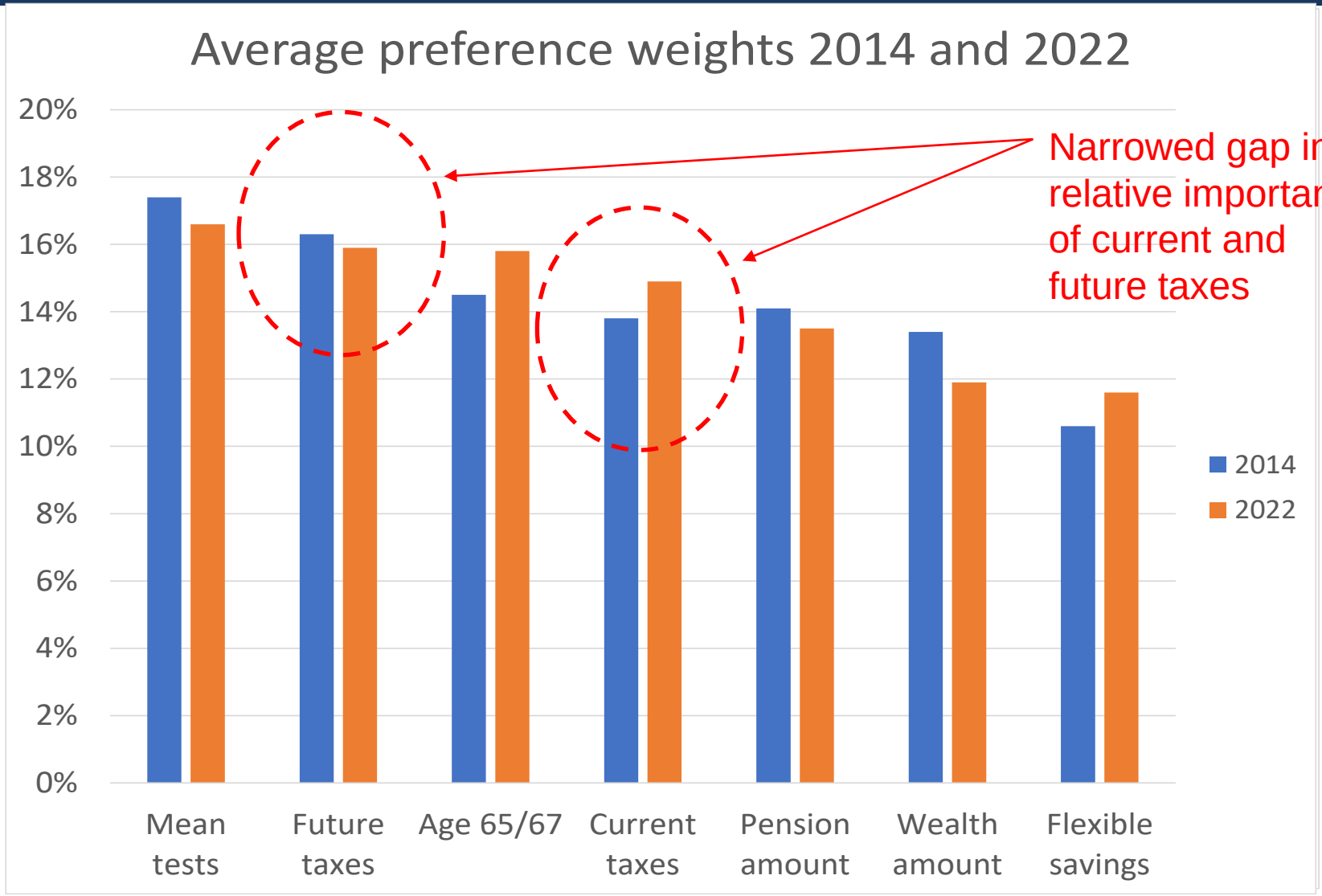


Most Important ⟷ Least Important

2022 RESULTS – KEY FEATURES

Difficult technical question: do the changes reflect the different composition of the survey respondents, or does sit reflect a fundamental change in preferences?

There are two components to the answer.

(1) While there are differences between different subgroups (eg men, women), the differences are not large

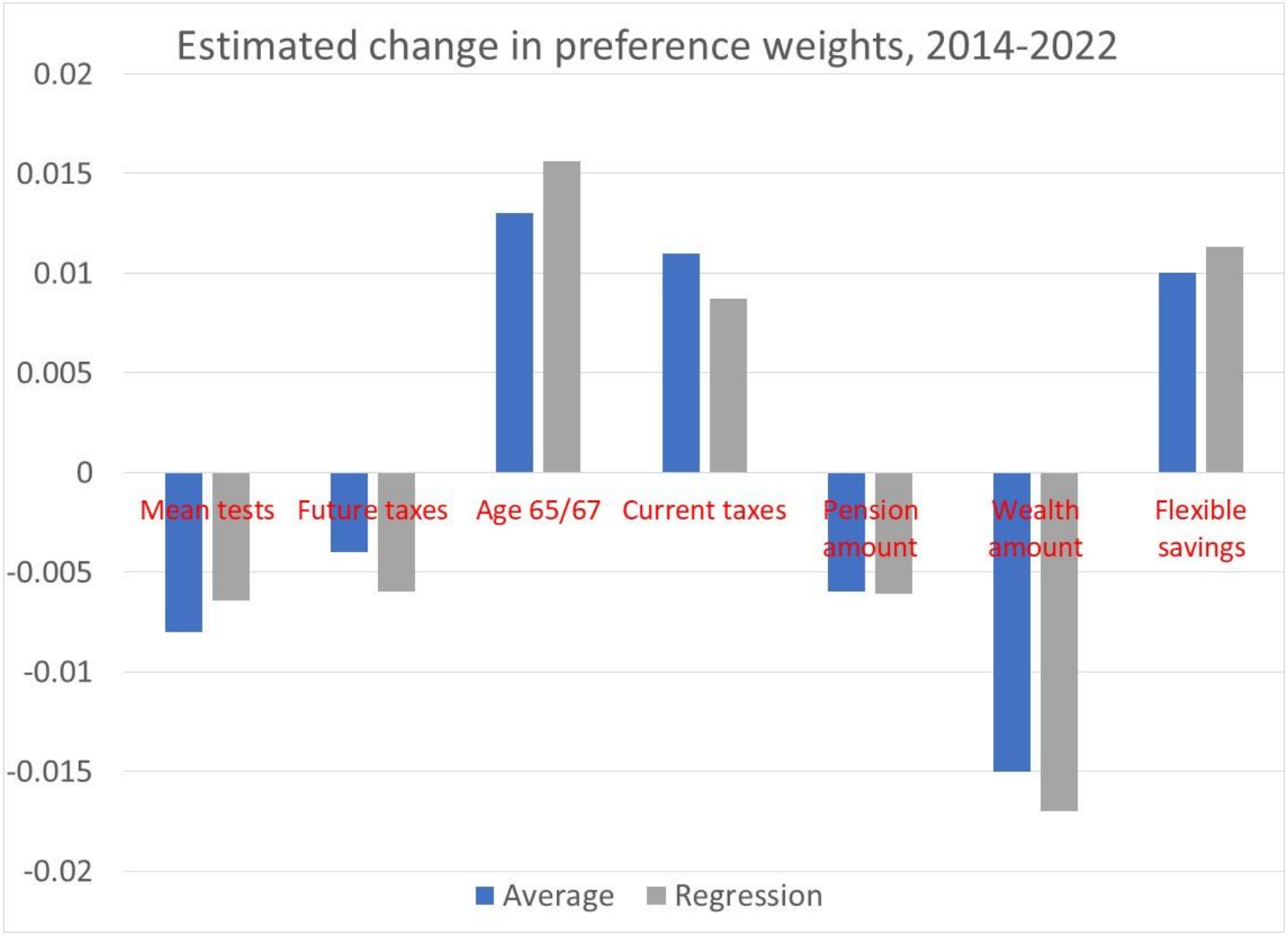
– changing the fraction of subgroups in the population doesn't have a major effect on the average of the whole population.

2022 RESULTS – KEY FEATURES

(2) [More convincing, but complicated answer]

- We estimate regressions that compare the results in 2022 and 2014 conditional on the observable characteristics such as age or gender, and allow the averages in 2022 and 2014 to be different.
- These regressions automatically take into account the changing composition of the samples.
- If the differences in the average weights of the criteria between 2022 and 2014 measured by the simple averages and the regression averages are similar, it means the composition is not important.
- The following graph shows the two sets of differences are very similar, meaning the sample composition is not the reason for the differences

Change in weights 2014 - 2022



PAIRWISE COMPARISON 2022: TAXES

Do we raise taxes now to prevent higher taxes on the next generation?

- 53% people said "Yes" (versus 65% in 2014)
- 40% people say "No" (versus 30% in 2014)

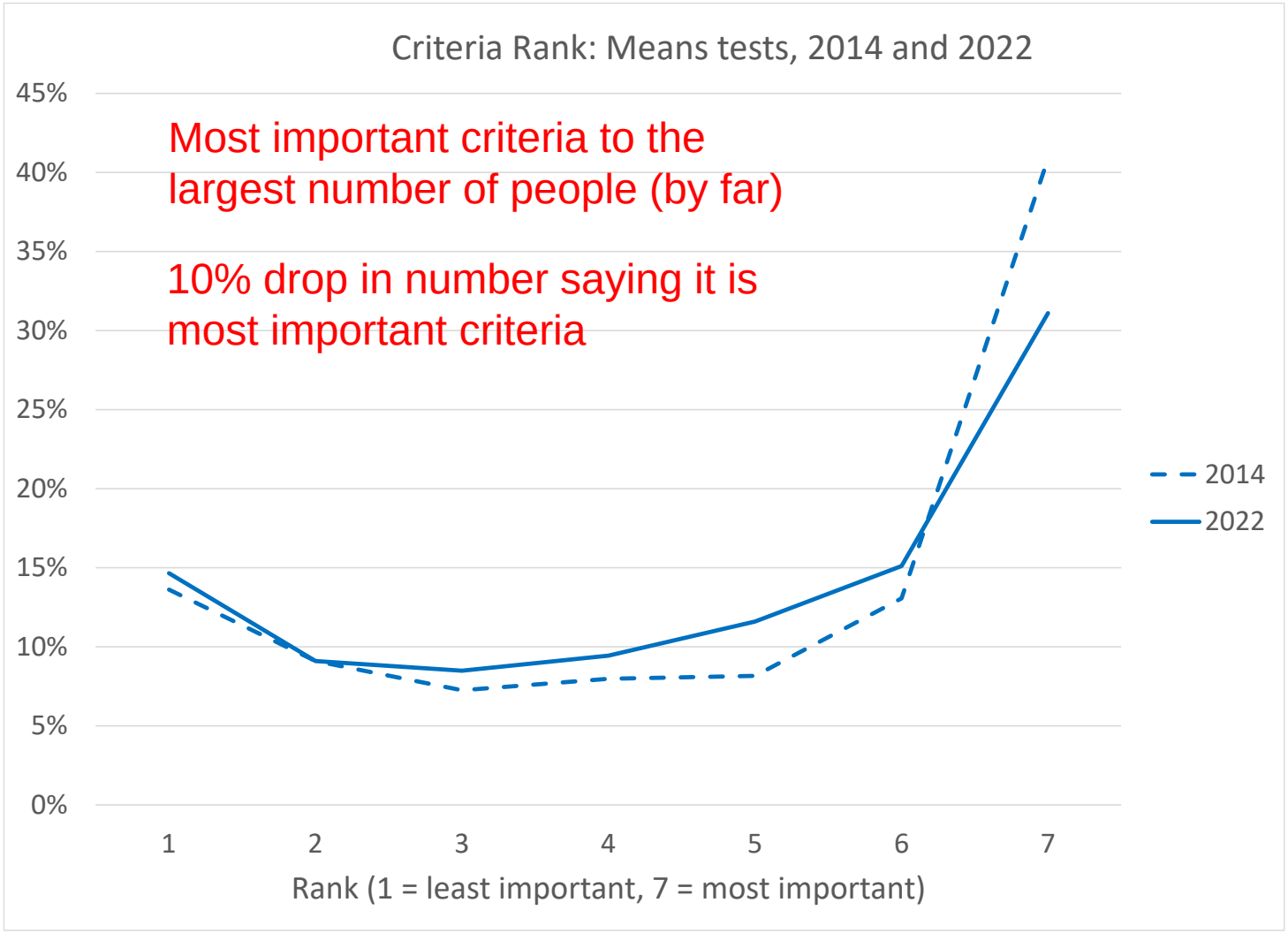
- Stronger preference for females than males (55 to 50%)
- Less clear evidence of a desire for intergenerationally neutral policies
- The main reason is a higher reluctance to increase current taxes in 2022 than 2014, rather than changing preferences over taxes on the next generation

2022 - 2014 RESULTS – KEY FEATURES

- The following graphs show the distribution of preferences for each criteria

- There are several shapes showing relative importance

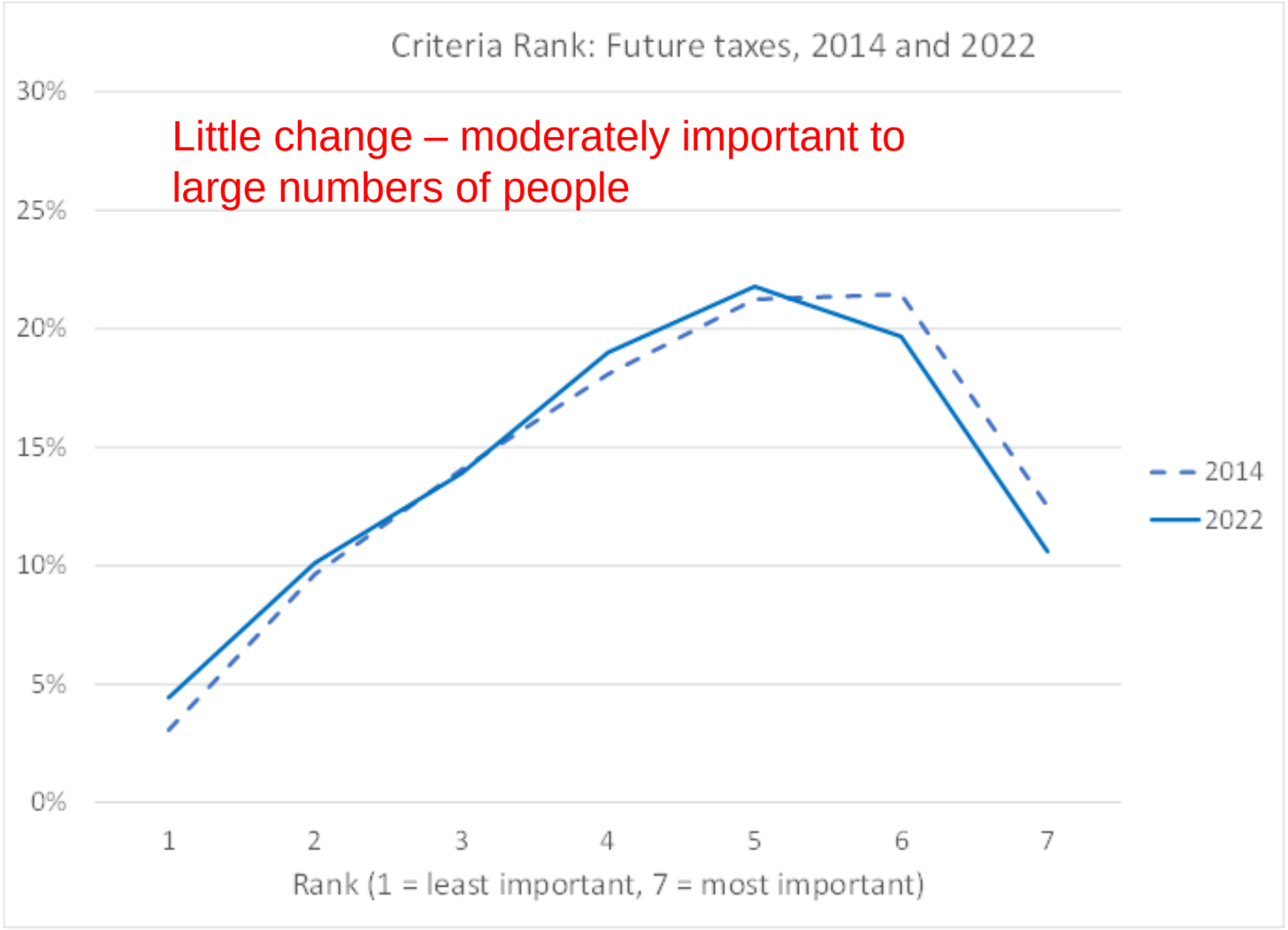
MOST IMPORTANT CRITERIA: NO MEANS-TESTING



1 = Least Important

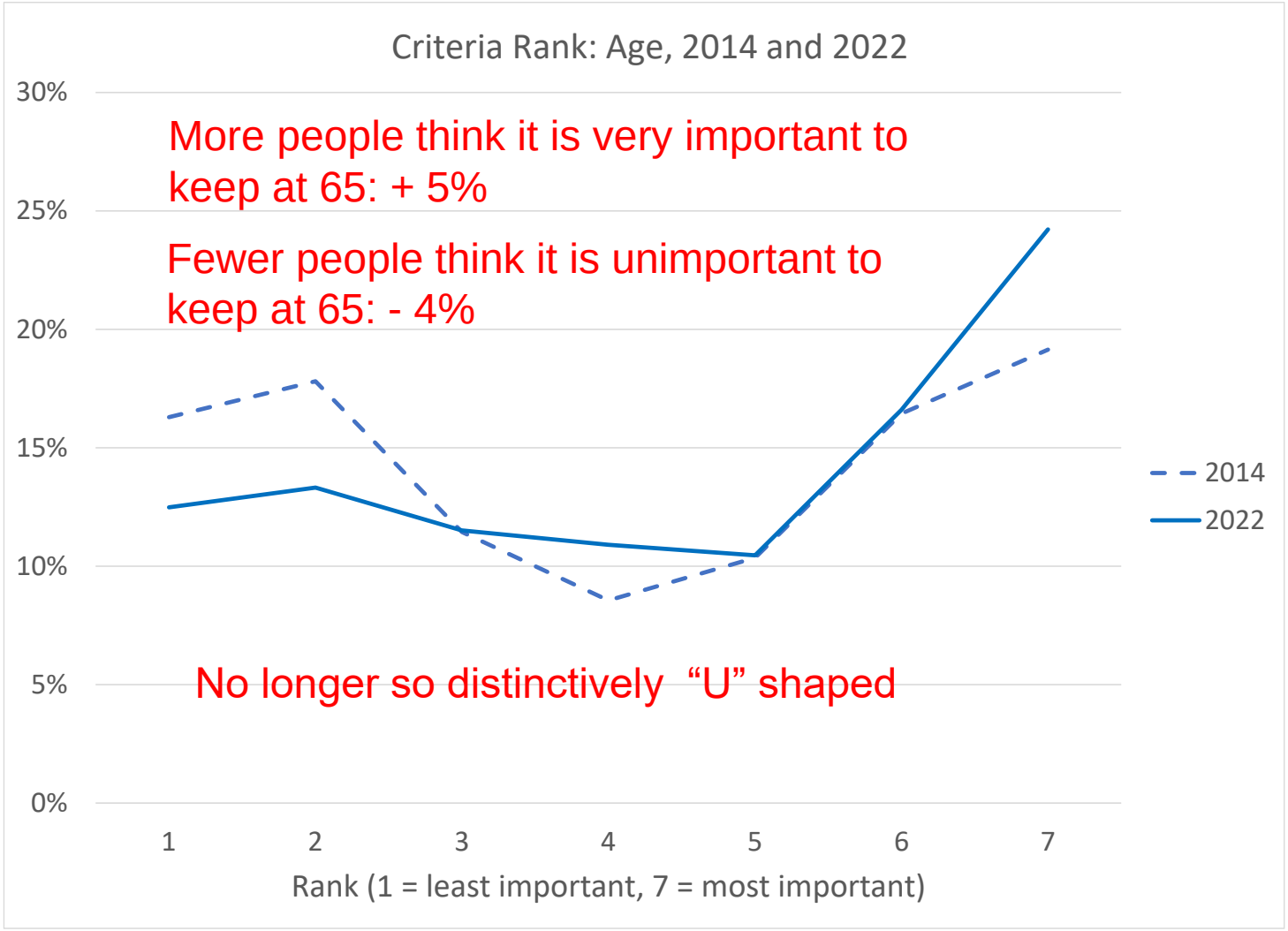
7 = Most Important

SECOND MOST IMPORTANT CRITERIA: FUTURE TAXES



1 = Least Important ⟷ 7 = Most Important

AGE OF ELIGIBILITY



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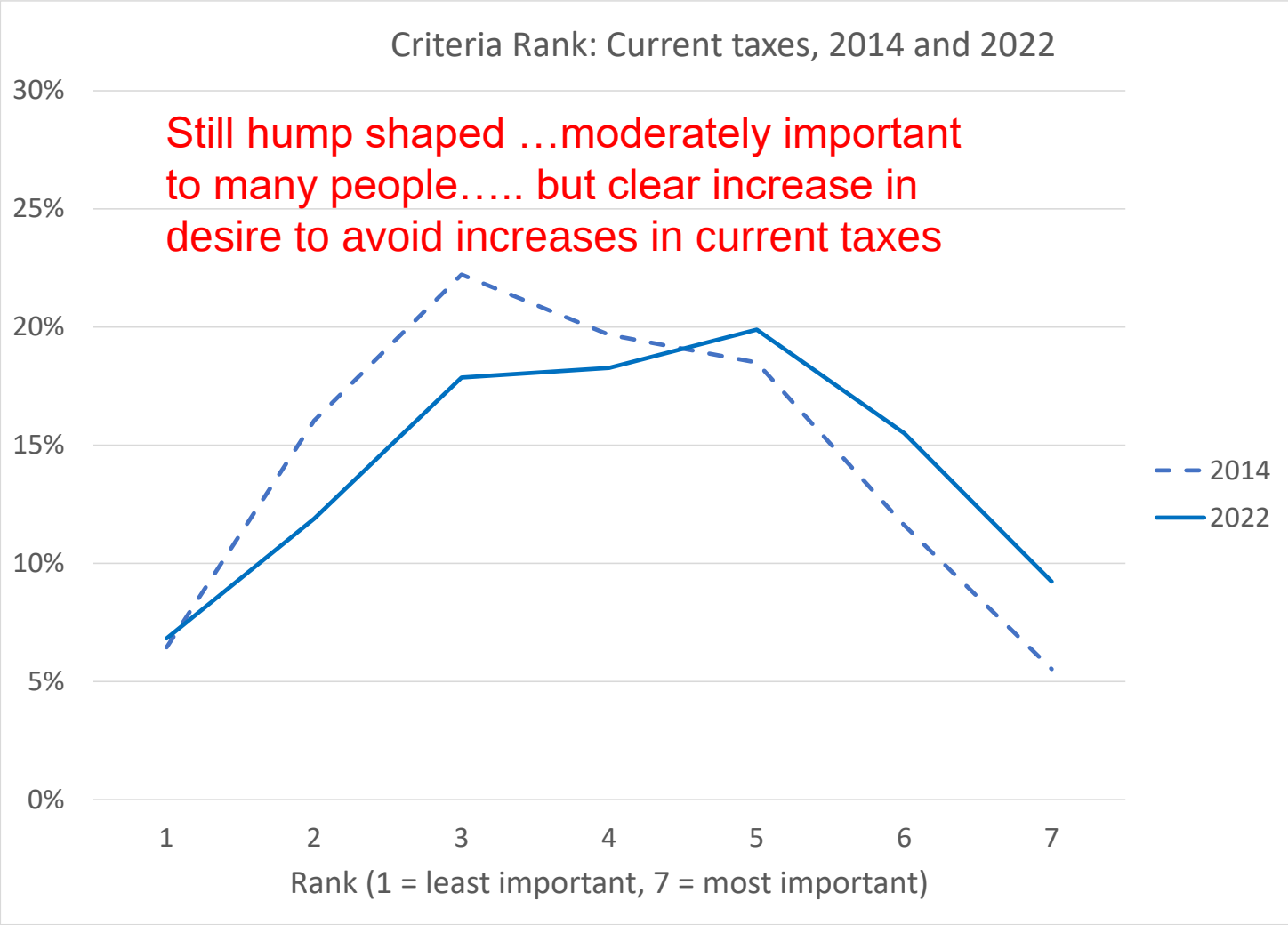
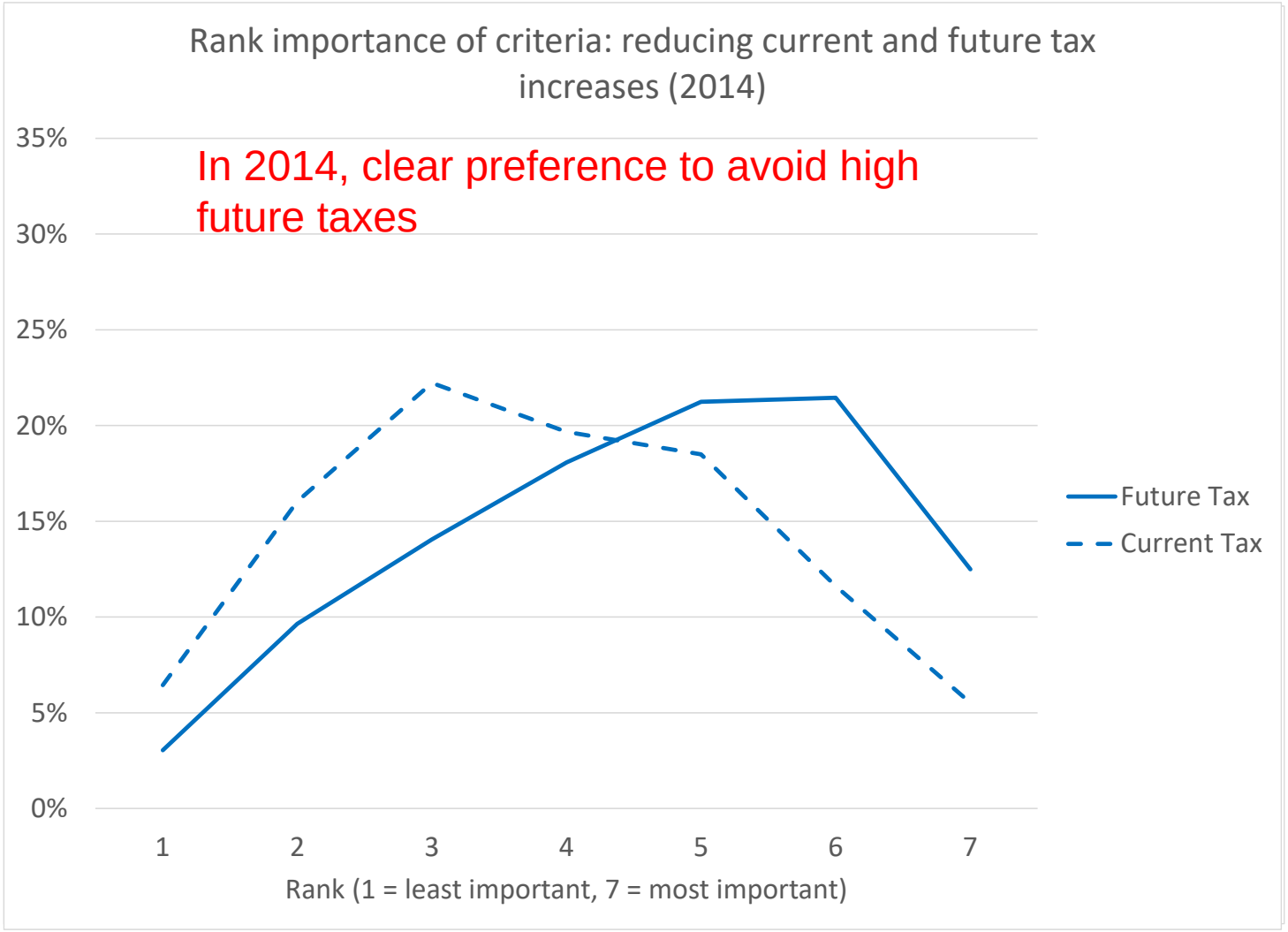
CURRENT TAXES



1 = Least Important ⟷ 7 = Most Important

CURRENT TAXES AND FUTURE TAXES 2014



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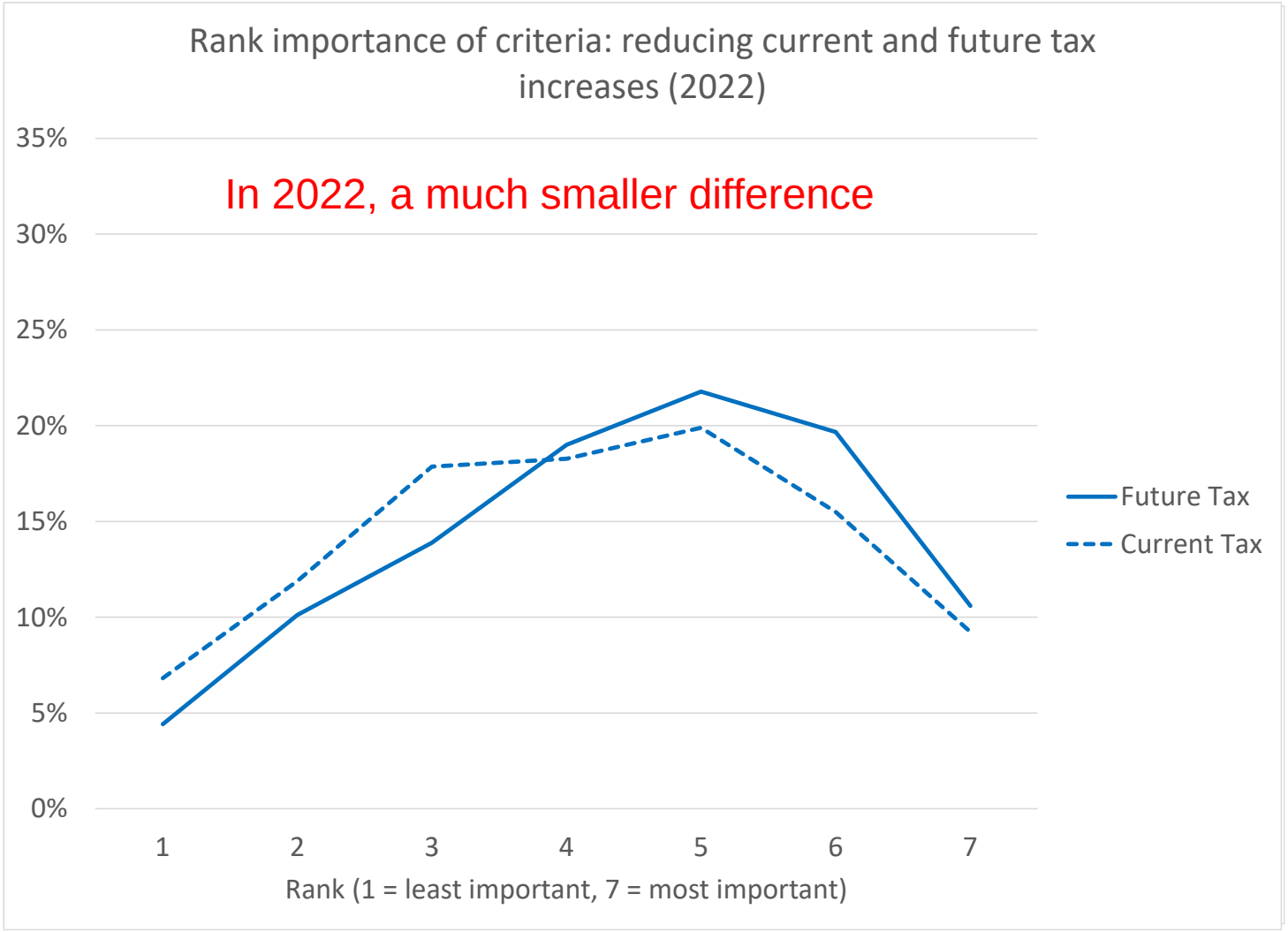
CURRENT TAXES AND FUTURE TAXES 2022



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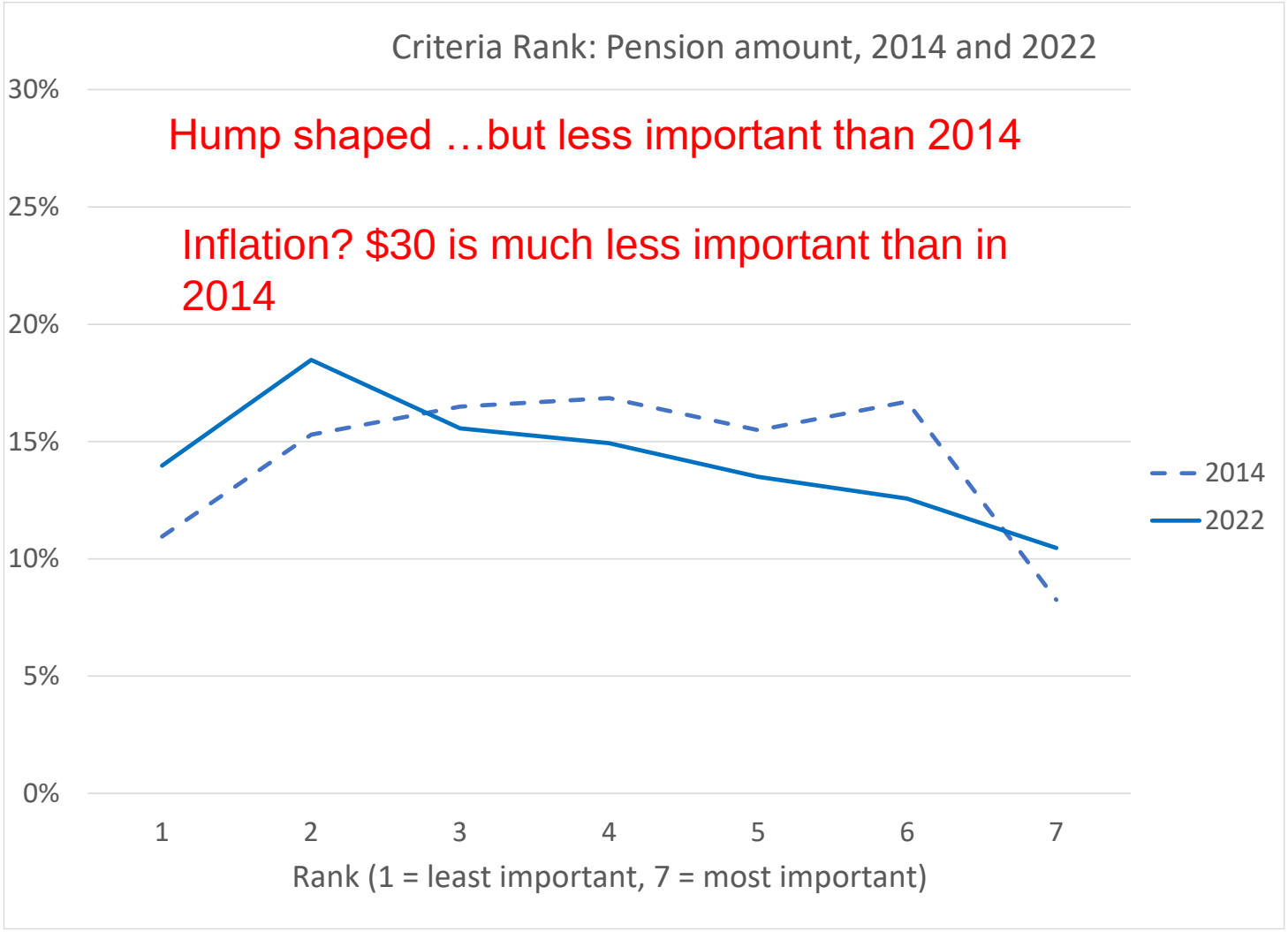
PENSION AMOUNT



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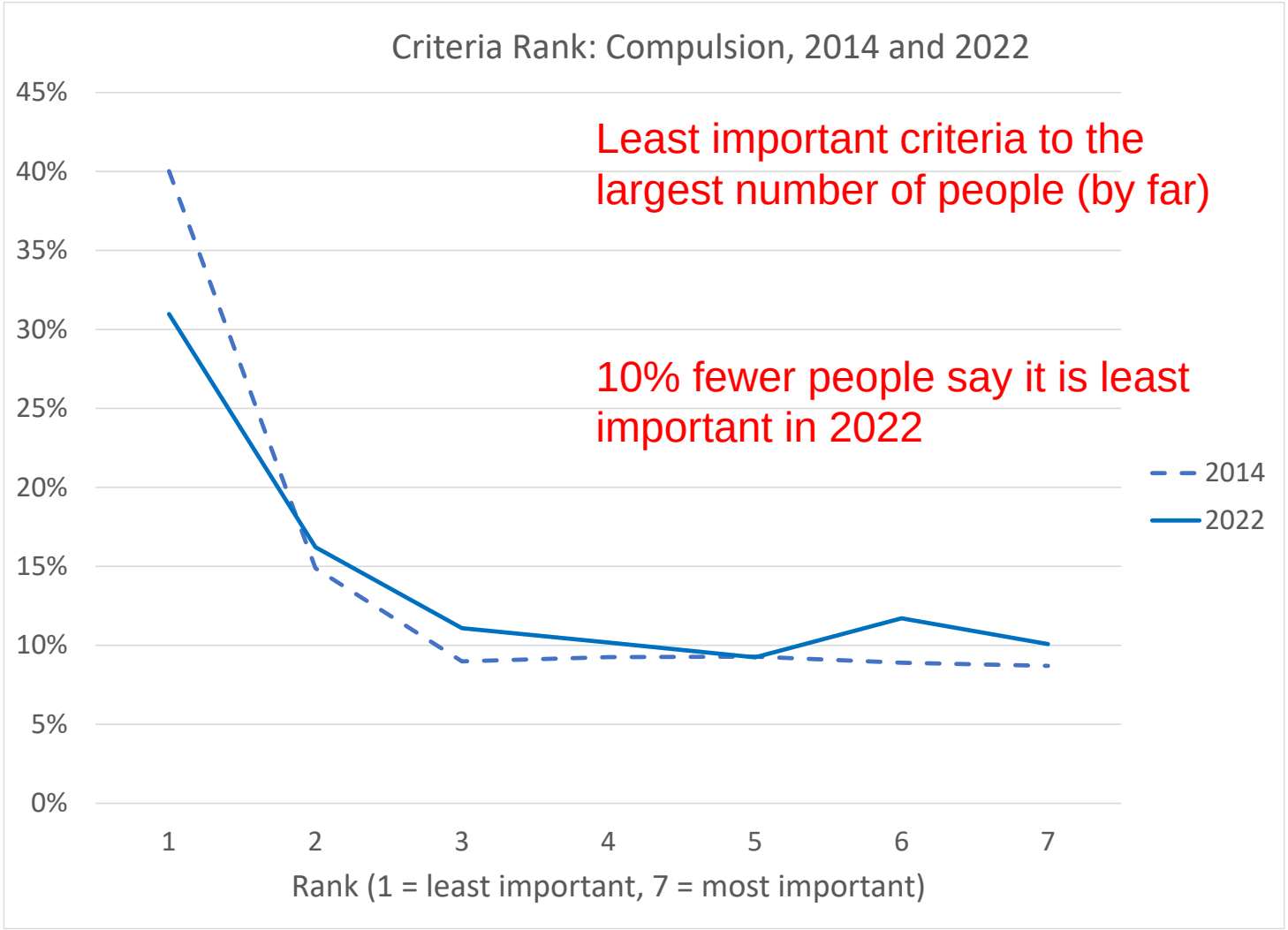
THE LEAST IMPORTANT CRITERIA: SAVING FLEXIBILITY



1 = Least Important ⟷ 7 = Most Important

(2) MEASURING THE DIVERSITY OF PREFERENCES

Dispersion – NZ preferences are very dispersed

Mean rank correlation coefficient is 0.07 on a scale of 0 – 1, where

0 -	the 5040 possible preference orderings are equally likely
1	everyone has the same ordering

In 2014 it was 0.08

(3) PREFERENCES BY DIFFERENT DEMOGRAPHICS

- We can compare differences in the mean rank given to each criteria for identifiable demographic groups
- We can calculate the simultaneous effect of each demographic factor on each criteria using fractional multinomial regressions.
- In general, both approaches lead to similar results - preferences depend on age and income, but the differences are typically small.

DIFFERENCES ACROSS IDENTIFIABLE GROUPS

1. *People aged 65 and over differ from those aged less than 65 along five dimensions:*
   - *It more important to have a higher pensions*
   - *It is more important to have more wealth in retirement,*
   - *They are more opposed to means-testing*
   - *They are less opposed to increases in current taxes*
   - *They are less concerned to keep the age of eligibility at 65.*

- The differences are small with respect to other people (those under 65) but they are statistically significant

- There is still much more variation in preferences amongst people over 65 than there is variation in the average preferences between groups.

DO PREFERENCES VARY WITH INCOME?

2. *People living in low-income households have a stronger preference for keeping the age of eligibility at 65 than other groups; they are also more opposed to compulsion but less concerned about means-testing or future tax rates.*

- *The same preferences are shown by people who are not confident they will be comfortable in retirement, but they are more strongly held. (The latter group also expresses a much greater willingness to impose means-tests and would also like to see the size of the pension increased.)*

- These preferences are similar in 2014 and 2022

DO PREFERENCES VARY WITH KIWISAVER?

3. *People not in KiwiSaver (who are disproportionately retired)*
   - *More willing to have means-tests*
   - *More concerned to increase the pension*
   - *More concerned to have saving flexibility*
   - *Less concerned about future tax increases*

Determinants of preferences?

Table 5: Summary of preference differences by population subgroups

	High weight	Low weight
Means Test	Opposed to means test	Comfortable with means test
	65+, high income, married.	Low income, not working, single, Pasifika.
	KiwiSaver member, high retirement confidence.	Not KiwiSaver member, low retirement confidence.
Future Taxes	Wants low future taxes	Comfortable with tax increases
	Female, university degree. KiwiSaver member.	Male, 18-24. Not KiwiSaver member.
Age	Keep eligibility age at 65	Comfortable to raise age to 67
	55-64, low income, Pasifika, tertiary but not degree educated.	
Current taxes	Wants low current taxes	Comfortable with tax increases
	18 – 35, full-time, Asian, university educated.	55+, low income, European, tertiary but not degree educated.

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	18 – 35, full-time, Asian, university educated.	55+, low income, European, tertiary but not degree educated.

Determinants of preferences?

Table 5: Summary of preference differences by population subgroups

	High weight	Low weight
Pension amount	Increase in pension	No change in pension
	65+, retired, lower North Island. Not KiwiSaver member, low retirement confidence	High income, Auckland. KiwiSaver member, high retirement confidence.
Savings	High retirement wealth is important	High retirement wealth not important
	65+, European, South Island.	33-45, low income, Māori, upper North Island.
Saving Flexibility	Saving Flexibility important – opposed to compulsion	Saving flexibility unimportant, comfortable with compulsion
	35-44, low income, not working or part-time, School education, Māori. Not KiwiSaver member, low retirement confidence.	High income, full-time, university educated. KiwiSaver member, high retirement confidence.

Determinants of preferences?

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Summary on subgroups

1. The differences are real, but they are small relative to variation within each subgroup

- "How you think matters more than how you look."

2. There is divide along the lines of confidence/income/ employment

- High confidence/higher income/ full-time paid working people are happy with compulsion, opposed to means-testing, and ok with current level of the pension
- Low confidence/ lower income/ part-time or unpaid people are happy with means-testing, opposed to compulsion, would like a higher pension amount and age 65

Summary on subgroups

- Note that NZ has the most unusual pension scheme in the OECD as it is a welfare based rather contributory system

- (Speculation) Some of these fault lines between confident and less confident people over means-testing, saving flexibility, and the size of the pension may be capturing the desire of fully employed working people for a contributory scheme.

CLUSTERING – MAPPING DENSITY

- We can divide the total group into subgroups with similar preferences and calculate the density across the preference space
- We found five distinctive preference clusters (regions where people have similar preferences, like densely populated suburbs of cities)
- Cluster differences are much larger than demographic differences

Clusters

- The five clusters are

	2014	2022	change
Status quo plus compulsion	27%	28%	+1%
Raise age plus compulsion	24%	21%	-3%
Means test and redistribution	19%	19%	1%
Pension minimalists	18%	17%	-1%
No compulsion	13%	15%	+2%

Same clusters and similar weights

Clusters

- The five clusters are

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Less support for raising the age

Clusters

- The five clusters are

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Less support for compulsion

- We use a multinomial Chi-square test to see if there are big differences in the way subgroups sort themselves across these clusters
- In neither 2014 or 2022 do characteristics strongly predict membership of groups – people in all subgroups are found in all clusters in similar ratios

Summary

The technique and software seem very promising as a way to

1. estimate preferences based on willingness to make trade-offs ;
2. explicitly incorporate preference diversity into the policy development framework;
3. capture intertemporal tradeoffs and the willingness to adopt sustainable policies.

One key result:

Summary

The technique and software seem very promising as a way to

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2. explicitly incorporate preference diversity into the policy development framework;
3. capture intertemporal tradeoffs and the willingness to adopt sustainable policies.

One key result:

The results in 2022 are broadly similar with results from 2014.

Large numbers of New Zealanders are opposed to means-testing

Large numbers of New Zealanders would support a small compulsory system

Summary

There are some changes since 2014

1. There is less but still widespread opposition to means-testing,
2. There is a significantly weaker but still majority preference to raise current taxes rather than future taxes,
3. There is less but still strong support for compulsory savings,
4. There is less support for increasing the retirement age