

**Decumulation,
Problems, policies and potentials ?**

Financial Advisers Annual Conference
Grosvenor Financial Services Group Ltd
4th November 2016

Associate Professor Susan St John
Retirement Policy and Research Centre
Auckland Business School, University of Auckland

s.stjohn@auckland.ac.nz
<http://www.rprc.auckland.ac.nz>

1. Population What does NZ look like in the future?
2. What are the implications
 - for society
 - For individuals
3. Decumulation policies- do we have any?

Is there an elephant in the room?



Aging population doesn't matter: Bill English

Nathan Smith

Plenty of policy myths frustrate Finance Minister Bill English but none more so than "the aging population matters".

Speaking at a recent New Zealand Initiative seminar, Mr English described the aging population problem as essentially a lot of "hand-wringing" without a real solution.

"Here's some breaking news: there's nothing you can do about it. Or to put it another way, suggesting there's something you can do about it will be hazardous.

"It's like the fact that we need to breathe oxygen, it just is what it is. I have no idea why we waste so much time talking about

New Zealand has had many demographic changes over the past 30 or 40 years. In the 1970s there were few single-parent families but now, according to NZ Statistics, about 30% of children are born to single-parent families.

"This is a massive demographic change, with enormous implications, and we almost never talk about it."

His statements weren't well received by the Commission for Financial Capability's retirement commissioner Diane Maxwell, who questioned whether Mr English "actually meant that the aging population doesn't matter."

But Mr English says his point isn't that the government shouldn't prepare for the aging population.

BILL ENGLISH: People won't vote themselves poor, they're not stupid



previous government's insistence on doing "stupid stuff" includes choosing problems today that can benefit from government action.

"People won't vote themselves poor, they're not stupid. If they know they're going to be in retirement for 20 years,

they know they need a productive working economy to feed that and they will act accordingly.

"So I am pleased that, in the past five or six years, because of a rational promise by the prime minister which almost nobody agreed with, we haven't had to waste any time in retire-

ment commissions ... or arguing about retirement policy," Mr English says.

Instead, the National government is focusing on long-term costs which could be changed.

"This is the hard core of long-term dependency, starting with the 70% of children born into a beneficiary household who go on a benefit before they're 20 years old.

"It's the 470 families in Rotorua who have a parent with a custodial sentence, who've spent 75% of their life on a benefit, and

they've had a CYF's notification. That's the 'three' horsemen of the apocalypse," Mr English wryly says.









He says 63-year-olds on motorbikes are going to get old, no matter what happens. The aging population is a state of nature.

"There are only two fiscal answers to the aging population: pay fewer people or pay them less, that's it! Whether you are 83 or three years old, you need a robust growing economy," Mr English says.

nsmith@nzcr.co.nz

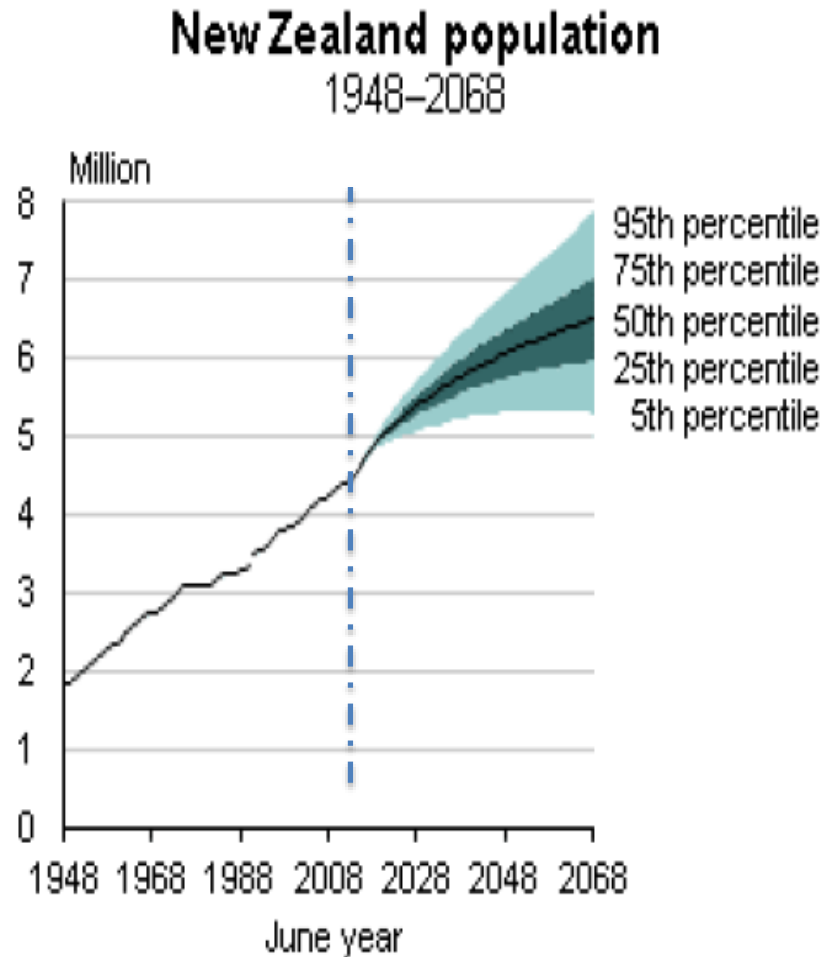
27th March 2015 National Business Review

1. Ageing: Coming ready or not

Projected ratios of different age groups		
	15-64 years	65+ years
2006		
2020		
2030		
2050		

	Population aged 65+
2016	700,000
2050	1,400,000

But the current population is growing



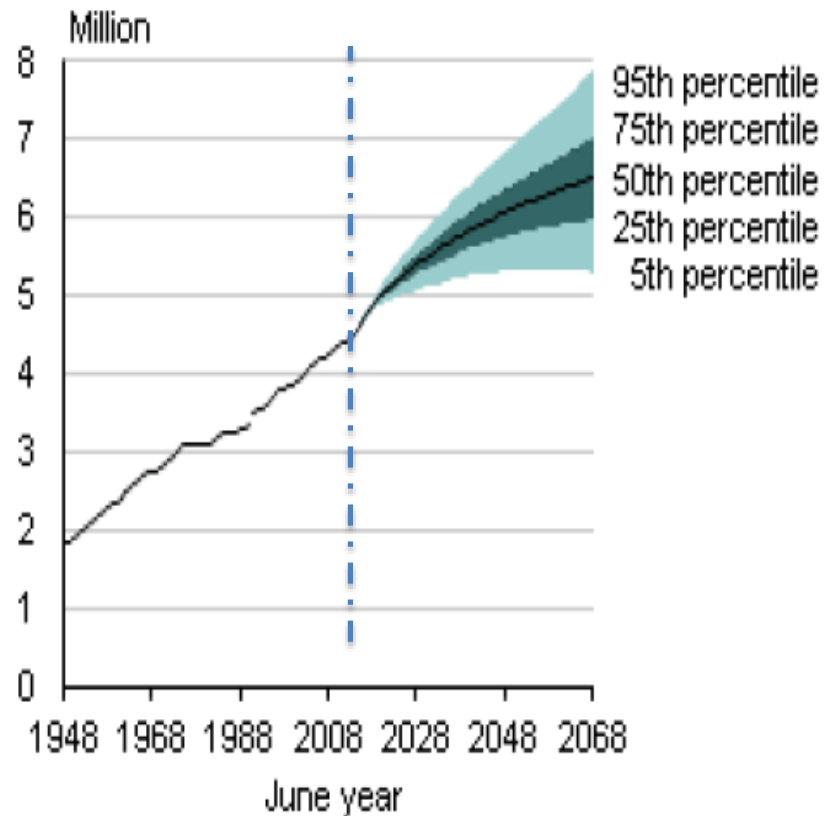
During the June 2016 year:
NZ population grew by 97,300
(2.1%).

Natural increase
(births-deaths) 28,200
Net migration gain 69,100.

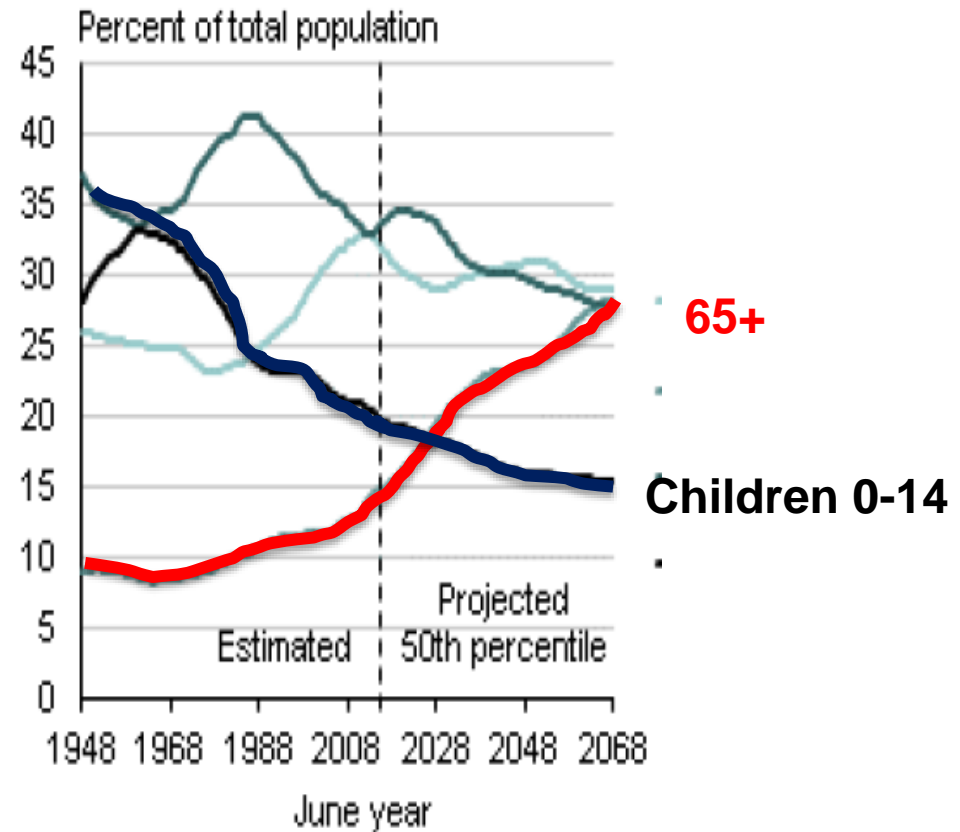
New Zealand's population is estimated to increase by one person every 5 minutes and 2 seconds.

Age structure changes dramatically

New Zealand population
1948-2068

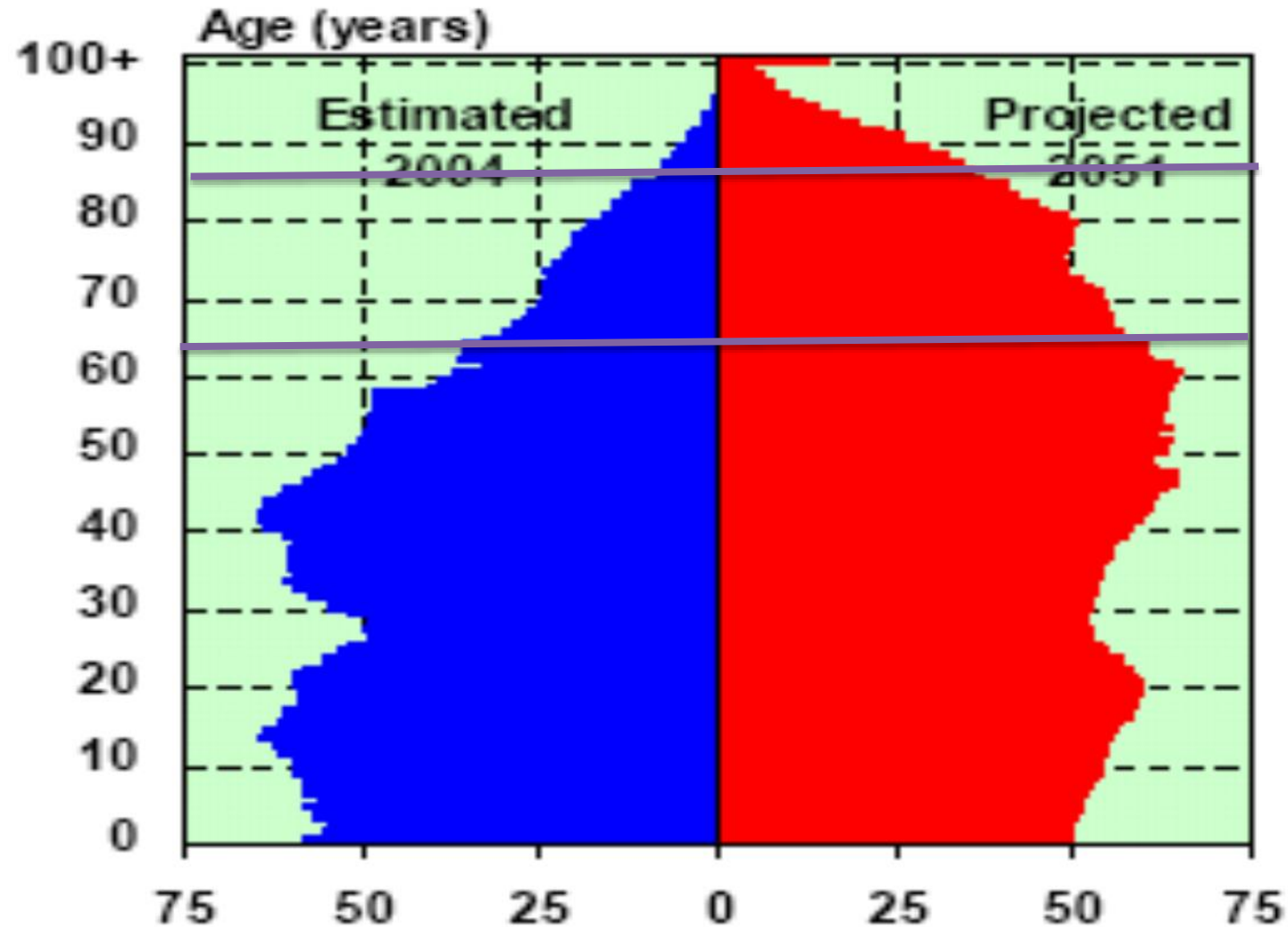


Age distribution of population
1948-2068



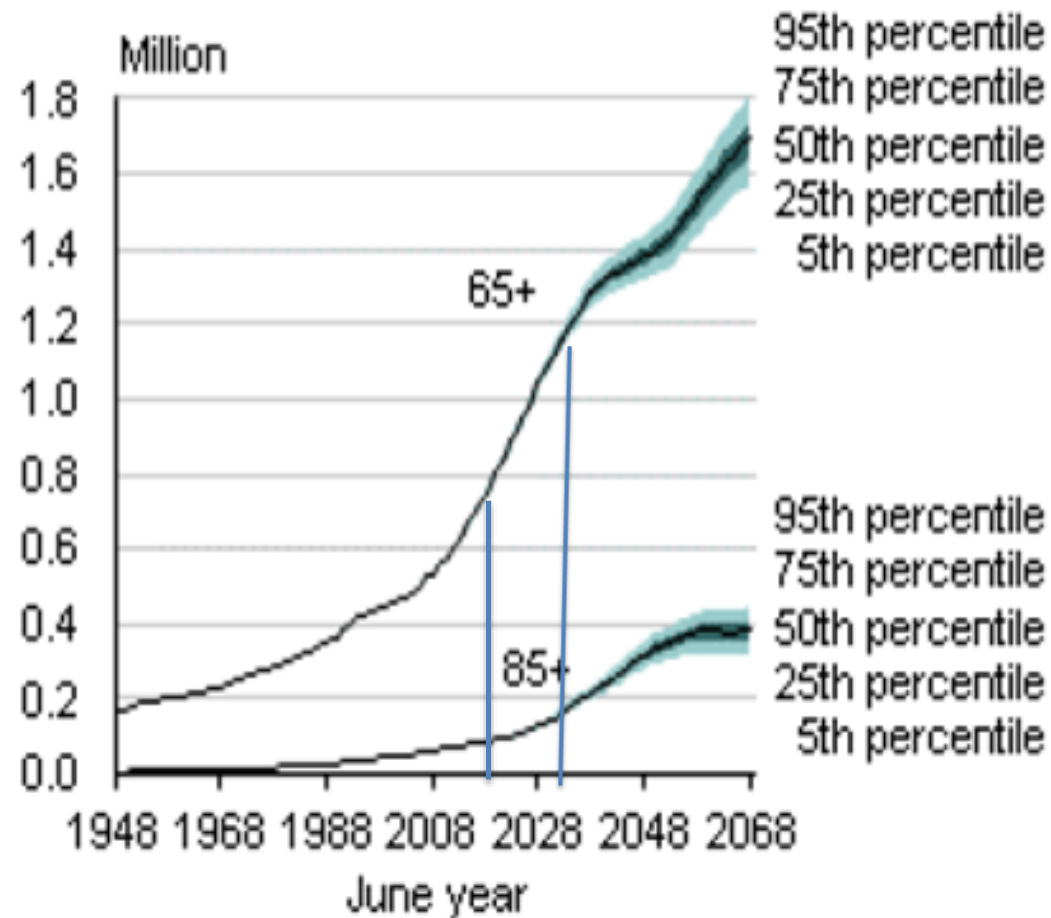
New Zealand of the future- what will it look like?

E

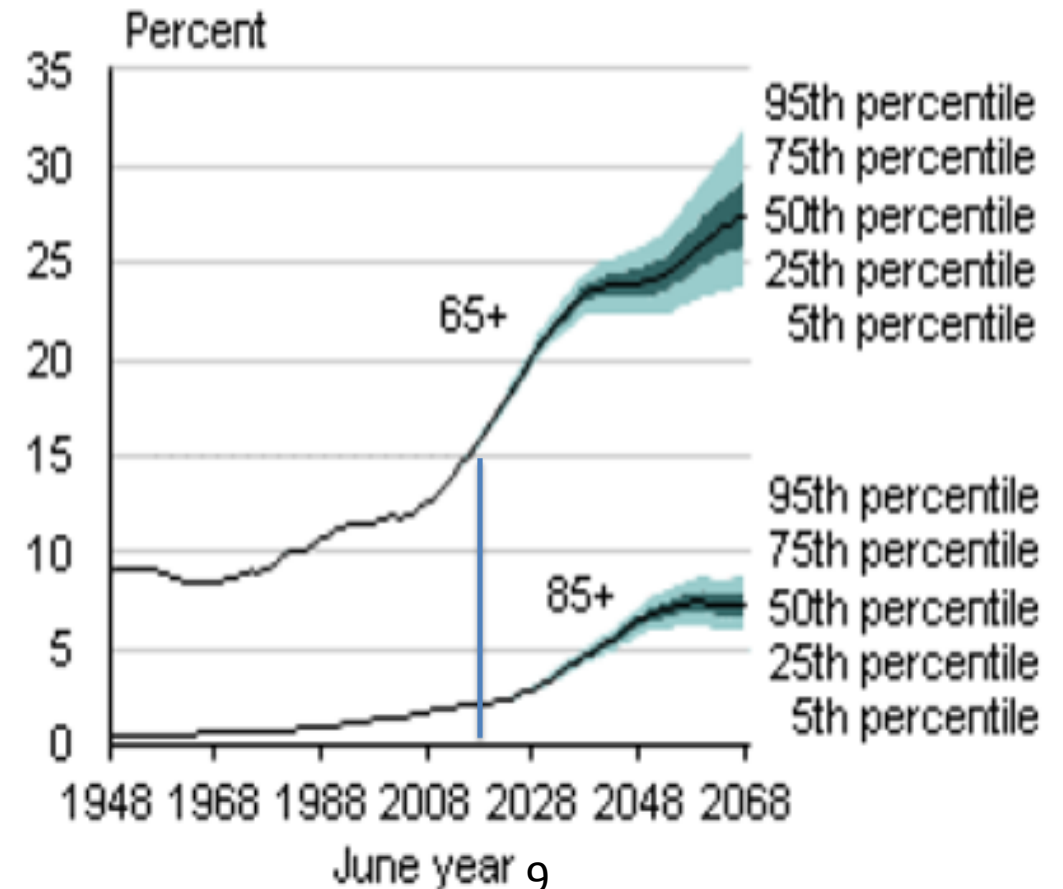


Today's benign period of ageing?

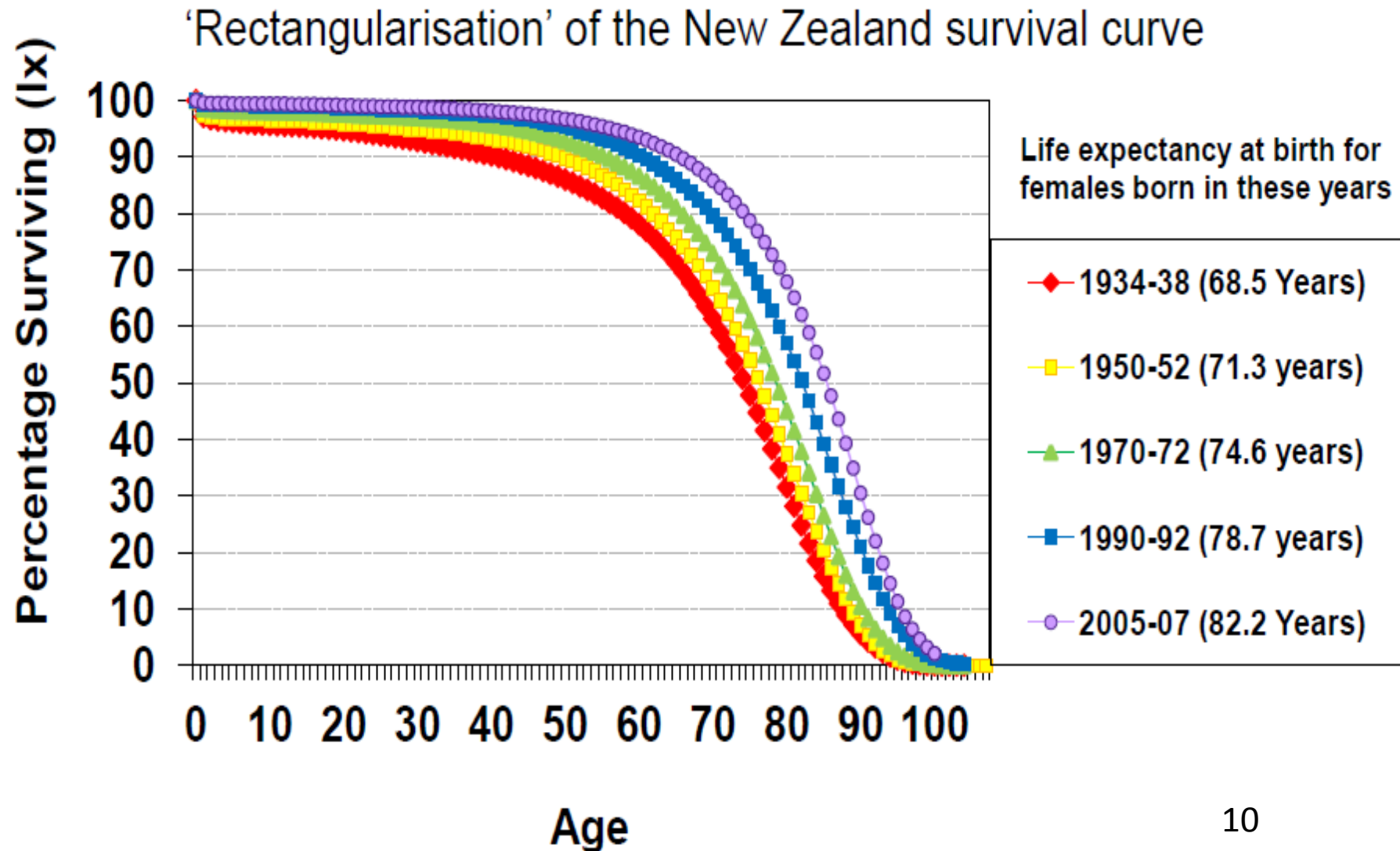
**Population aged 65+ and 85+
1948-2068**



**Percentage of population aged
65+ and 85+
1948-2068**



Improvements in Life expectancy



Cohort life expectancy

Cohort born 1951- reaching 65 today

At Birth

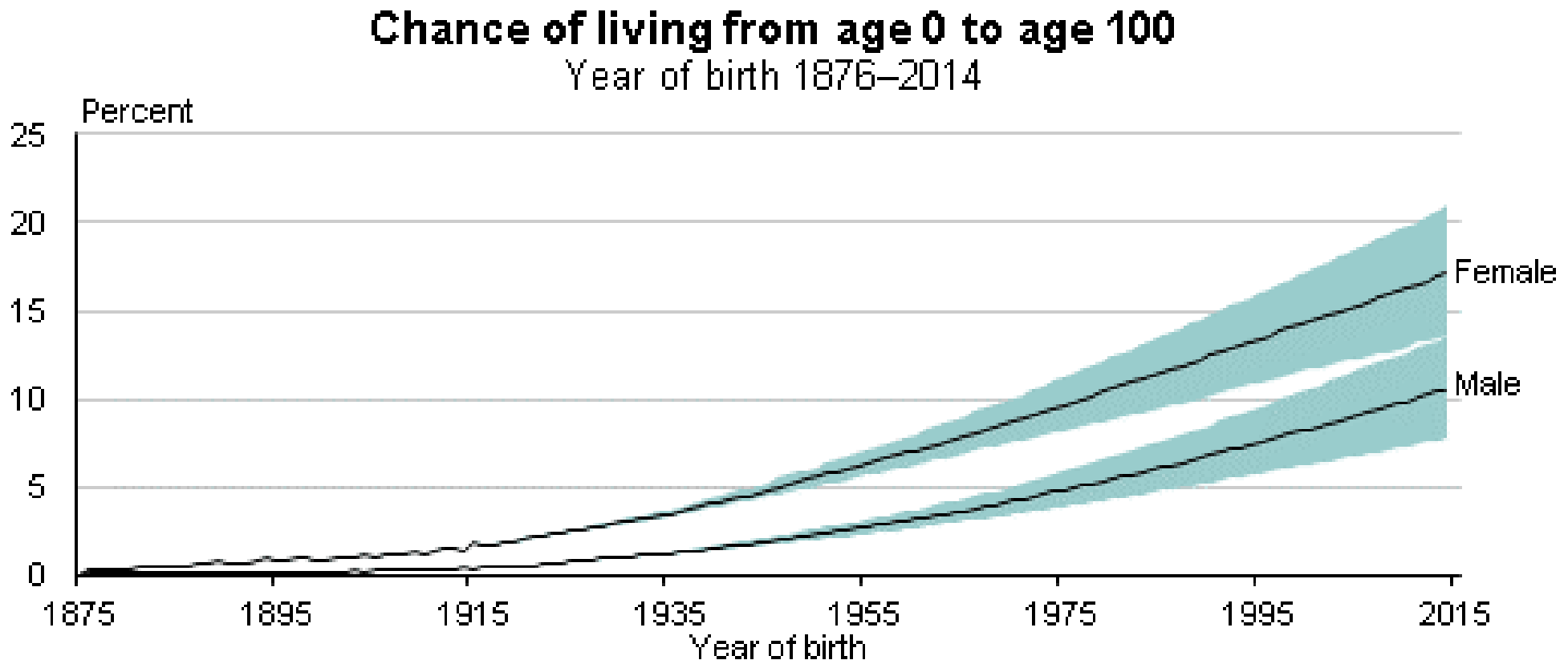
- Females 82.5 (72 using period LE)
- Males 77.5

Having survived to age 65 Life expectancy is

- Females 88.9
- Males 86.2
- a further 20-25 years to live *on average*

Huge variability in outcomes- who wants to be 100?

Figure 3



Note: Shaded fan indicates an estimated 50 percent chance that survival will be within this range.

Source: Statistics New Zealand

2. Implications for society

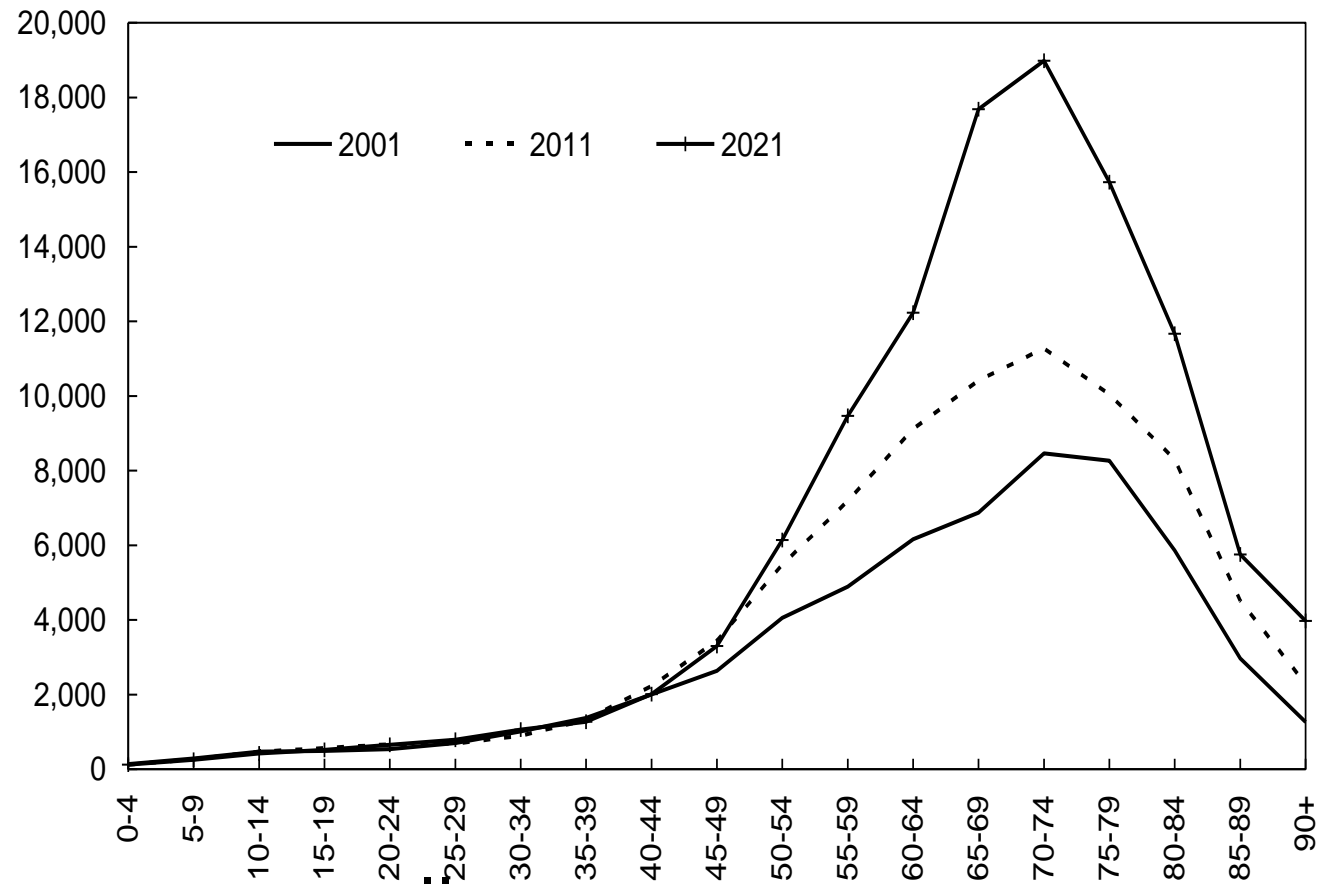
Affording our futures- LTFS 2013

% of nominal GDP	2010	2020	2030	2040	2050	2060
Healthcare	6.8	6.8	7.7	8.9	9.9	10.8
NZ Super	4.3	5.1	6.4	7.1	7.2	7.9
Education	6.1	5.3	5.2	5.2	5.1	5.2
Law and order	1.7	1.4	1.4	1.4	1.4	1.4
Welfare (excluding NZ Super)	6.7	4.8	4.4	4.2	4.0	3.8
Other	6.5	5.6	5.7	5.8	5.9	6.1
Debt-financing costs	1.2	1.8	2.5	4.2	7.1	11.7
Total government expenses	33.4	30.8	33.4	36.9	40.6	46.8
Tax revenue	26.5	28.9	29.0	29.0	29.0	29.0
Other revenue	3.2	3.0	3.2	3.2	3.3	3.6
Total government revenue	29.7	31.9	32.2	32.2	32.3	32.6
Expenses less revenue	3.6	-1.1	1.2	4.6	8.3	14.3
Net government debt	13.9	27.4	37.1	67.2	118.9	198.3

Health costs of ageing

Expensive chronic disease

E.g. Diabetes



Source: NZIER
MoH 2004

Dementia

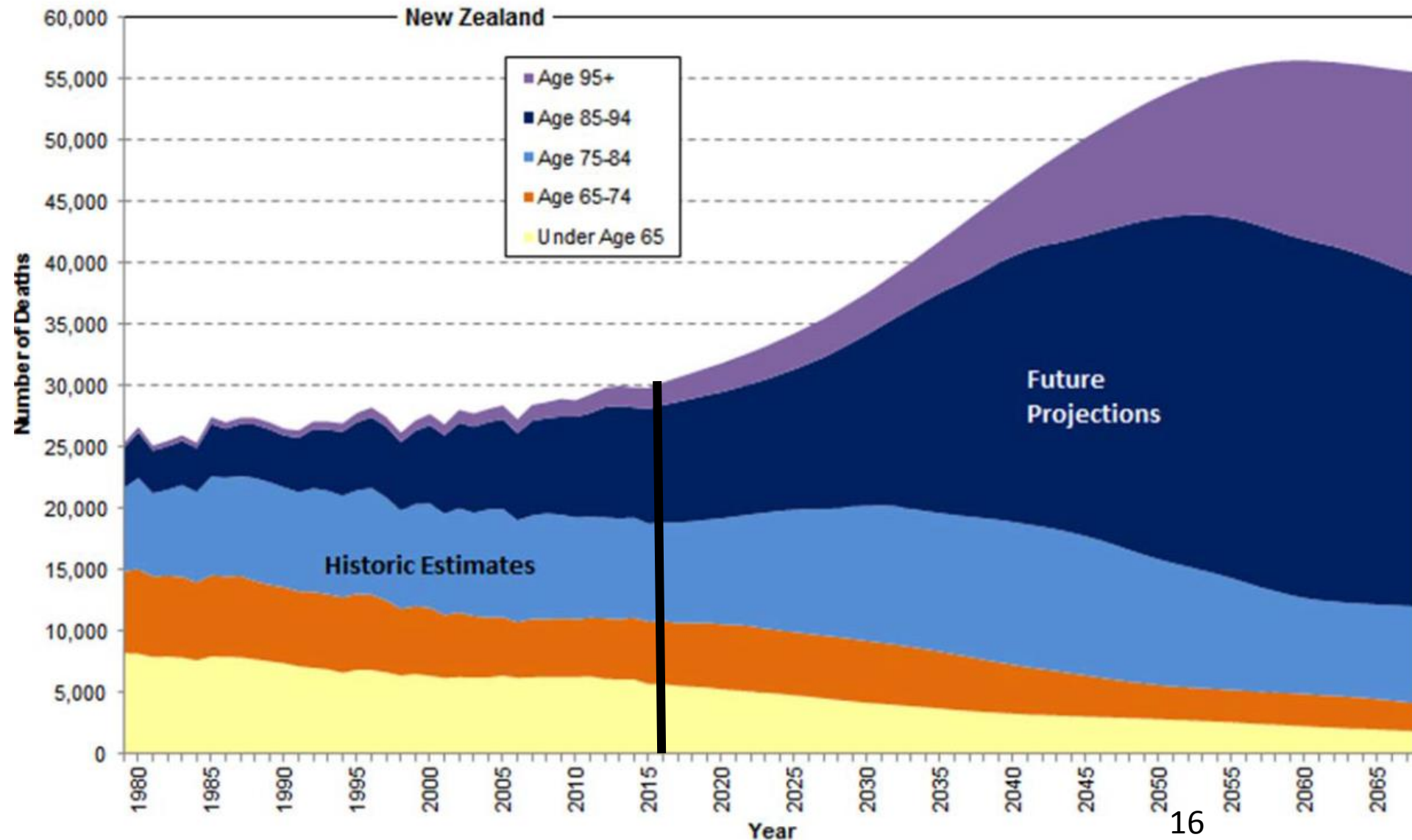
60,000 dementia sufferers today

By 2026, increase by more than 60%

Numbers expected to treble by mid century

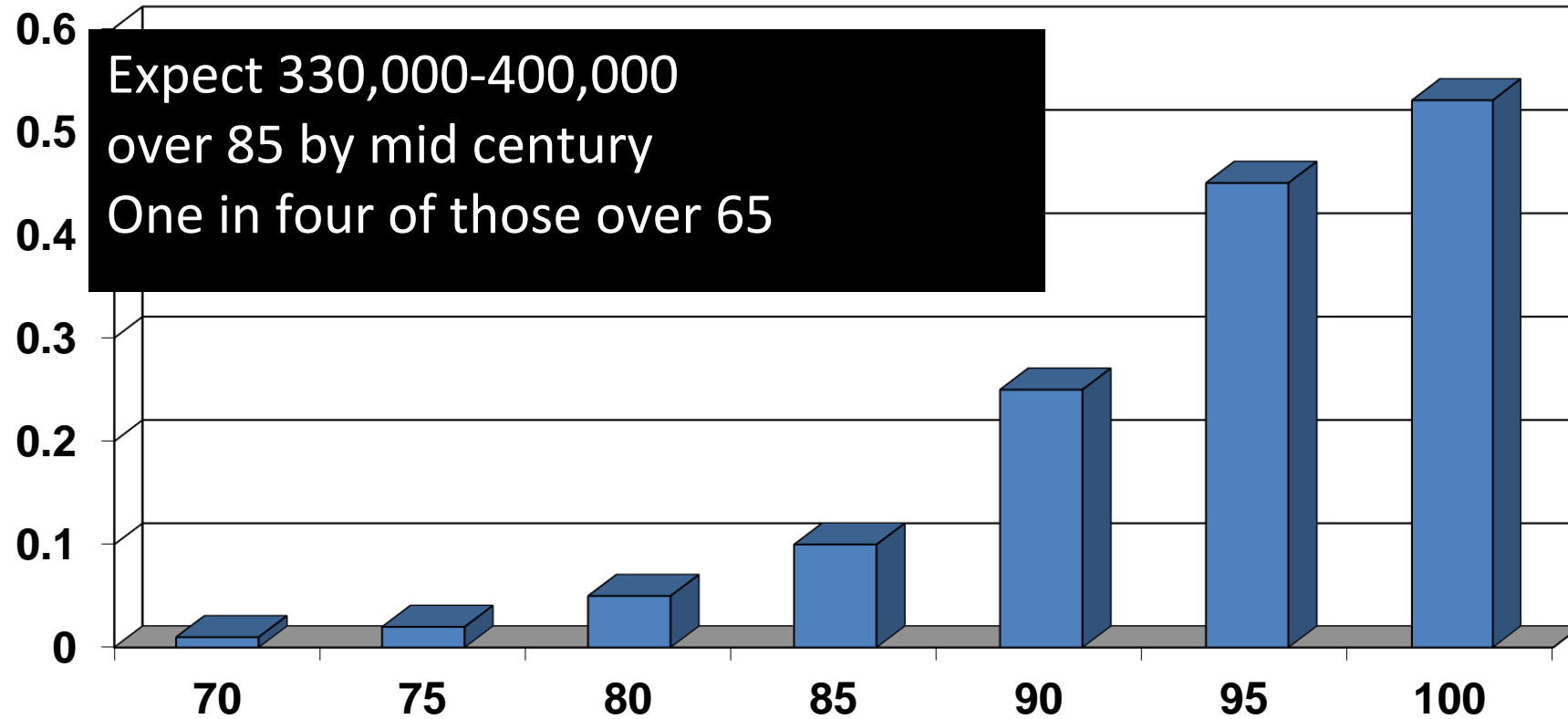
Huge costs for society

Figure 1: Historic Deaths and Future Projections of Deaths in New Zealand by Age Band – palliative care implications



Probability of being in long-term care

Averaged for female and male



Census 1996

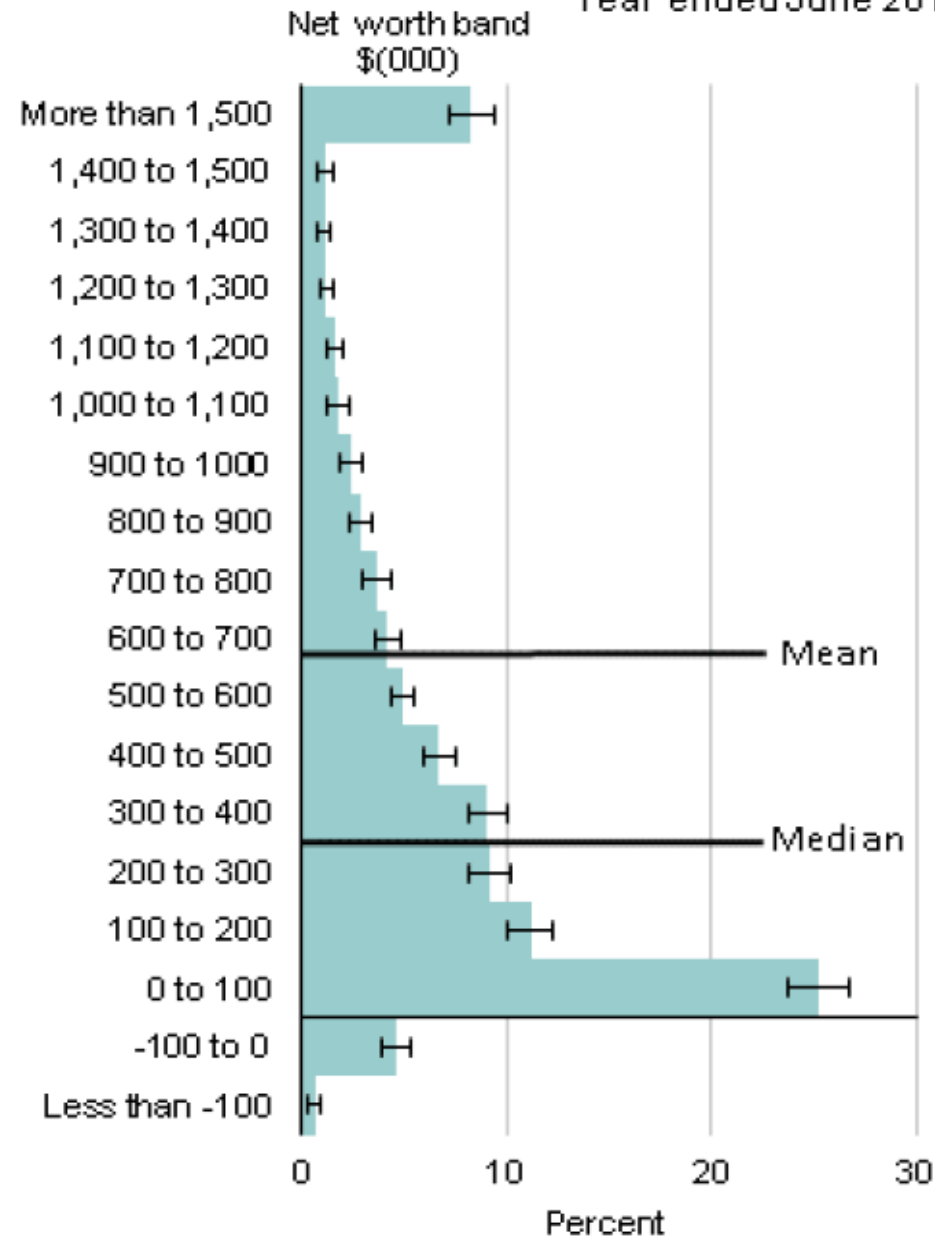
3. Implications for individuals

- **New Zealand Superannuation** provides basic longevity insurance
- **Middle income groups** are on their own
 - Lump sums may be used up too quickly
 - KiwiSaver
 - Other savings
 - Home equity illiquid
 - Risk of expensive healthcare-Long-term care costs



Distribution of net worth

By net worth bands
Year ended June 2015



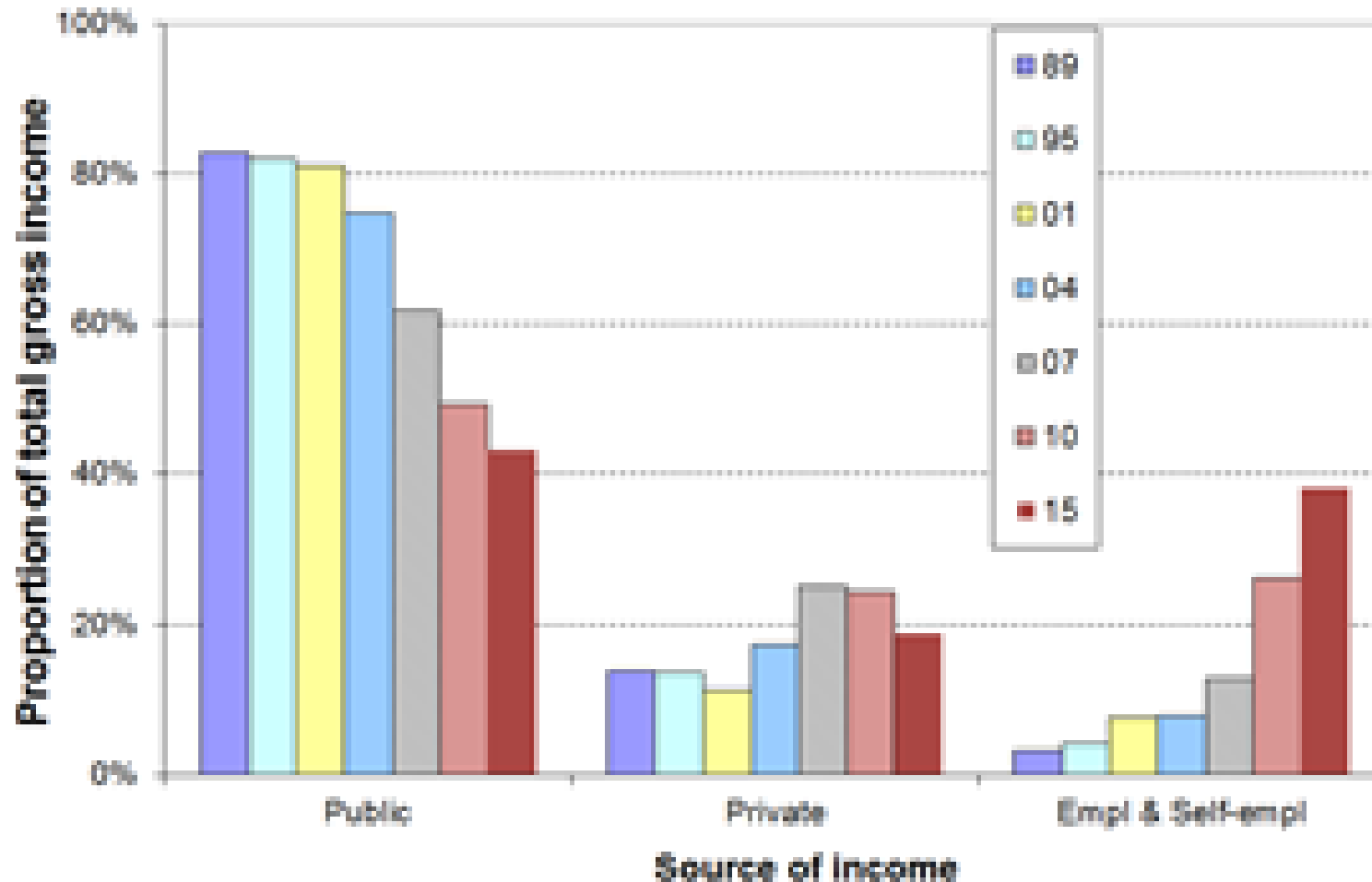
How much has been accumulated?



Individual Net Worth Statistics: Yr June 2015

Age	Median \$	Mean \$
55-64	278,000	555,000
65+	288,000	534,000

65+ share of income from NZS, investment, employment



(MSD 2016)

Risks faced by individuals

1. Possible changes to NZ Super

- Raising the age (advocated by retirement Commissioner 2016)
- Reducing the level (dangerous)
 - Aligning single and married rates
- Introducing a means test (less likely)

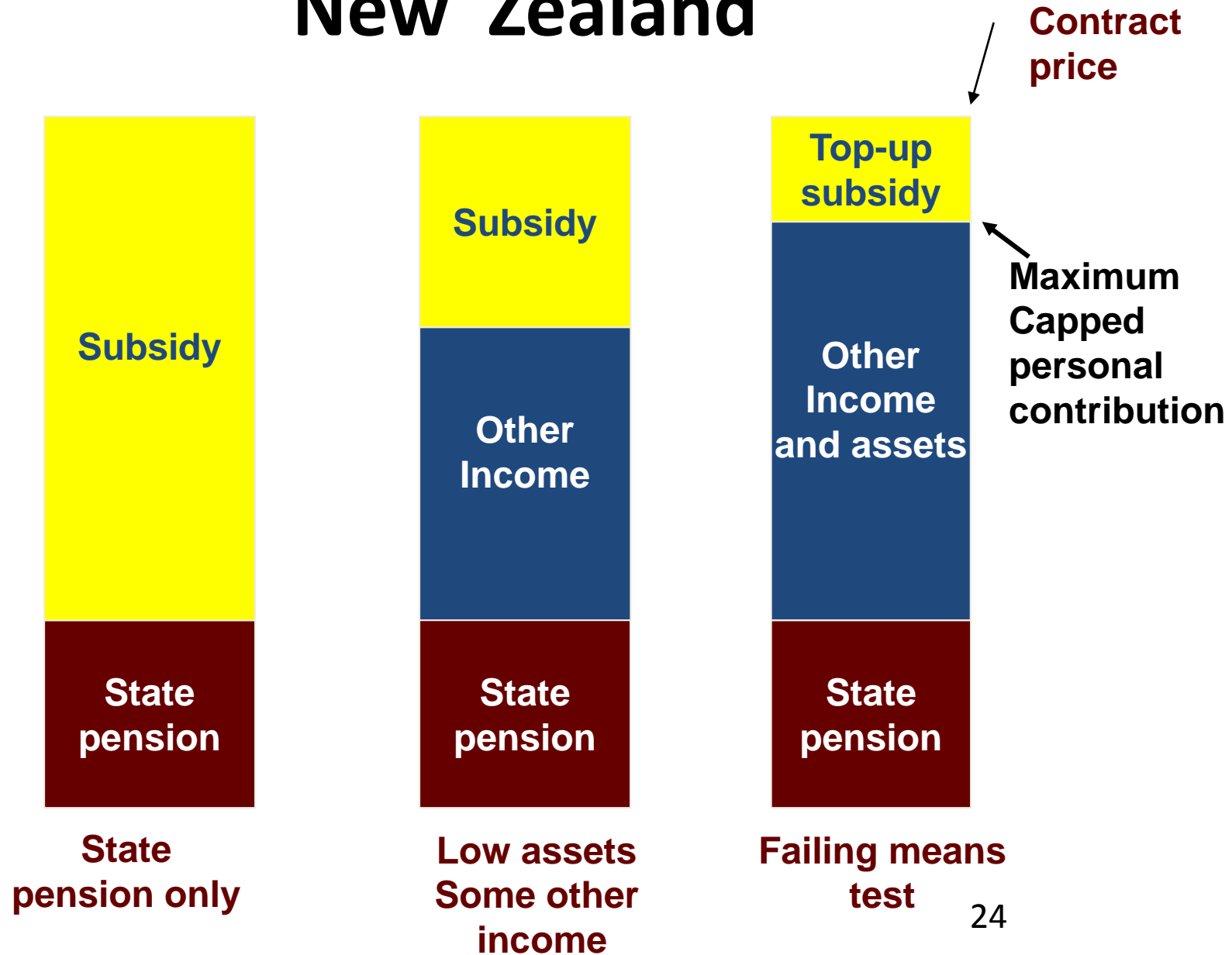


The risks of ill health and long term care

Current Asset Test- allowed exempt assets

Years	Single person	Married couple with one in care	Married couple, both in care
July 2016 CPI adjusted	\$218,432	\$119,614 + house +car <i>or</i> \$218,432 total	\$218,432

Paying for old age care in New Zealand



How are middle income people affected?

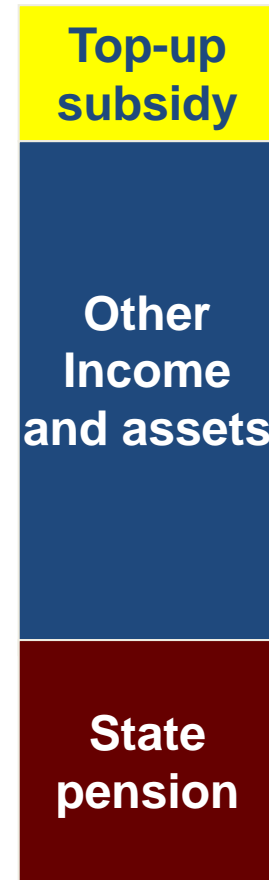
Annual capped payment-

Individual contribution
Capped **\$ 50,544**

If net NZS = **\$18,500**

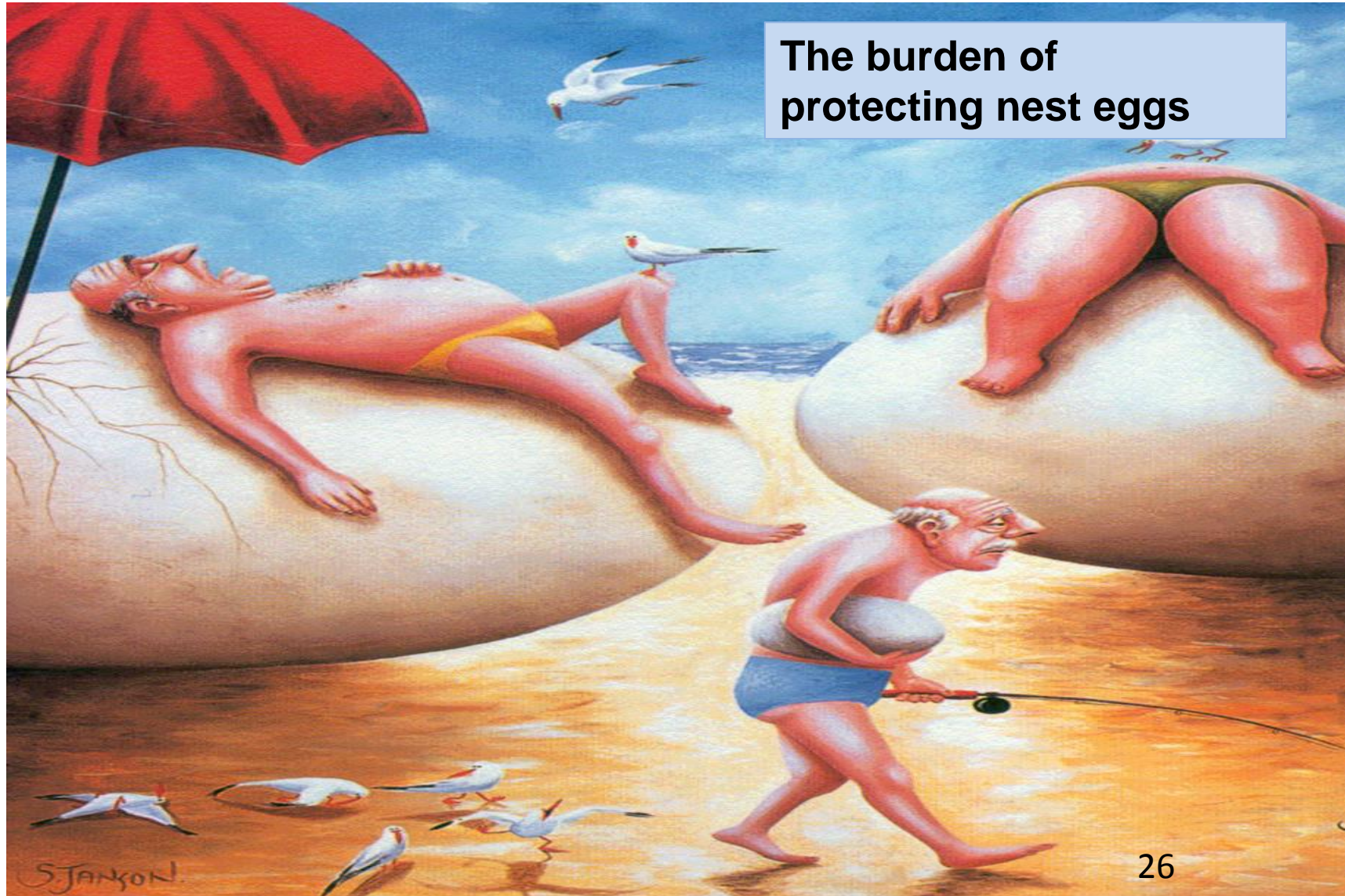
Other income needed = **\$32,000+**
(need for more for expenses)

Note additional Govt- TOP UP may
be as high as **\$27,000- high level
of care .**



**Failing means
test**

4. Decumulation policies- do we have any?



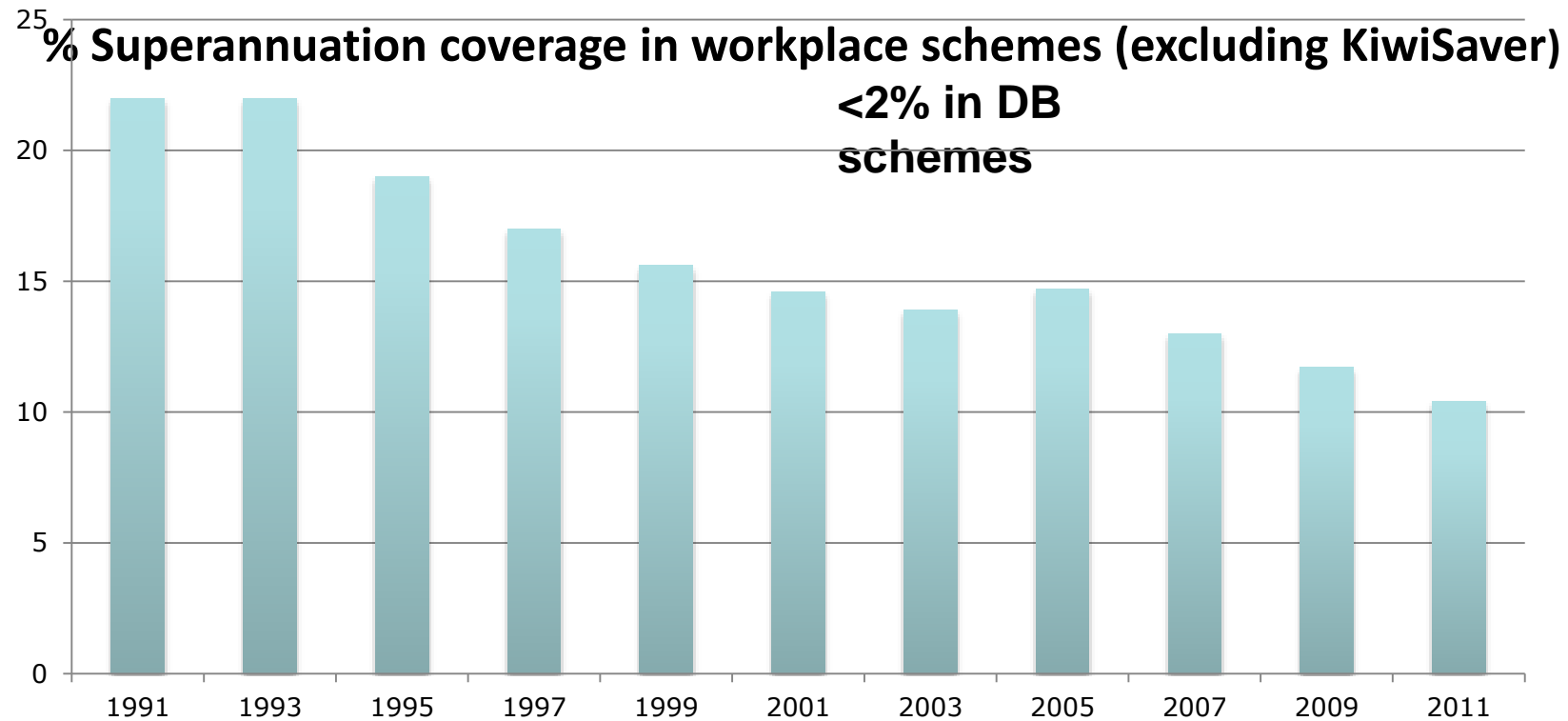
What does utopian decumulation policy look like?

- *Retired from teaching at 58, on **GSF pension***
- *Benefits of*
 - *longevity protection*
 - *inflation protection*
 - *peace of mind*
 - *End of life/ dementia care*



Good for family and individual to have income stream to help pay for care

Private pensions: a thing of the past



How large does an income supplement have to be?



Food



Physical activity



Housing



Social connectedness



Healthcare

Needs an extra
\$6-8,000 of
income
Per person



Hygiene

Using updates of estimates
from the School of Population
Health

RPRC suggests that an extra
\$10,000 is a good ball park
figure

BUT, the elephant in the room is long-term care

Why no annuities?

- Not lack of demand
- Research from Australia shows that people are interested in annuities
 - “Pre-retirees do consider purchasing fairly priced annuities – when products described in terms of their features rather than commercial product names”- H Bateman
 - Products emerging eg [Challenger](#)
 - NZ has [NZIG](#) as a modest beginning

So what role for policy?

- **We missed the boat with KiwiSaver**
- BUT there are few tax favours for accumulation... therefore...
- Voluntary annuitisation of KiwiSaver and other savings could be subsidised
 - Say to max annuity of \$10,000 pa annum
 - Use KiwiSaver infrastructure
Maybe default option
 - Inflation adjusted, gender neutral, maybe 5-10 year guarantee?
 - Government may be provider in a Crown Entity
 - Long-term care rider
 - Facilitated by the capped fee

In the meantimewhat do you advise middle income retirees?

- **65+ year olds with modest lump-sum savings, with access to say \$150,000-\$200,000**

They face risks of:

- **living longer than expected**
 - Or dying with unintended bequests
- **unanticipated inflation**
- **investment risk**
 - failure of investment to keep pace with growth
 - fraud and mismanagement of retirement assets.
 - Too much choice!!
- **ill health and long term care; uncertain costs**