Simple, effective and (relatively) inexpensive:
a view of New Zealand retirement income policy in an international context

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Outline

- Compares ‘NZS plus KiwiSaver’ to international approaches for state provision of retirement income
- Uses material from OECD ‘Society at a Glance’ and ‘Pensions at a Glance’
- Also include own calculations for income obtainable from KiwiSaver accumulation
Simplicity

- NZS is flat rate and residence based – no need to track contributions
- NZS principal purpose is to ensure older NZ citizens can “belong and participate”
- KiwiSaver is for those who want to maintain their standard of living pre-retirement into retirement, using auto-enrolment and modest subsidies to overcome behavioural obstacles
- KiwiSaver is based on individual DC accounts – what you get is what you save
Effectiveness

- Judge against 27 OECD countries by reference to replacement rate
- Measure by how effective in replacing income from paid work – common target is 60-70% of pre-retirement income
- Could measure poverty by income against percentage of median income, but result for NZS very sensitive to comparator
Effectiveness

Net of tax replacement rates, OECD 27: half average earnings

Source: Pensions at a Glance 2007,
Effectiveness

Net of tax replacement rates, OECD 27: average earnings

Source: Pensions at a Glance 2007,
Effectiveness

Net of tax replacement rates, OECD 27: twice average earnings

Source: Pensions at a Glance 2007,
Effectiveness

- Examples assuming start at age 35
- Stay in work to 65, 67.5, 70
- Cases income $20,000 pa & contribution 2%, $40,000 pa and 4%, $80,000 and 8%
- Accumulation interest 5% pa, wage growth 3.5% pa, subsidies, employer 2% contribution
- Decumulation 2% real, 10% profit & expense loading, NZ population mortality, 1% pa improvement
Effectiveness

Replacement rate by income, NZS and KiwiSaver

- **KiwiSaver**
- **NZS**

![Bar chart showing replacement rates by income and age]
Effectiveness

- Has been suggested private savings may be adequate without KiwiSaver
- However, inconsistency between micro data and aggregate data:
  - Micro data appears to record
    - 96% of aggregate income
    - But only 84% of aggregate expenditure
Effectiveness

Savings rates: effect of HIOA adjustment on HES-derived rates

Unadjusted savings rates 20% to 5%
Savings rates adjusted for HIOA differentials
Reduction in savings rates as result of adjustment

Source: own
Effectiveness

- Conclusions are difficult – but think better safe than sorry!
- Note KiwiSaver is regressive, and likely to provide better outcomes for men than women (as per labour market outcomes generally)
- Hence importance of stressing KiwiSaver complementary to NZ Superannuation
Effectiveness

- To summarise:
- combination of NZS and KiwiSaver has potential to be effective in providing retirement incomes bearing comparison with OECD results over all earnings levels,
- while still maintaining the belong and participate goal
Cost comparisons

- Looking at OECD data on social expenditure ...
Cost comparisons

Social security costs, OECD 27

OECD 27 average

Source: Society at a Glance 2007,
Cost comparisons

Old age pension costs including cost of savings subsidies, OECD 27

Projected costs of old age pension: selected countries, 2004-2050

Cost comparisons
Cost comparisons

- Caveats
  - Data is not the most timely
  - There are other pressures – notably health
  - Haven’t started to think about inter-generational equity under PAYG financing
“The combination of NZS and KiwiSaver, in an international context, forms a design which is simple, effective and (relatively) inexpensive"."