pensionpresentation

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

New Zealand Association of Gerontology Conference

How Much Ageing Can We Afford?

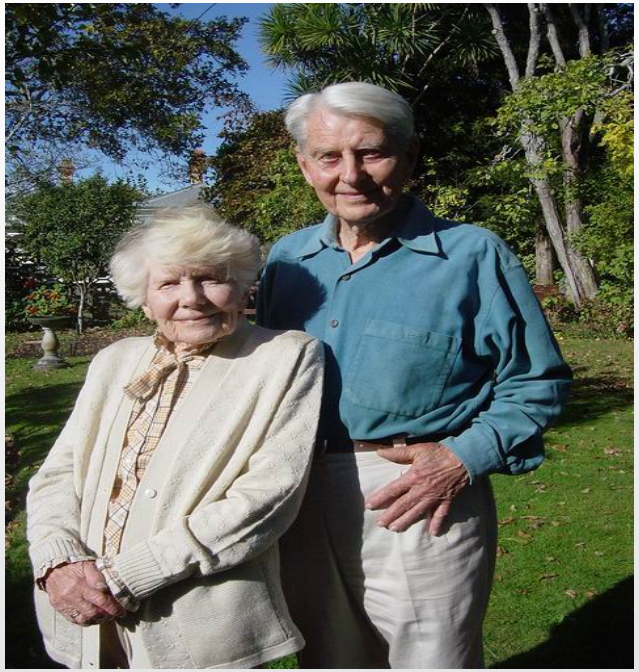
15th November 2007

University of Waikato

Susan St John

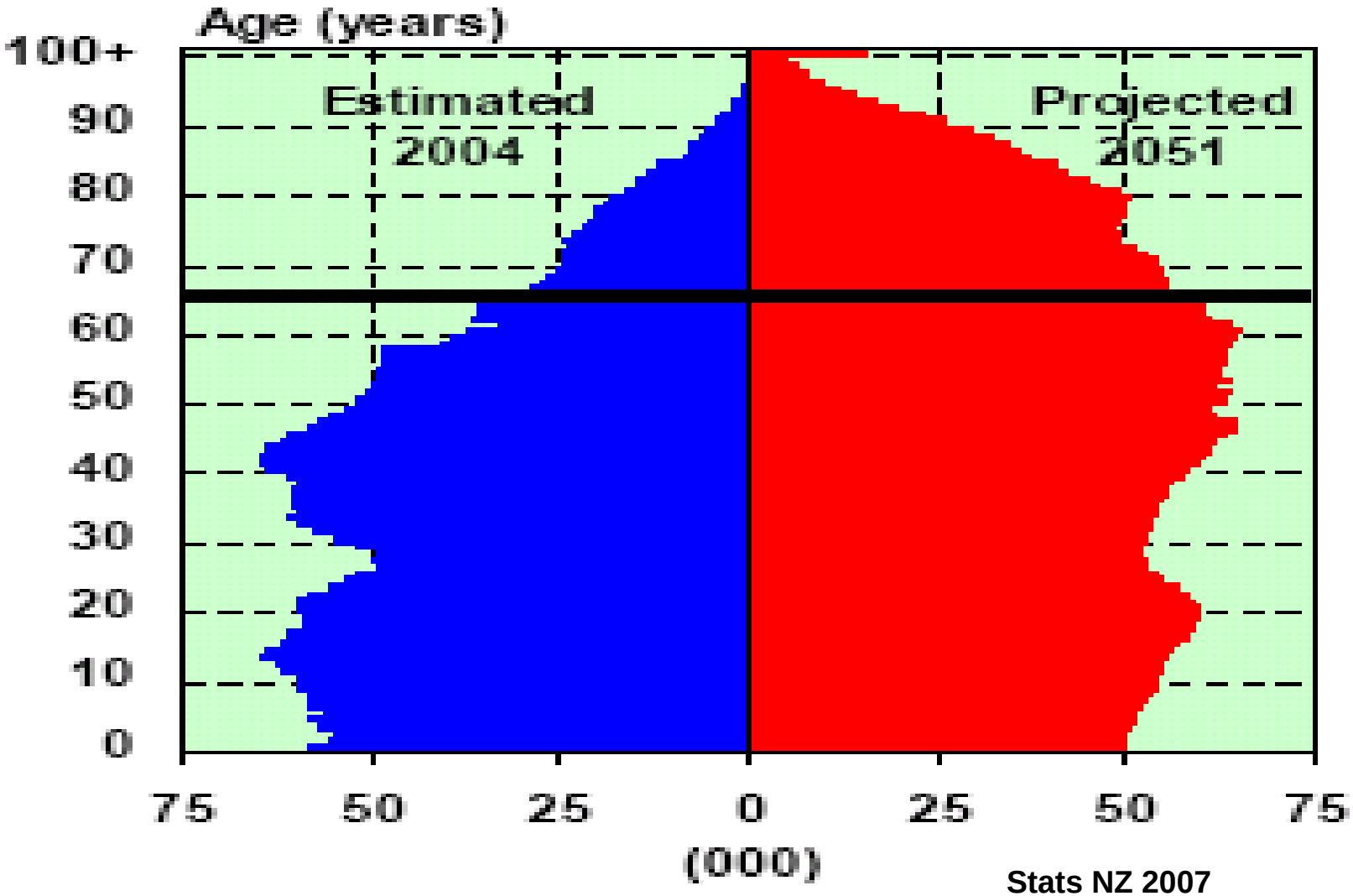
Retirement Policy and Research Centre

is this a trick question?



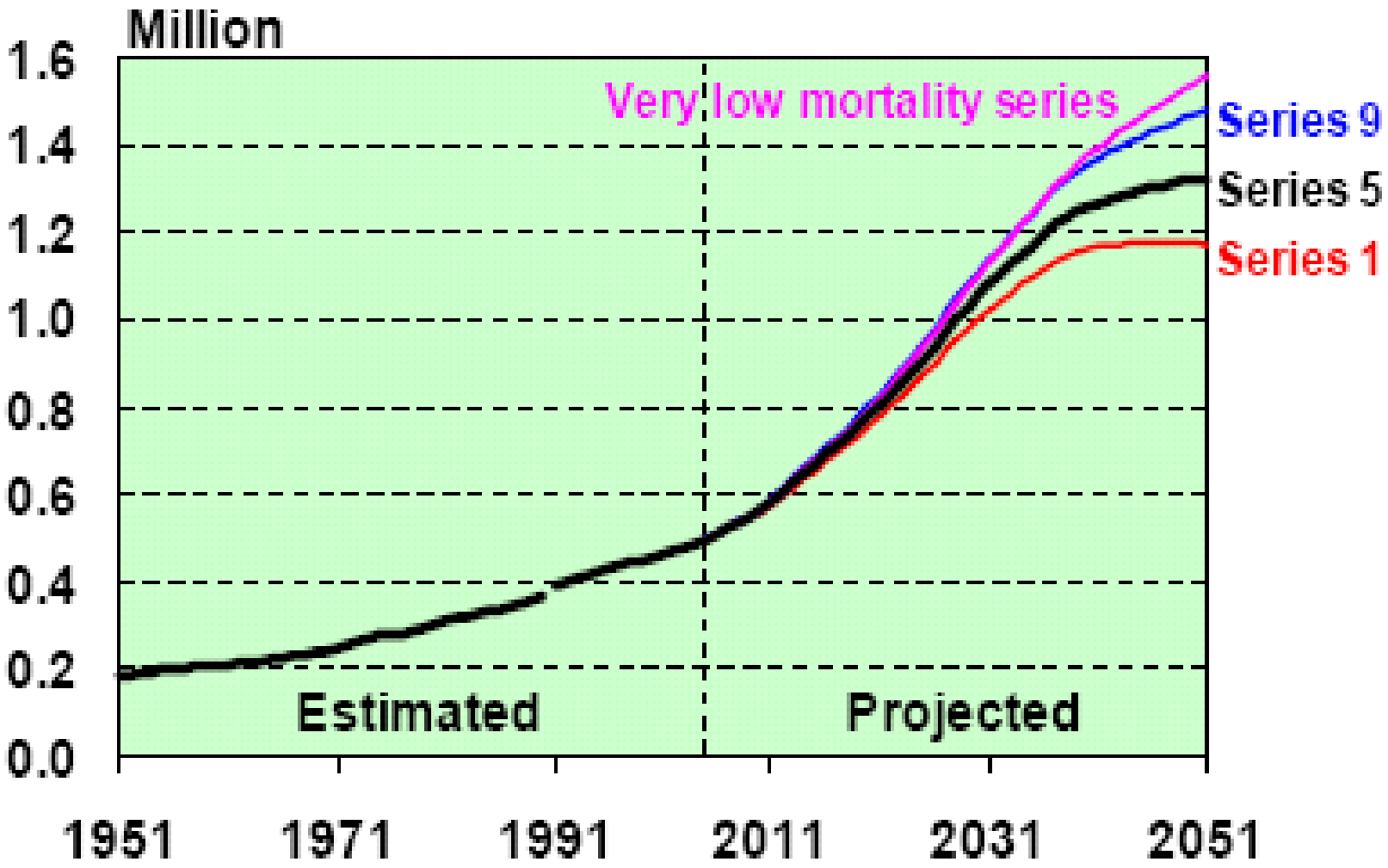
- What is ageing?
- Can individuals afford it?
- Can the nation afford it?
- What better questions can we ask?
- Do our policies prepare us as well as they could?

Context: The baby boom retirement- from 2010-2050 Coming ready or not.

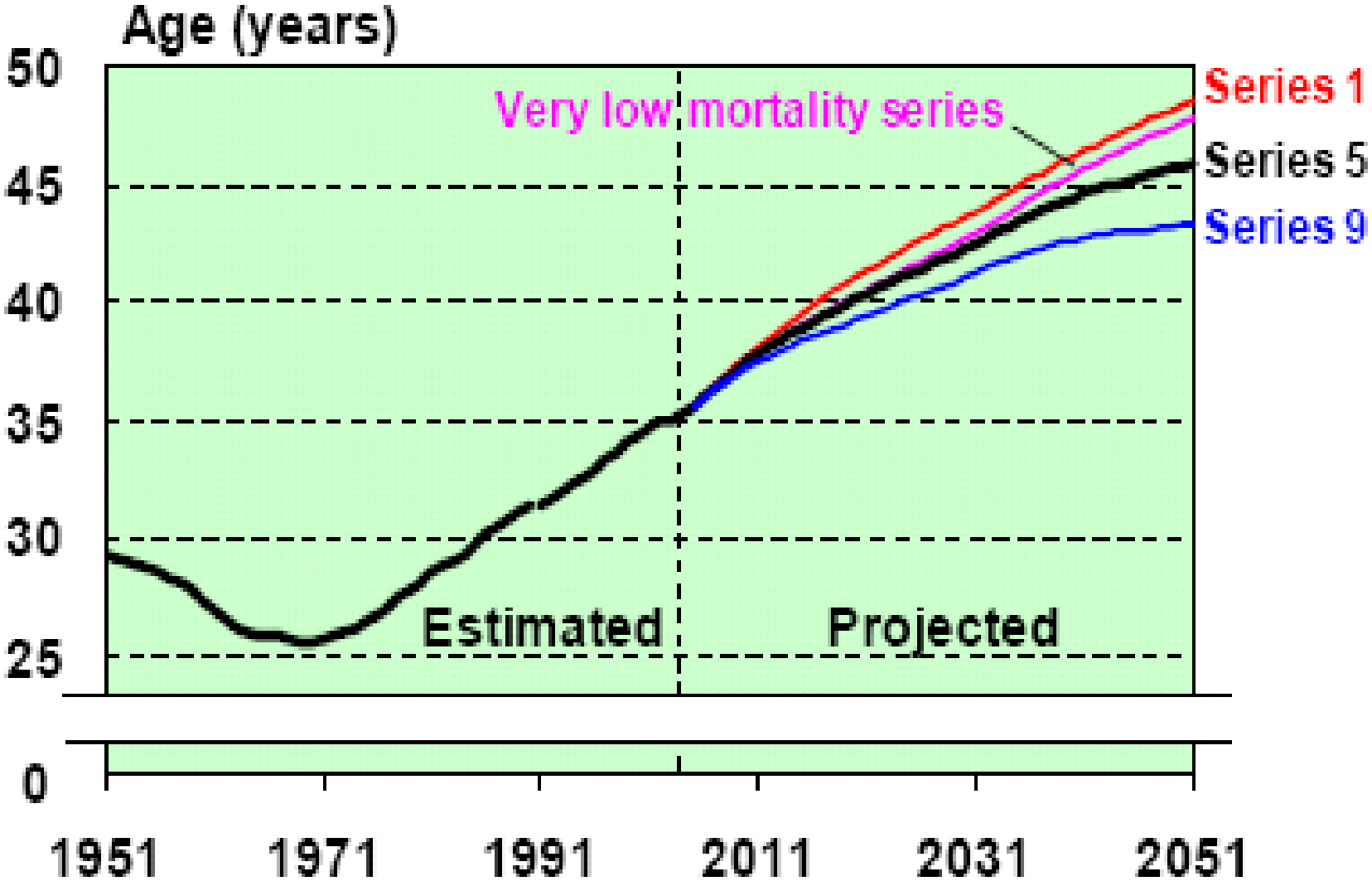


Stats NZ 2007

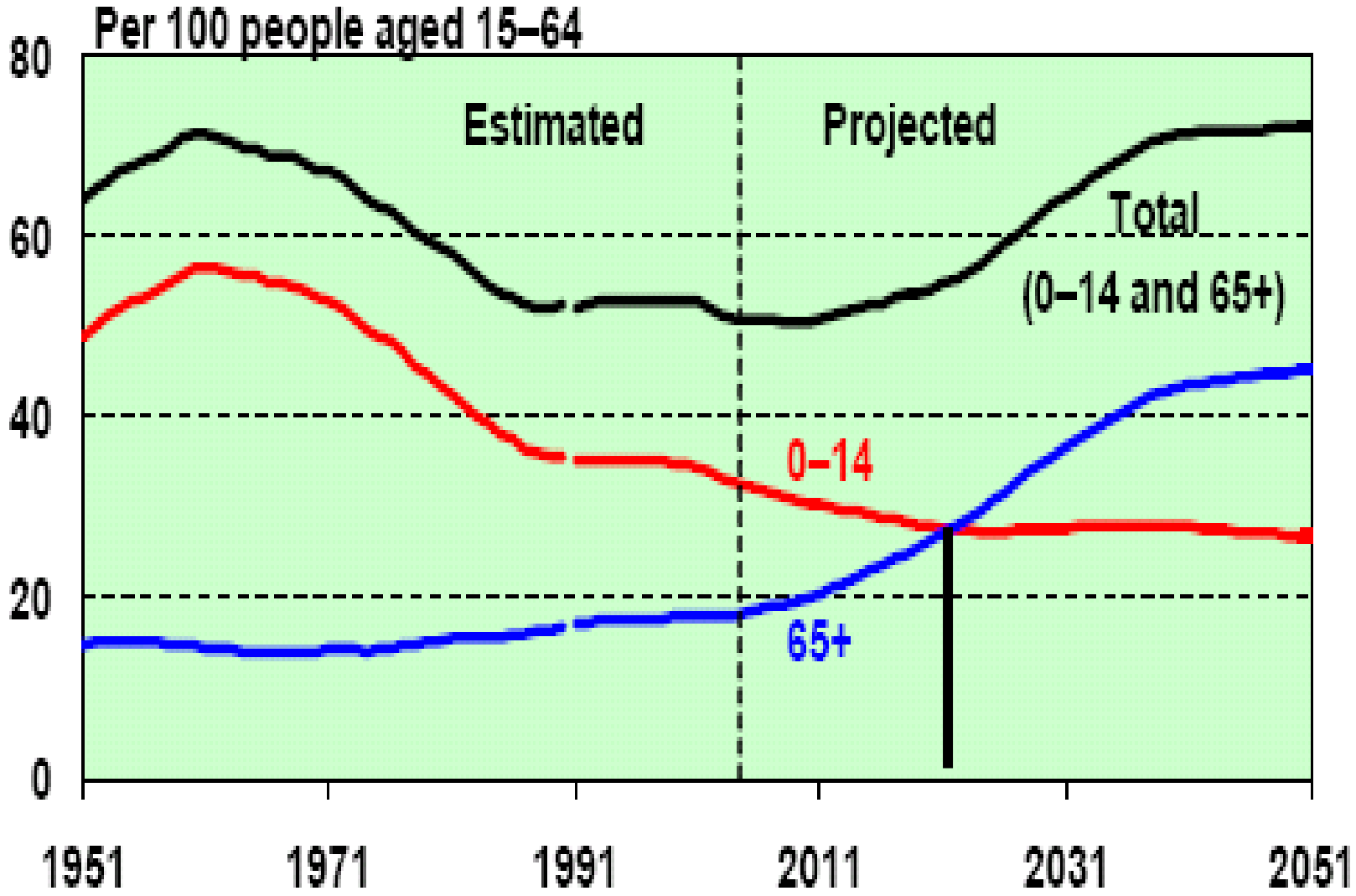
How many over 65?



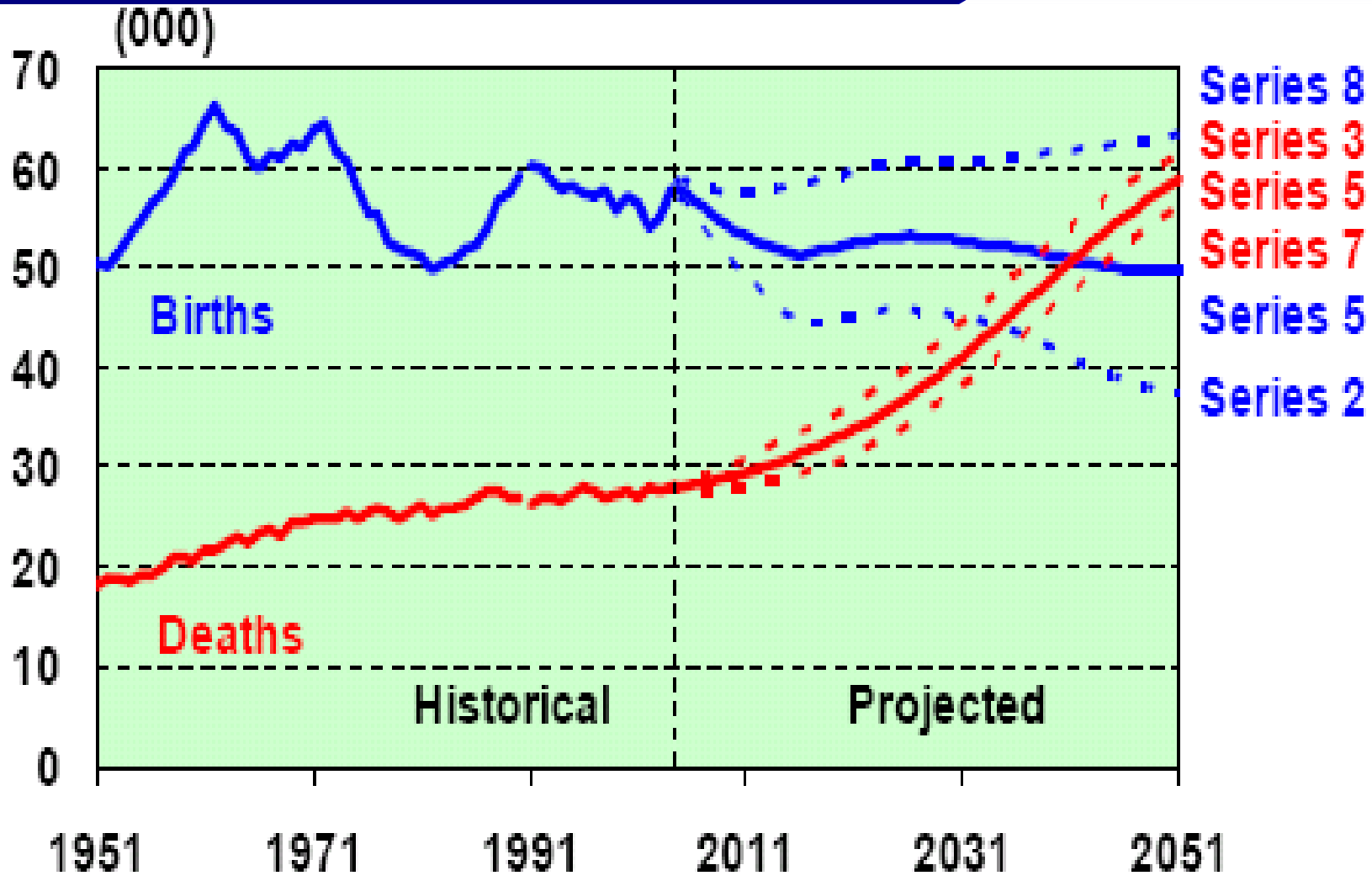
Median Age


Age (years)
50
45
40
35
30
25
0
Very low mortality series
Series 1
Series 5
Series 9
Estimated
Projected
1951
1971
1991
2011
2031
2051

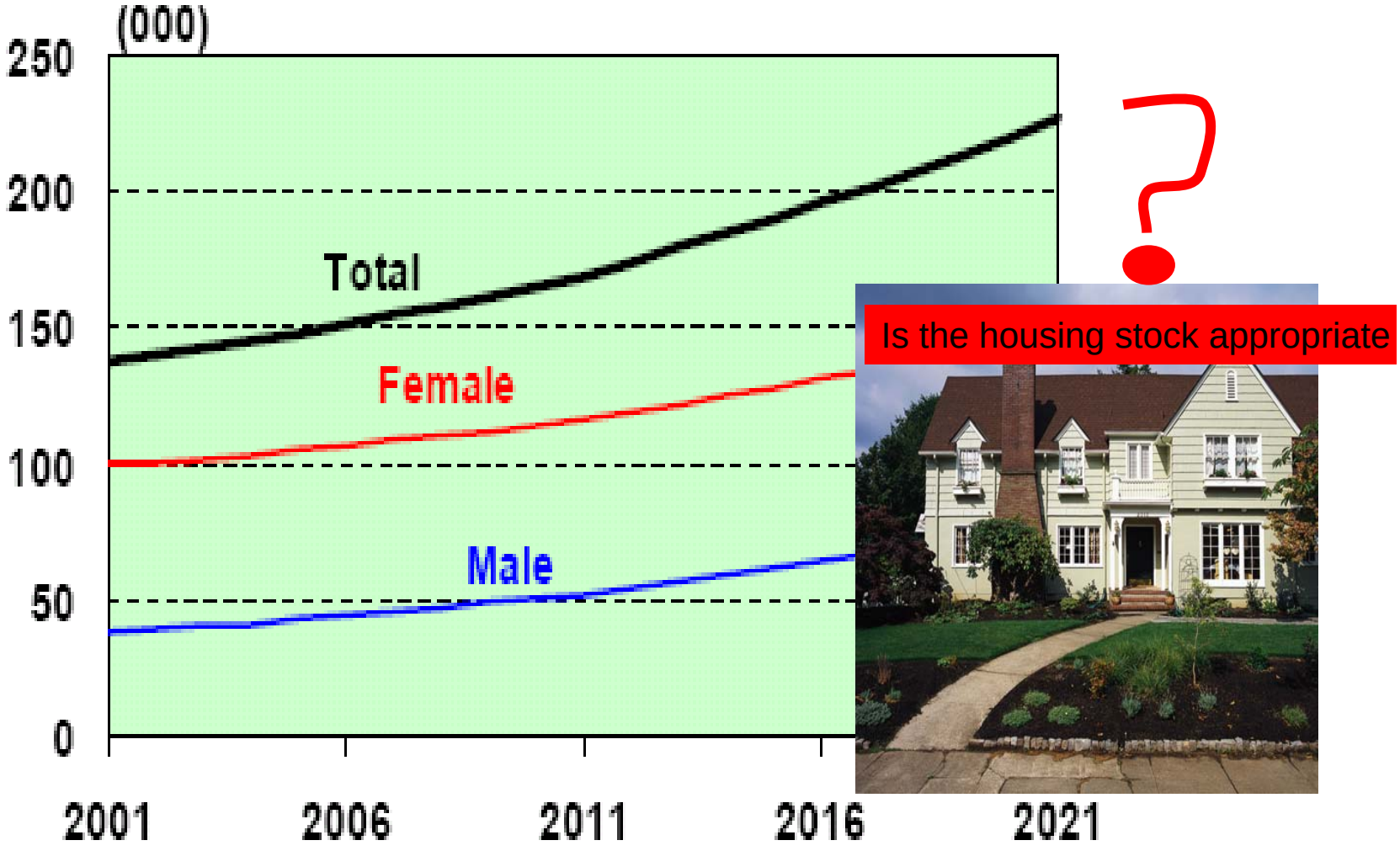
Dependency ratios



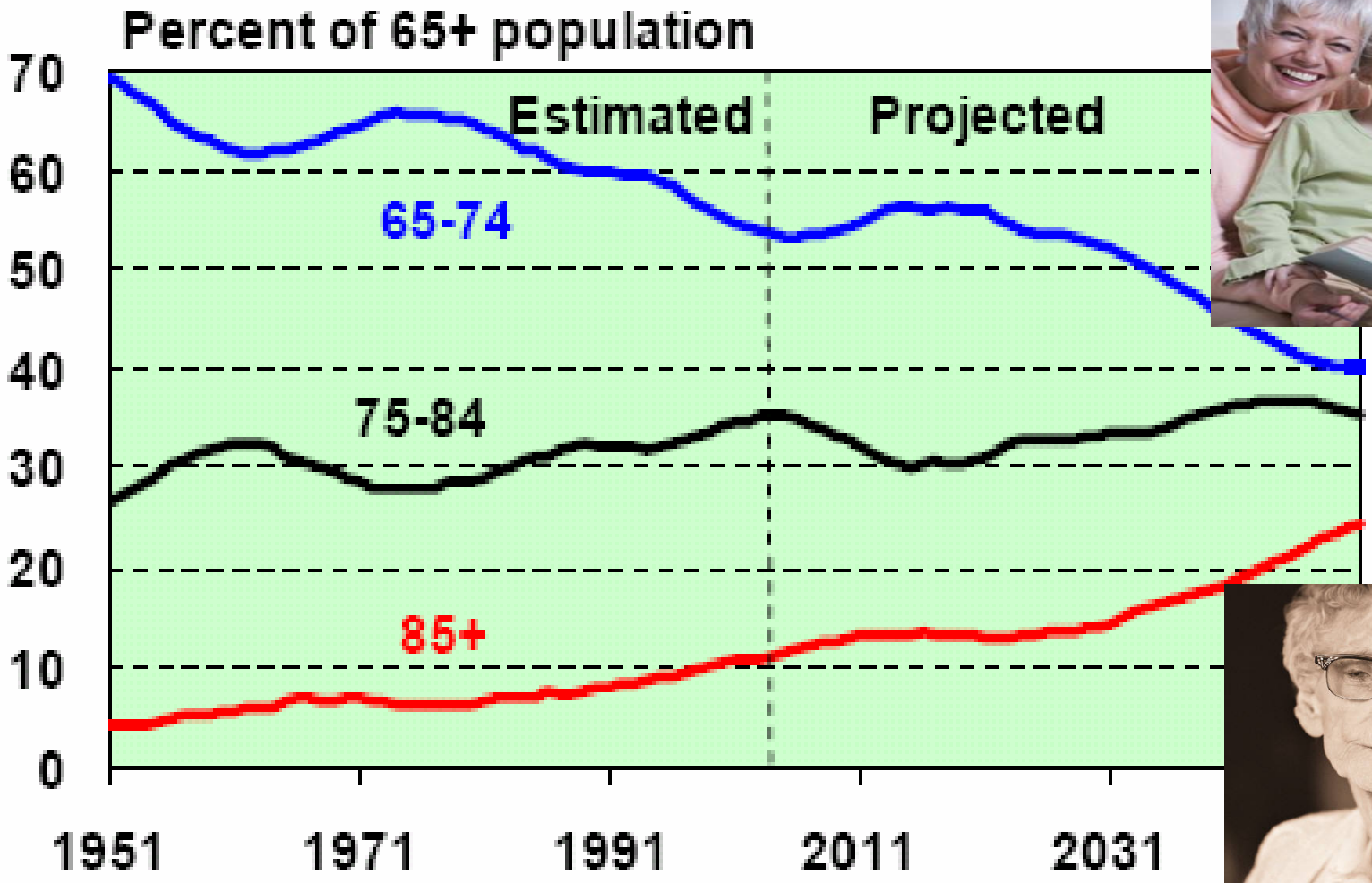
Bassinets and coffins

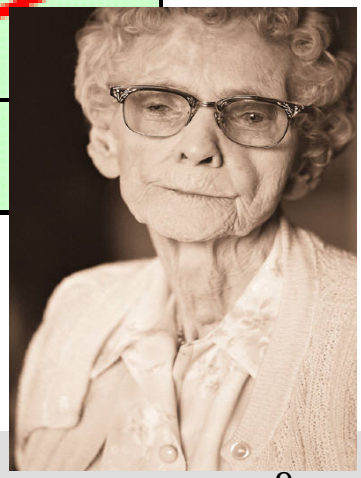


How many 65+ more live alone?

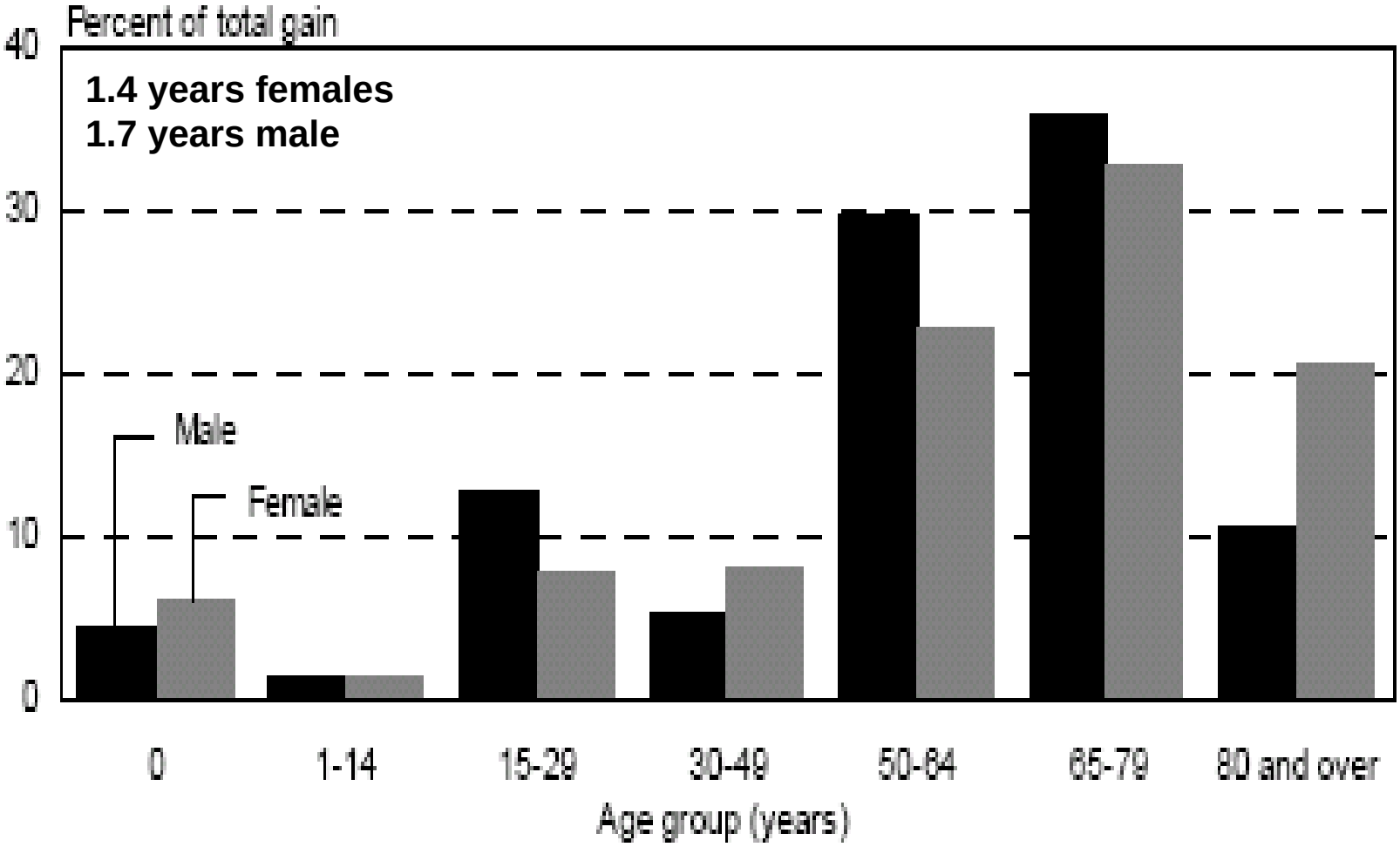


There are more ‘old’ old

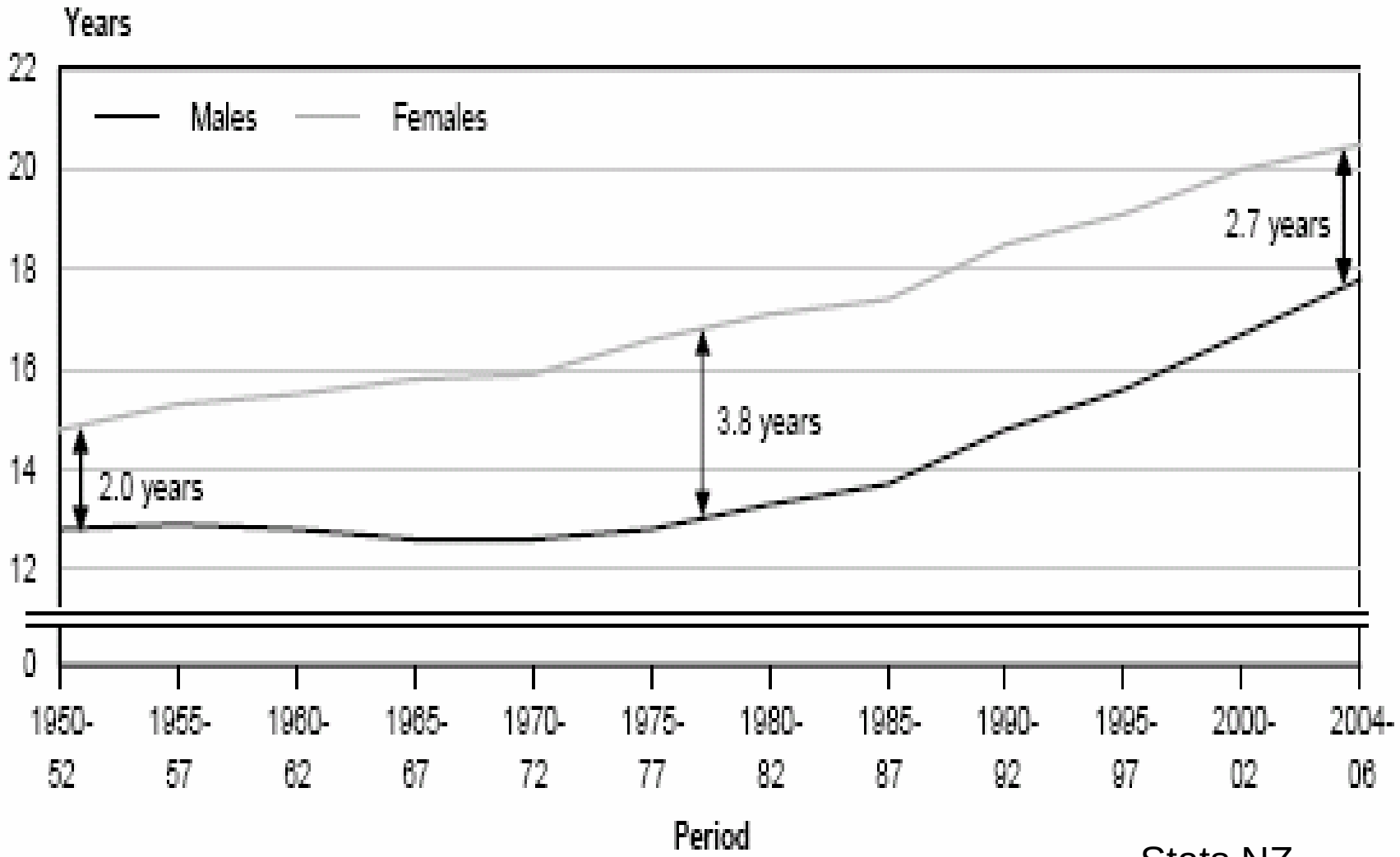




Life expectancy gains in last five years are most at older ages 1995/7 to 2000/2

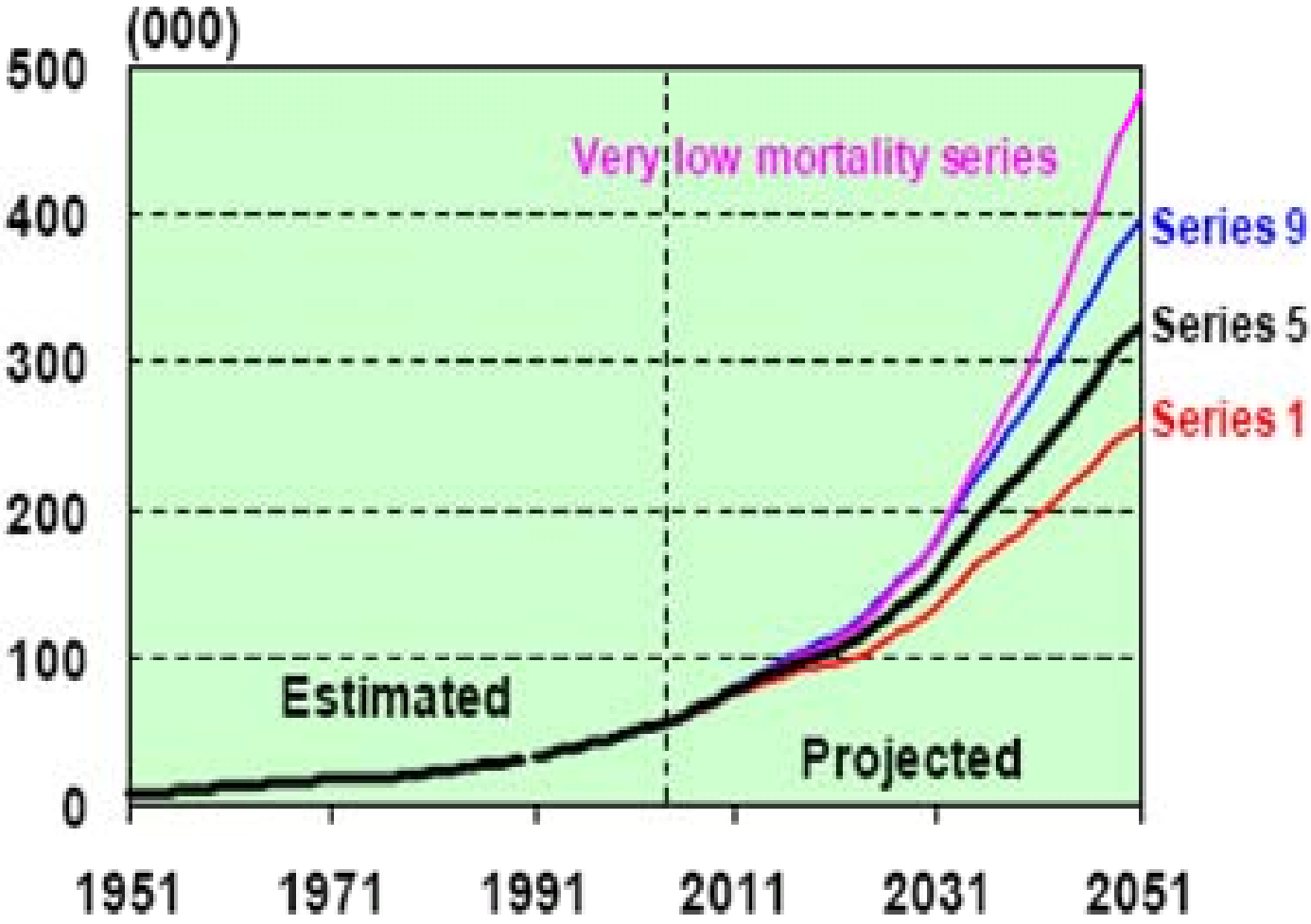


Life Expectancy at age 65-gap closes

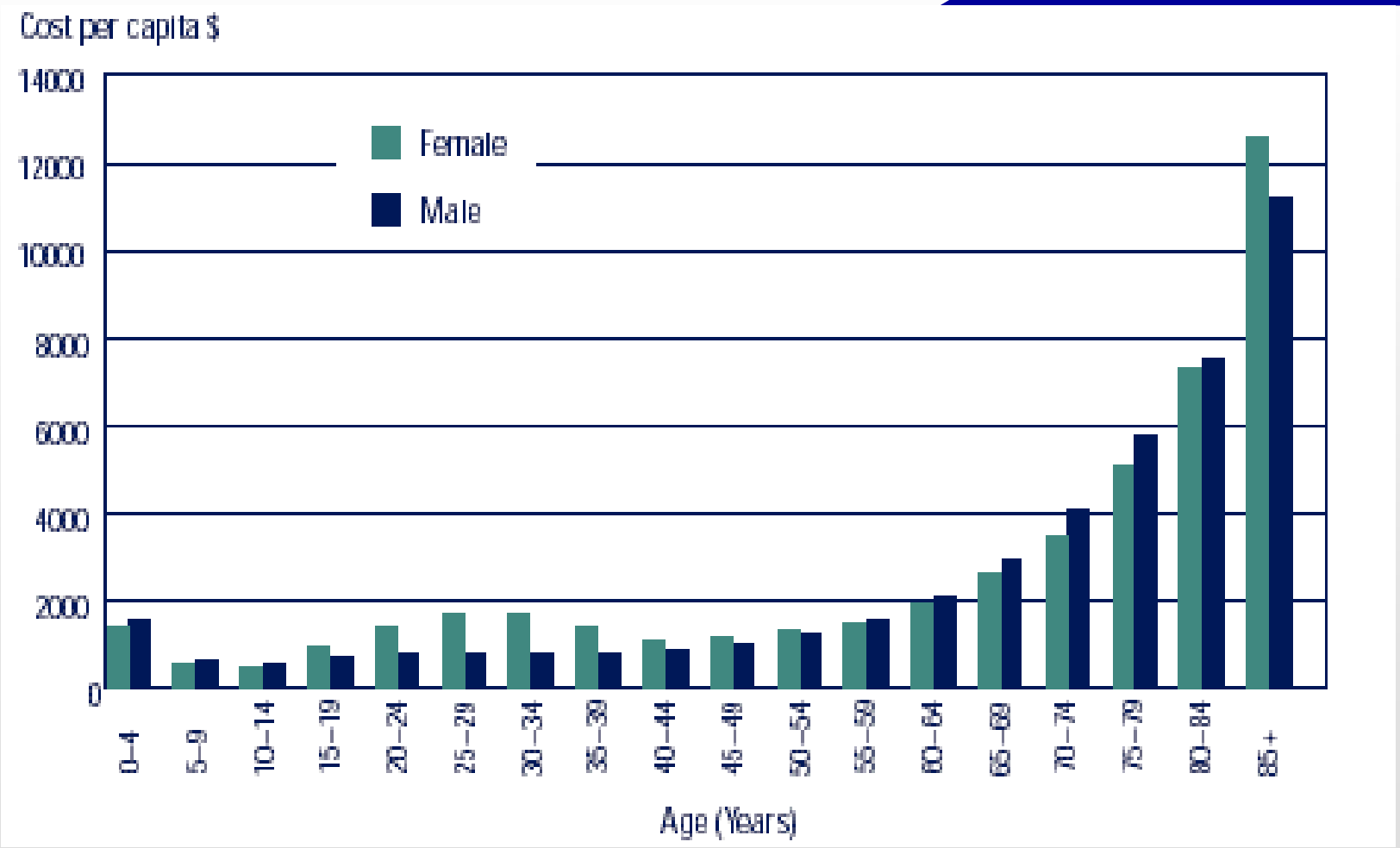


Stats NZ

85+ How low does mortality go?

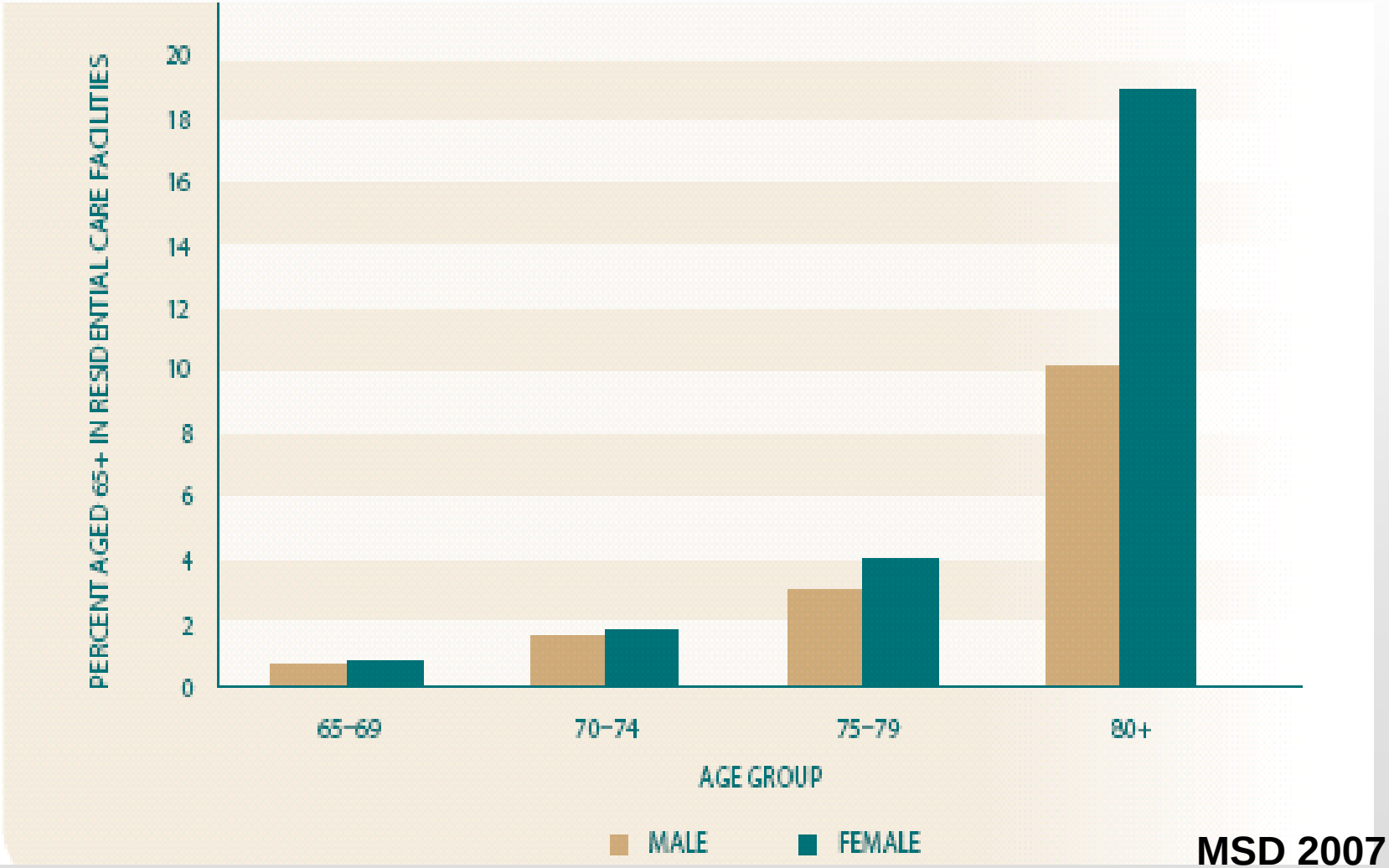


Health expenditure



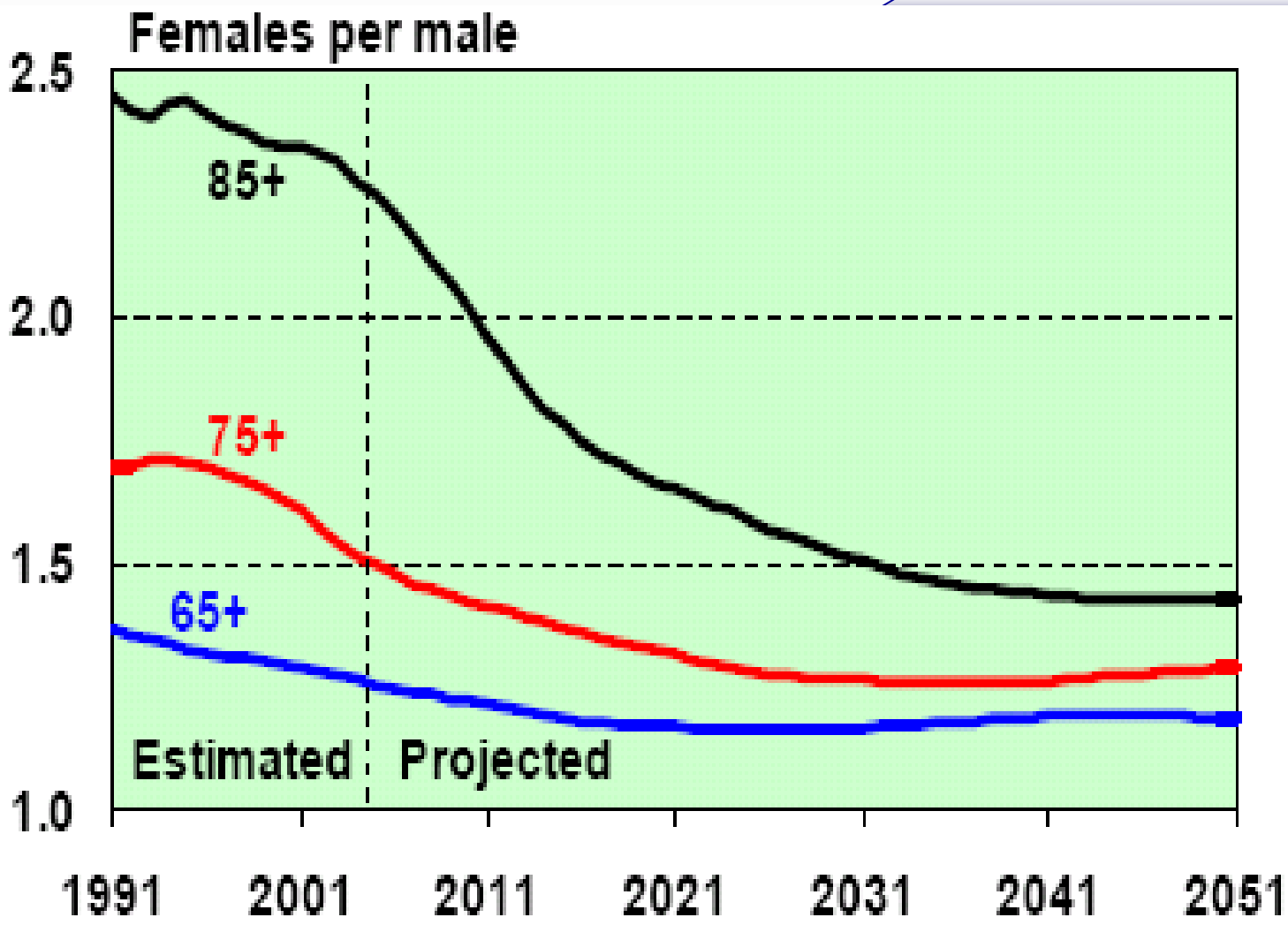
Dyson 2002

Residential care 2006



MSD 2007

Good news for women: more men at 85



The simple economics of ageing

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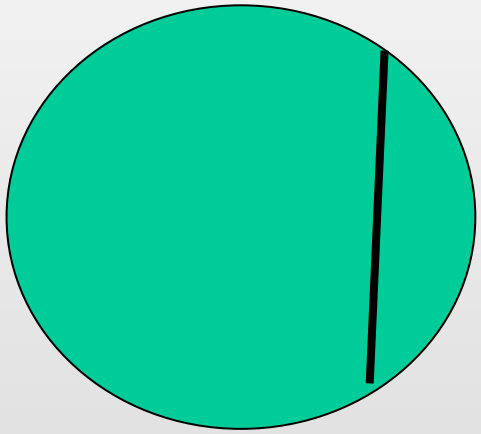
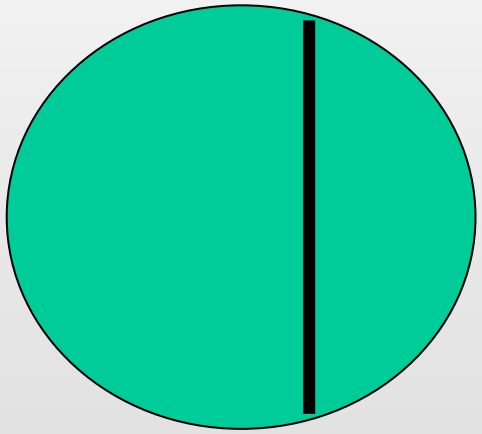
Useful Output from each 5 of working age

2010



1 retired for 5 workers

2050



2 retired for 5 workers

Will the pie actually grow?

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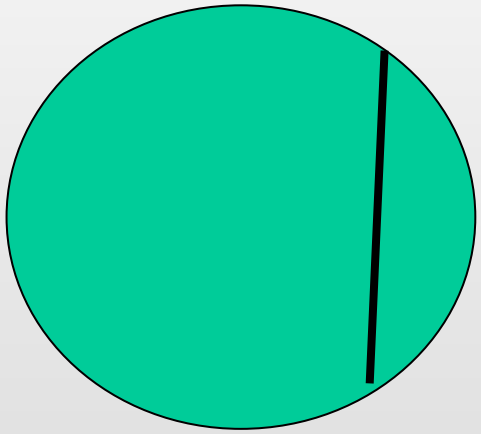
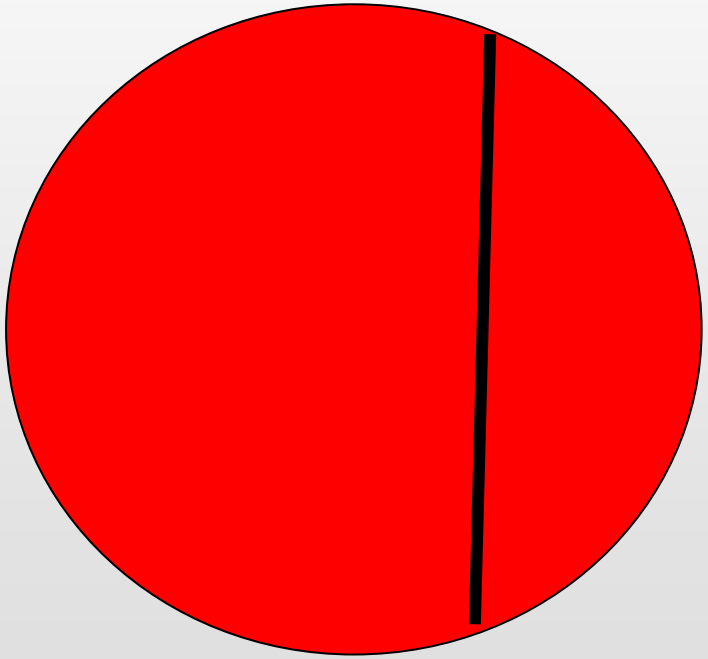
Useful Output from each 5 of working age

2010



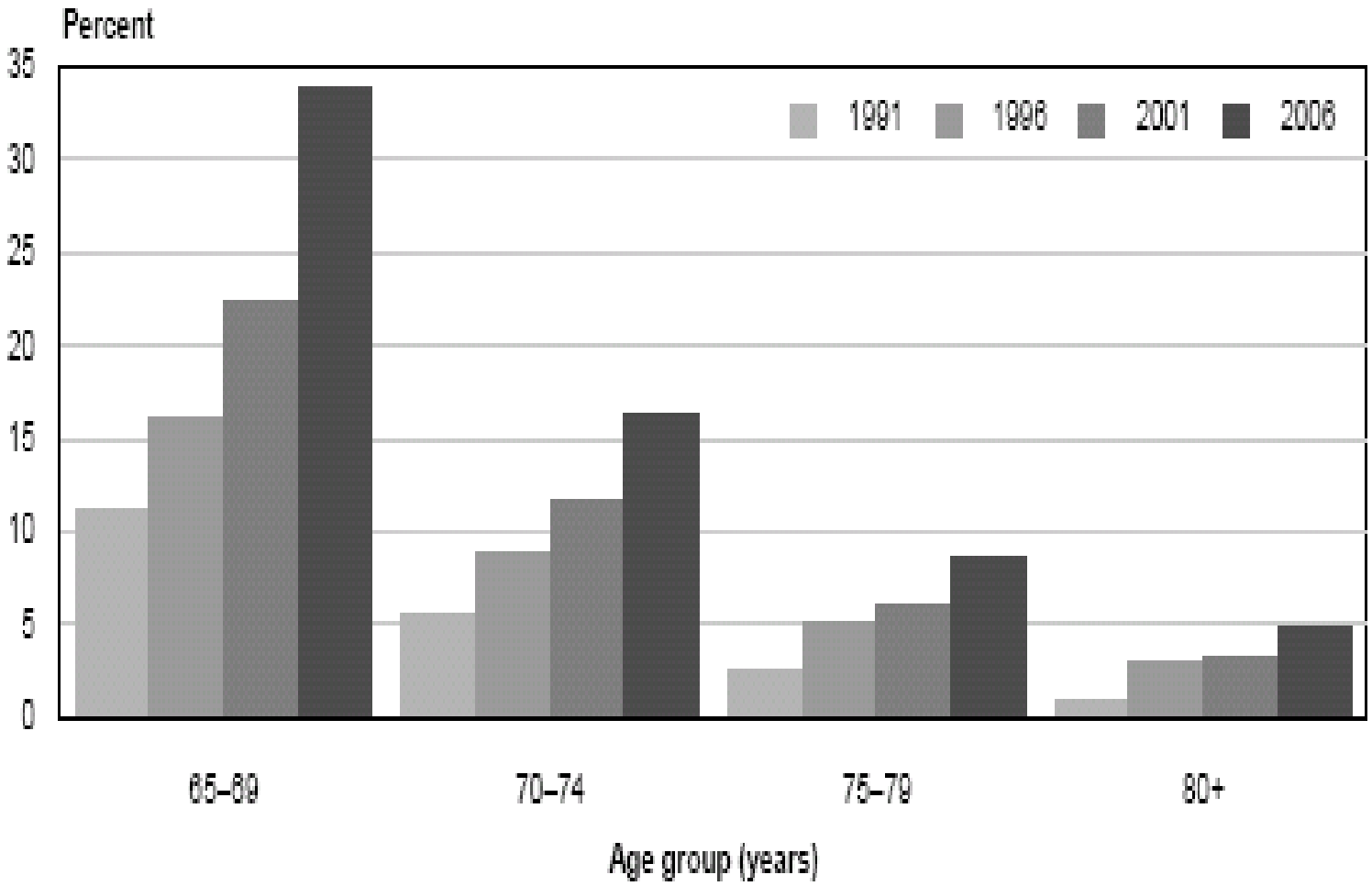
1 retired for 5 workers

2050



2 retired for 5 workers

Will working into old age save the day?



Census data

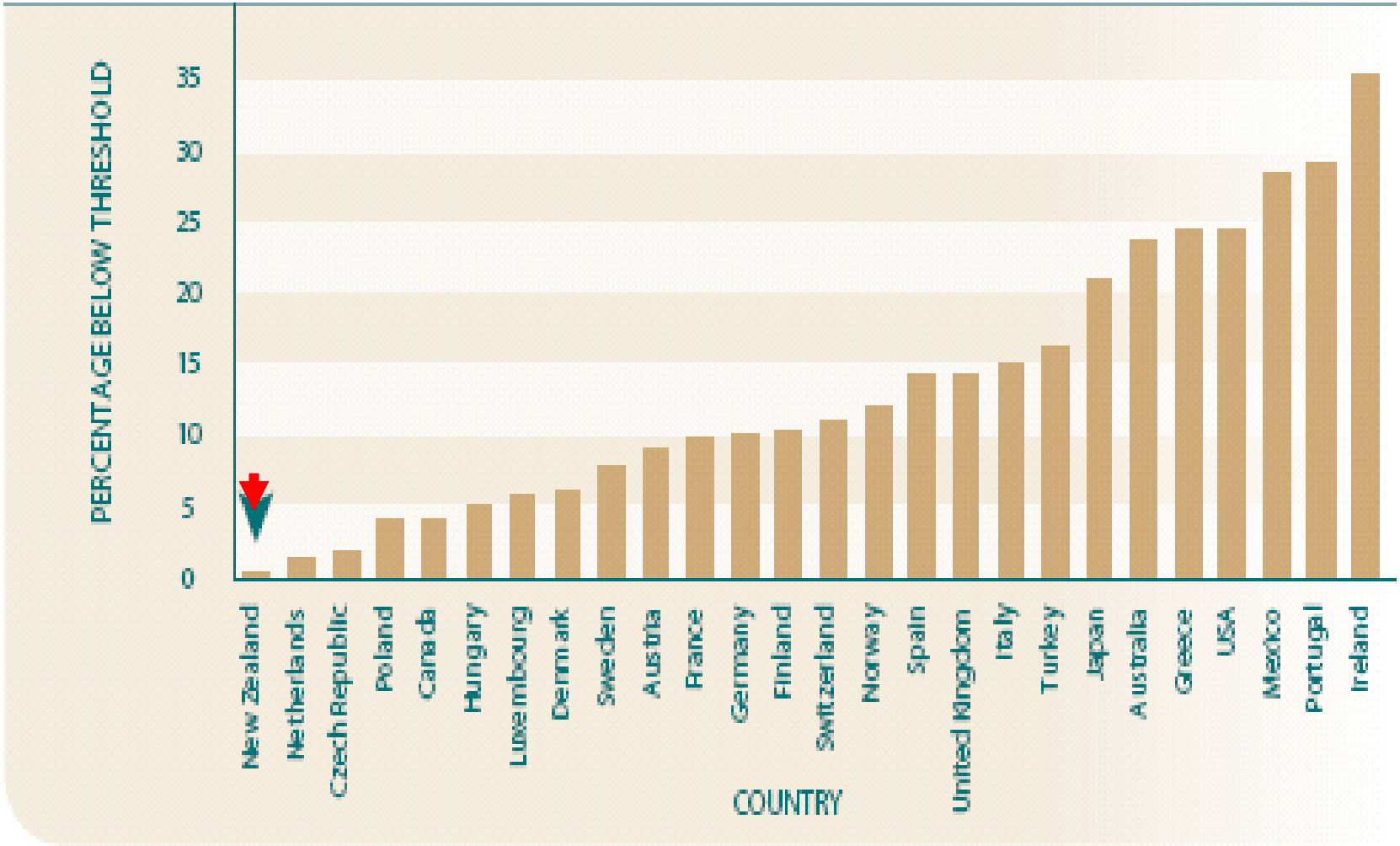
What about our policies?

- Dearth of holistic planning for ageing
- *Retirement incomes policies* facilitate a division of the pie
- **Should retirement incomes policies also make the pie grow?**
  - May be too big an ask

Dividing the pie
We might expect policies should

- Prevent old age poverty
- Allow participation and belonging
- Facilitate income smoothing
- Be fair as between
  - Workers and retired
  - Men and women
- Not add to growing wealth and income disparity
- Be as simple and transparent as possible

Have policies prevented poverty ?



Source: Förster and d'Ercole (2005)

MSD 2007

NZ Super a success story

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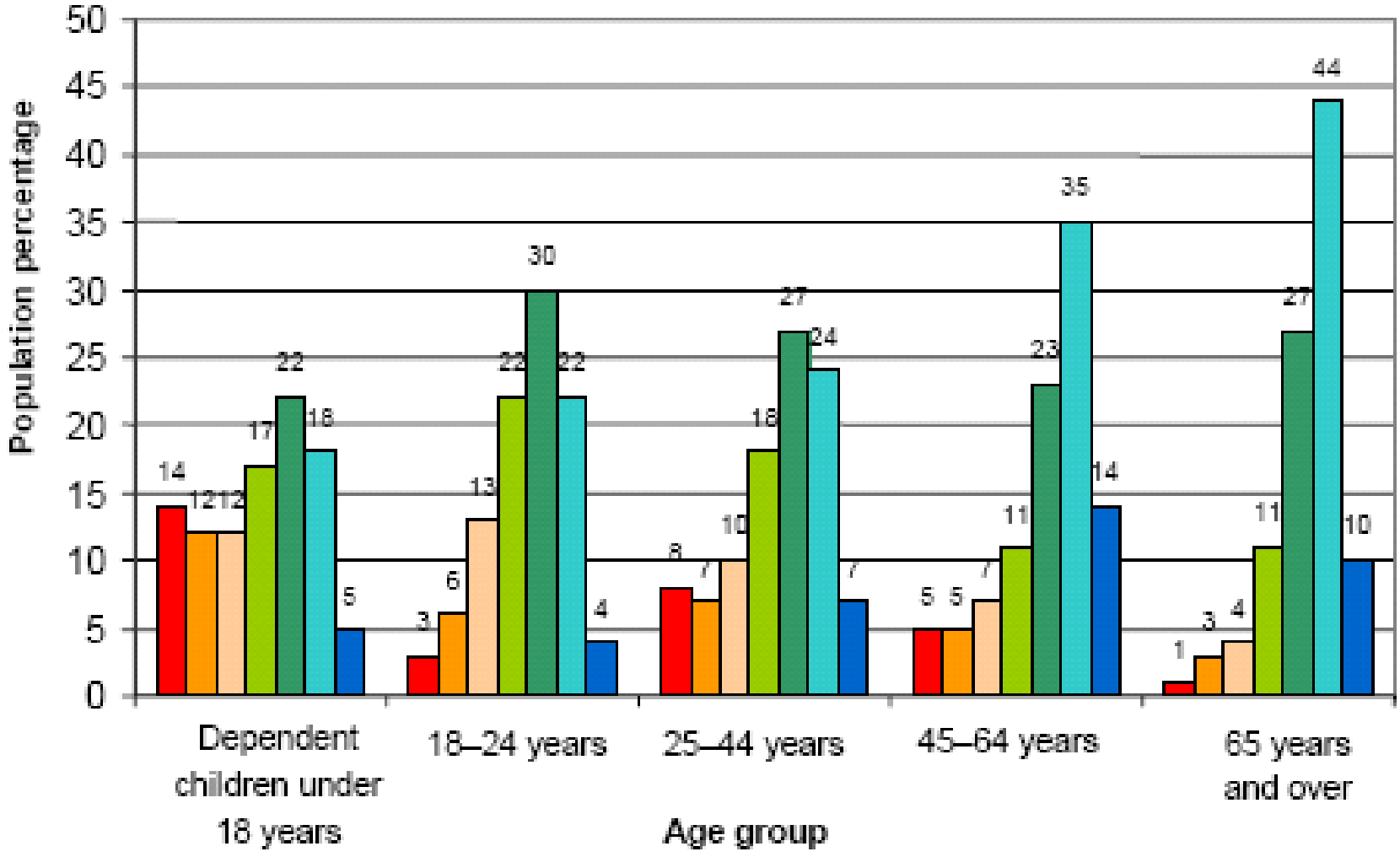
Living standards by age- 2004 (MSD 2006)



Do our policies allow participation and belonging

- More than poverty prevention
- Not good at facilitating income smoothing for middle income retirees
  - Draw down risks
  - Home equity release?
  - Few private pensions

Enter

KiwiSaver
Poua he Oranga

Are policies fair?

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- NZS : Flat rate same for everyone
- No paid contributions needed
  - Good for women
- Taxable
- Same age for men and women
- No hidden tax incentives
    - Pro rich
    - Pro male
    - costly
- NZS equaliser of incomes

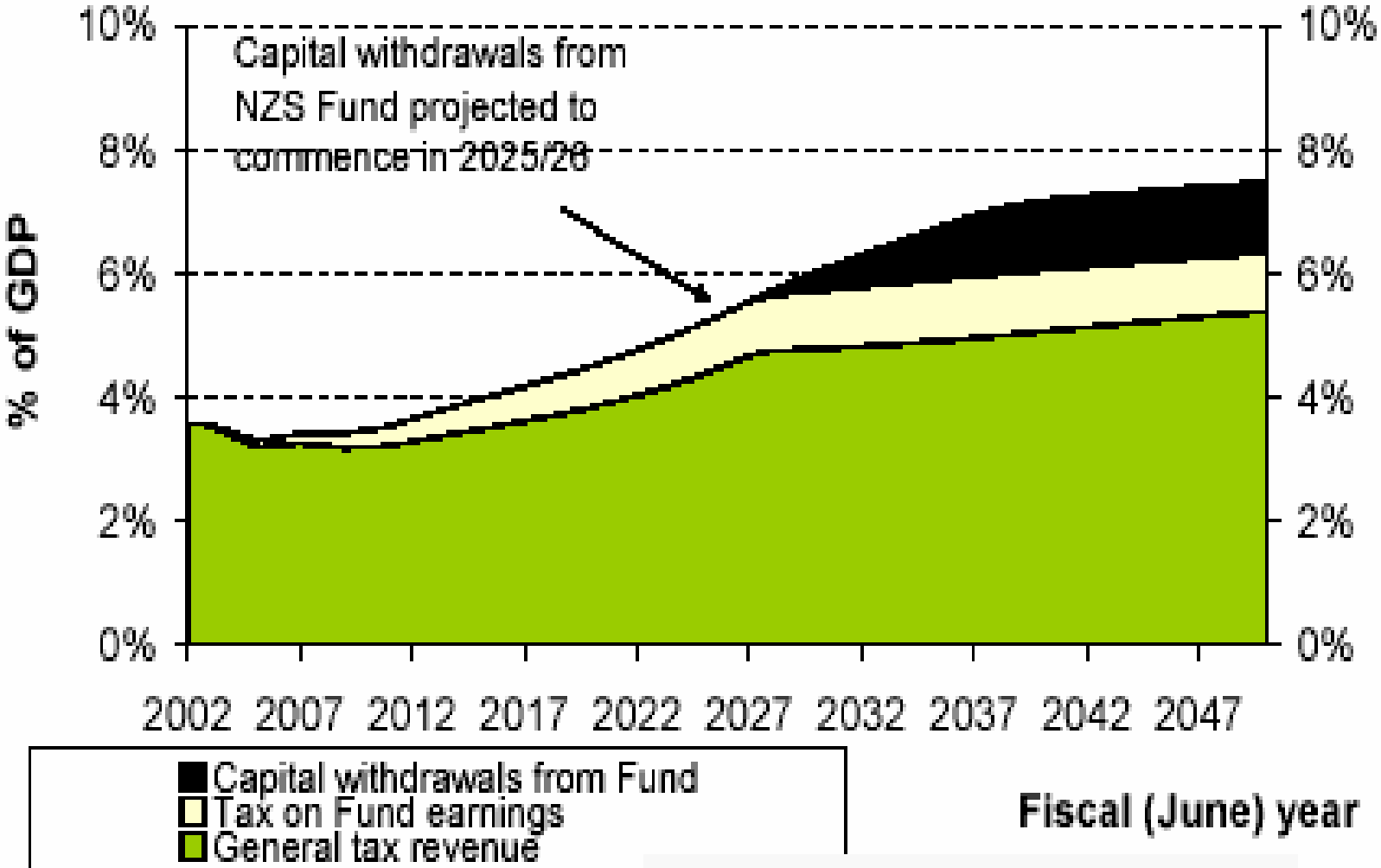
The simplest and most cost effective retirement scheme in the world?

- Public provision
  - New Zealand Superannuation
    - New Zealand Superannuation Fund
- Private provision
  - Voluntary unsubsidised
    - Saving for retirement taxed like saving in a bank

New Zealand Superannuation

- 1974 Compulsory scheme
- 1976 Universal National Super
  - 80% average wage couple at age 60
- 1980s surcharge
- 1991 Budget attack then reprieve
- 1993 Accord
- 1997 Compulsion rejected
- 2000 Universal 65 at 65

NZS Affordable, fair and effective



http://www.retirement.org.nz

How do we compare

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- UK system
  - Tortuously complex
  - Tax breaks for the rich
  - Means tested top ups to low level basic pension
  - Women poorly treated
- Australian system
  - Compulsory private saving
  - Women far less than men
  - Means tested old age pension

For twenty years OECD waxes lyrical

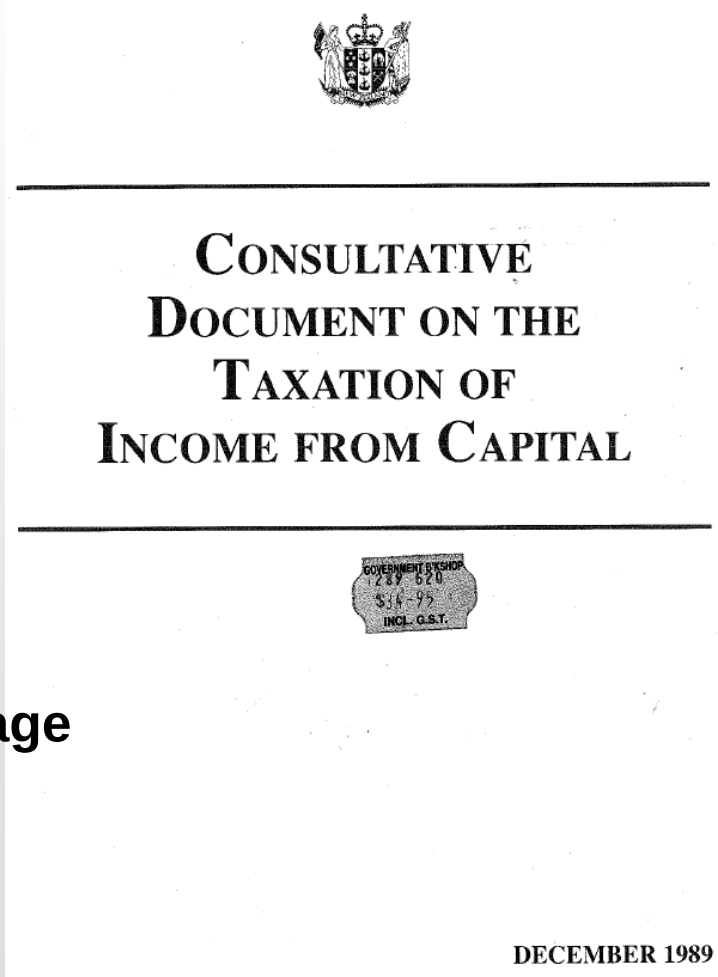
The level playing field

"After the radical reforms undertaken in the 1980s, the NZ tax system has long been regarded as one of the most efficient within the OECD."

OECD 2007

Flies in the ointment?
Housing tax advantaged

- no capital gains tax
- no imputed rental tax
- traders scot-free


CONSULTATIVE DOCUMENT ON THE TAXATION OF INCOME FROM CAPITAL

DECEMBER 1989

Roger did not get the full package

What have reviews said?

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Hard won consensus

- Brash Committee 1988
- Task Force 1992
- Accord 1993
- Periodic Report Group 1997
- Super Taskforce 2000
- McLeod Review 2001
- Periodic Report Group 2003
- Retirement Commission Review 2007?

The Tax Review 2001

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No tax incentives justified, but fix housing

"There is little evidence that changes to the tax system will induce higher saving other than by redistributing from those who are less likely to save(typically poorer households) to those who are more likely to save (typically wealthier households)"

McLeod Review 2001

What did Treasury have to say?

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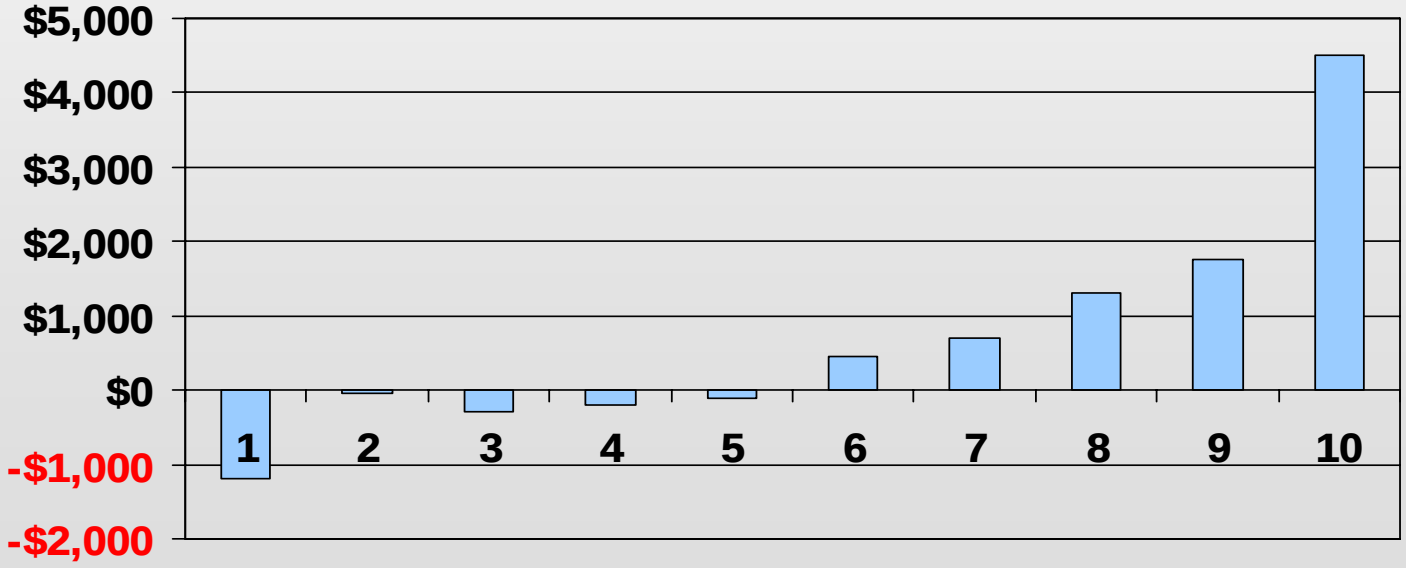
Saving Incentives Paper 2002

- Rich will gain most- effect on saving negligible

Annual Household Financial Saving by Income Decile - 1997-98



Labour agreed

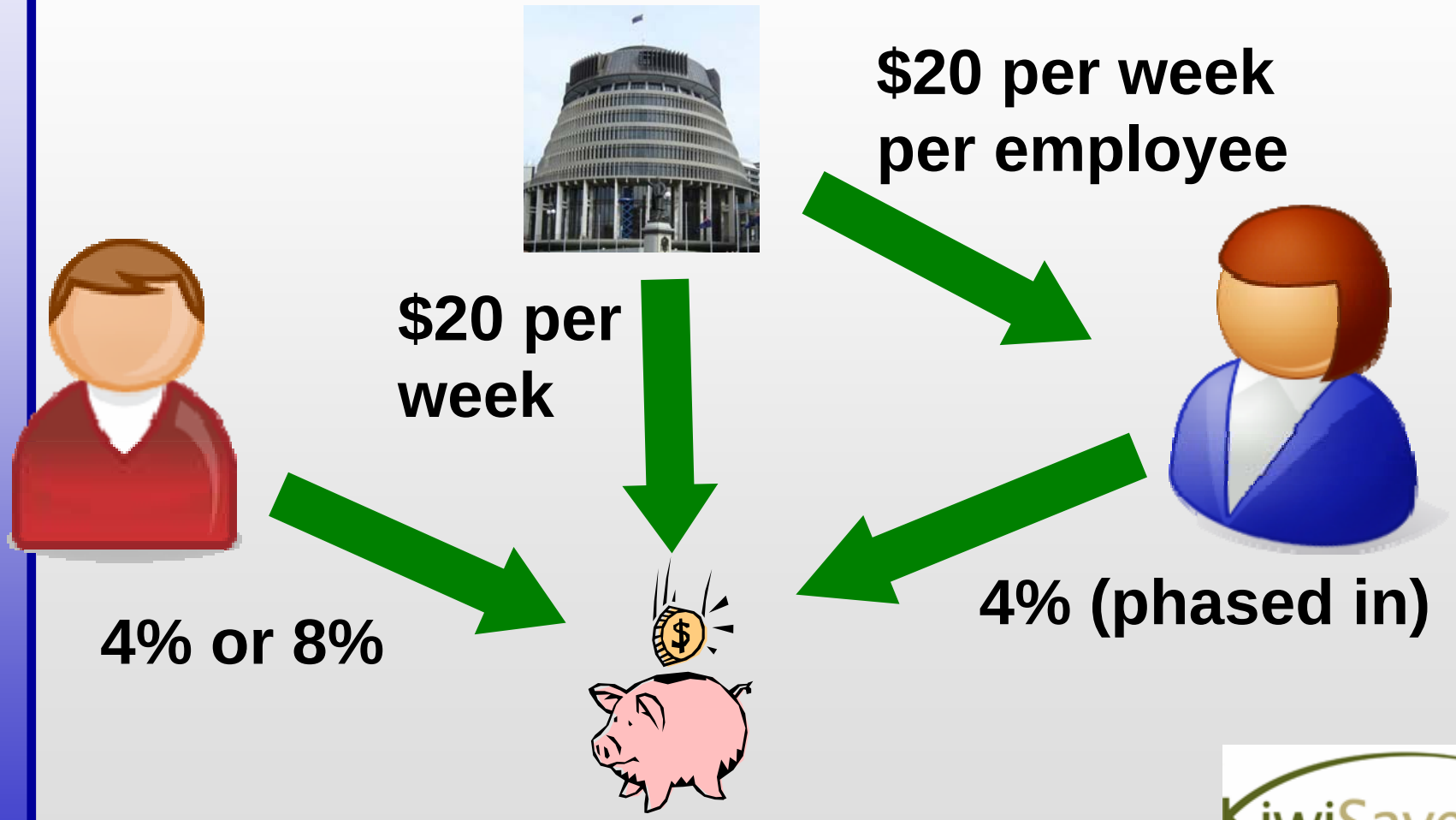
- December Economic and Fiscal Update 2002

"The government is not considering upfront tax incentives. These are likely to have to be very large - with fiscal costs running to many hundreds of millions of dollars a year - before they have any desirable effect on overall savings. Their abolition in the mid-1980s represented sensible tax policy on both equity and efficiency grounds."

Enter KiwiSaver - 2005 Budget

- Portable
- Extends workplace saving options
- $1,000 “sweetener”
  - Lump sum
  - Progressive
  - Limited
- Cabinet papers 2006
  - Don’t go there with anything else!
- The slippery slide begins as advice ignored

2007 … KiwiSaver is being enhanced



Cullen, May 2007

NZ Treasury Report 2 May 2007
" least regrets approach"

Positive action now justified

(1+ Billion pa)

BUT

… *fiscal strains .. are likely to appear in the long term as the New Zealand population ages. If trends do not change, these strains could mean that programmes like NZS may have to become less generous in the future (New Zealand Treasury, 2007).*

Where to next?

- Pressure for tax break extensions
- Problems with wage negotiations
- Breakdown in political consensus
- Loss of simplicity
- Two tier retirement

Down the Australian path we go

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"If compulsion was to be introduced we would have to think about income testing New Zealand Super. That was just an awful phase in New Zealand's history." Michael Cullen (NZH, Nov 9th, 2007)

"KiwiSaver is likely to become compulsory if the sign-up rate so far is anything to go by," Peter Dunne (NZH Oct 27th 2007)

Two nations in old age?

The outlines of a dangerous schism are clear, and they are enlarging. Already it is possible to see two nations in old age; greater inequalities in living standards after work than in work; two contrasting social services ‘ for distinct groups based on different principles, and operating in isolation of each other as separate, autonomous, social instruments of change’ (Titmuss 1958, pp. 73–74).

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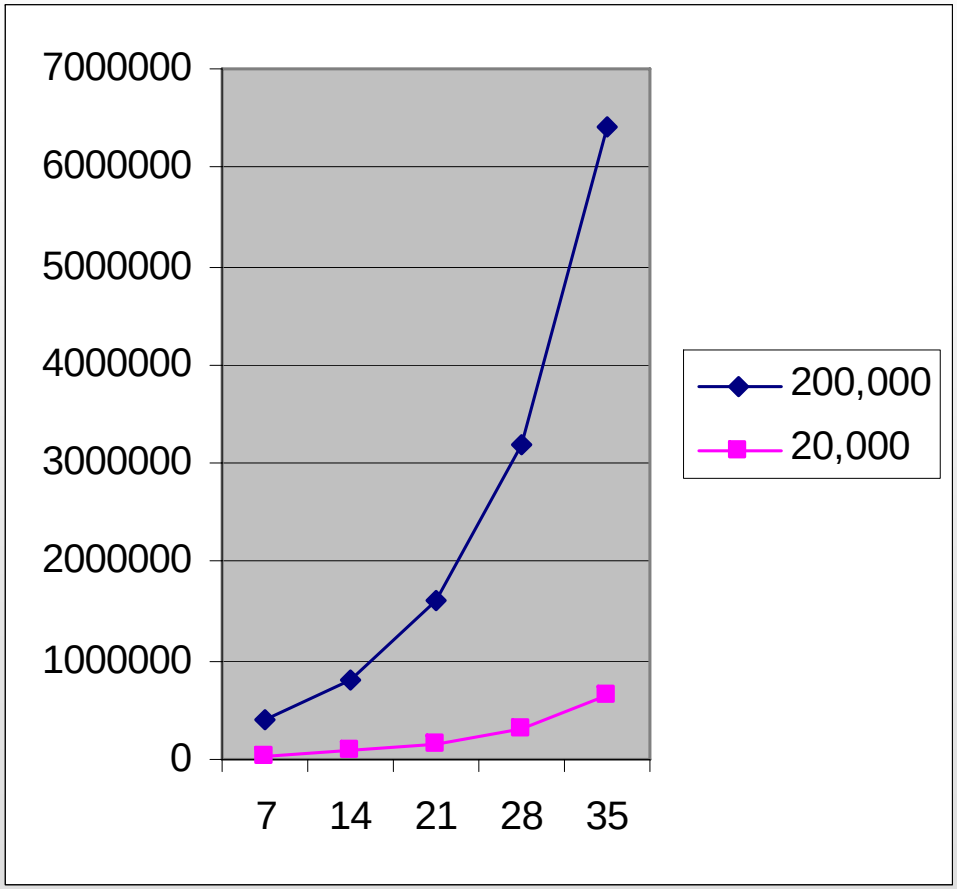
Unpleasant arithmetic of inequality

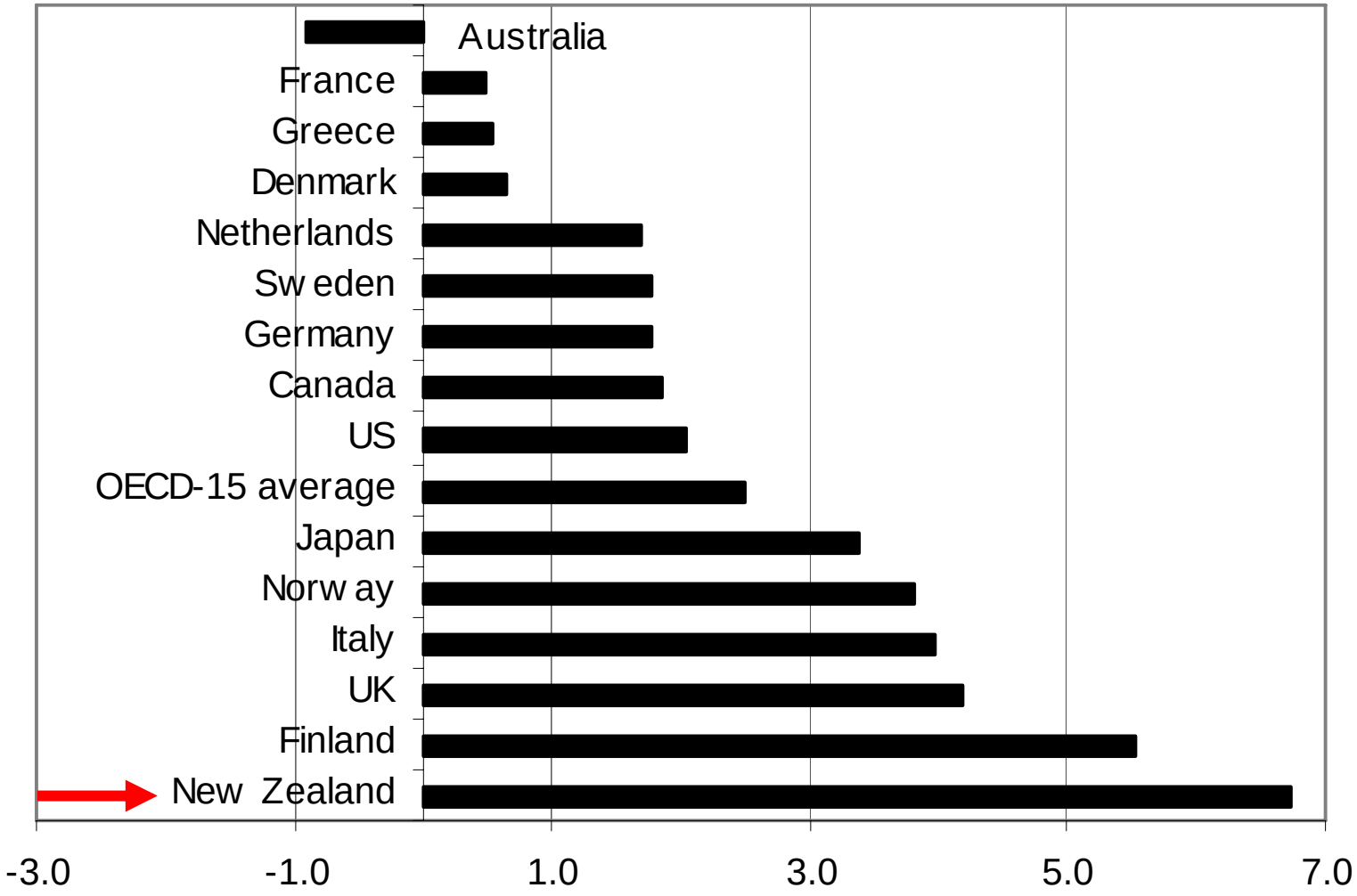
The new gilded age



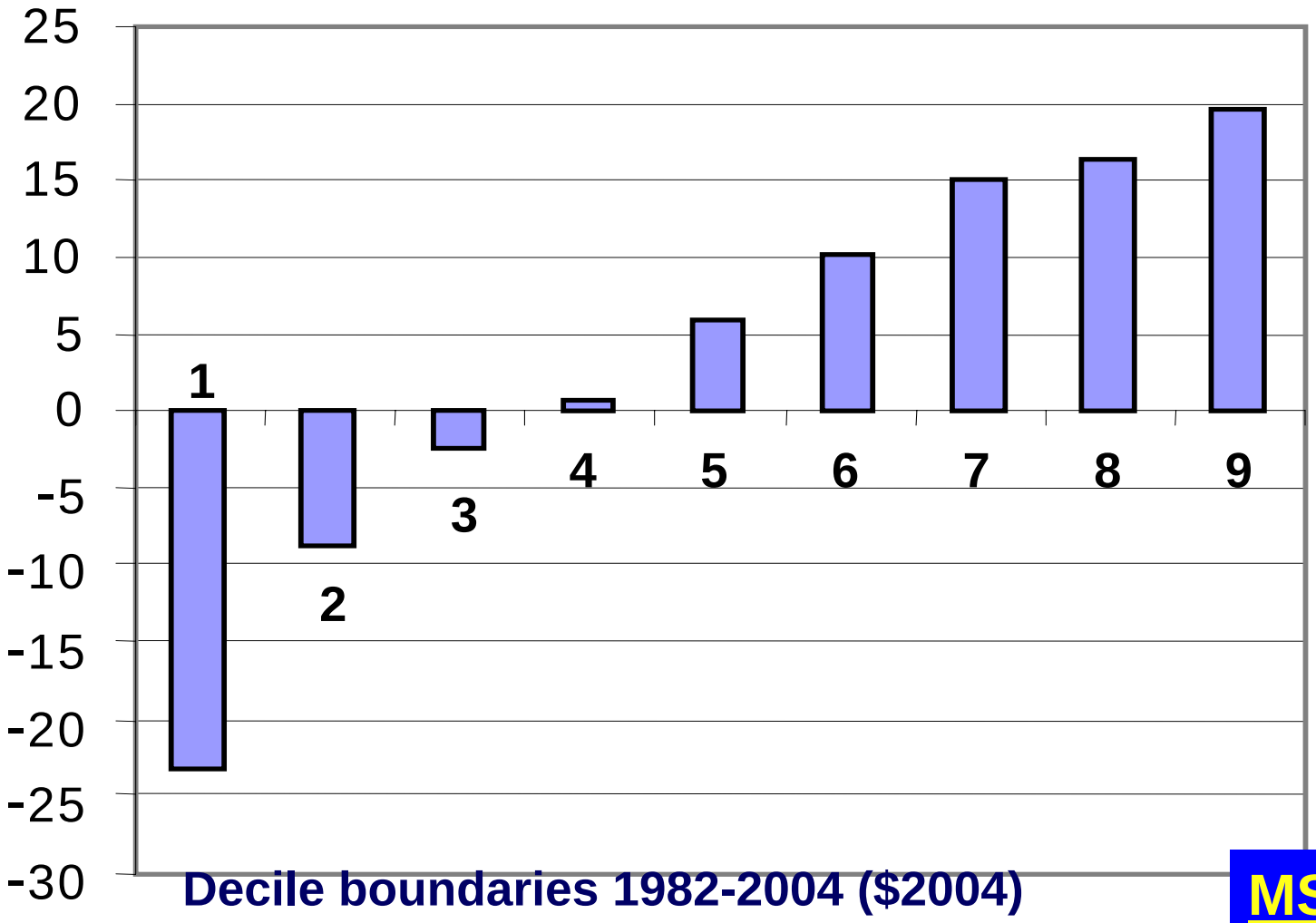
Compounding advantage

$200,000 @10%
$20,000 @ 10%

Changes in income inequality in the OECD, 1982-2000 (GINI)



Percentage change in real equivalised after housing costs incomes:



Decile boundaries 1982-2004 ($2004)

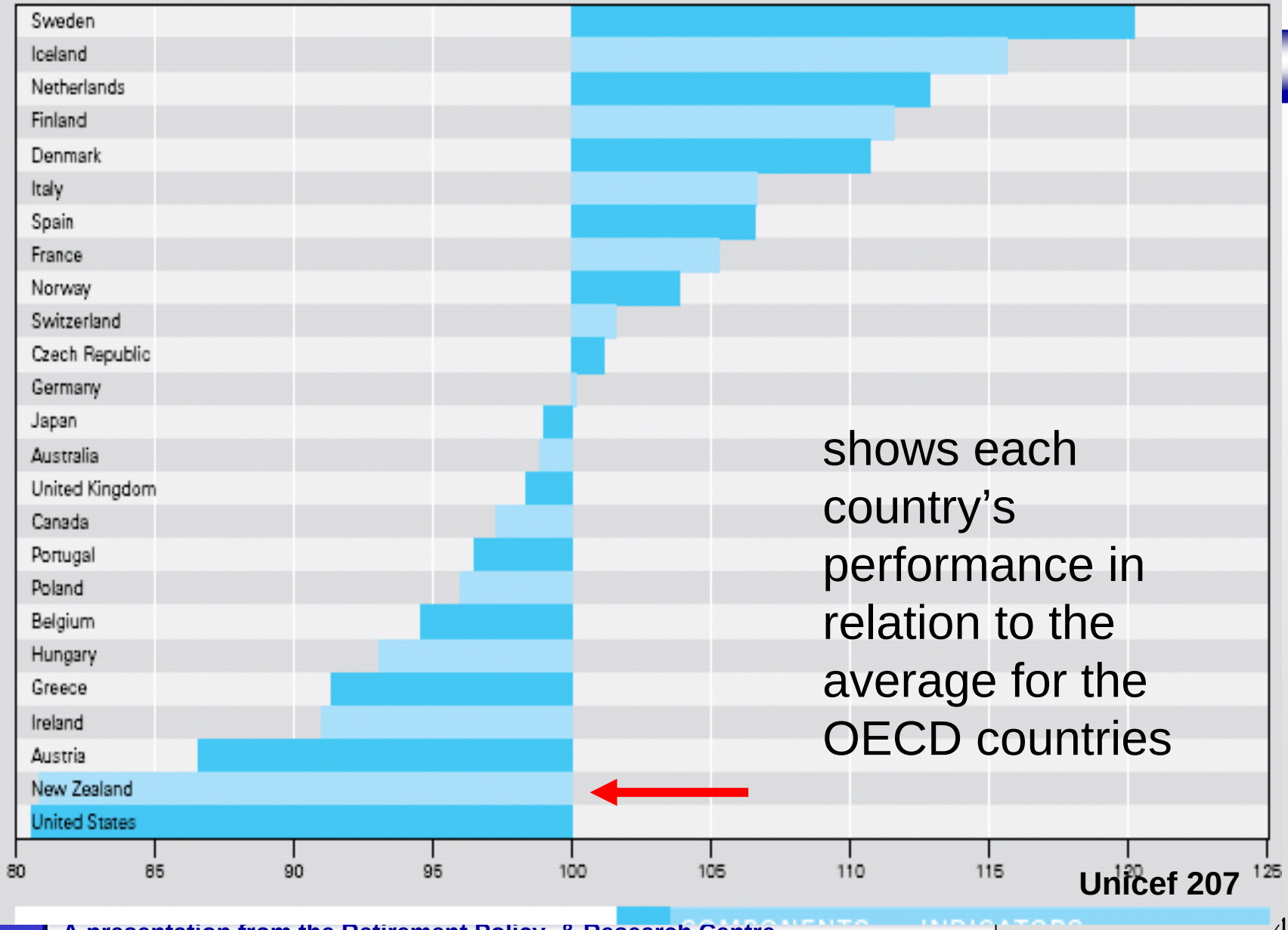
MSD 2007

Winners

Losers

Women and children, especially sole parents

The health and safety of children



shows each country's performance in relation to the average for the OECD countries

Unicef 207

High child poverty

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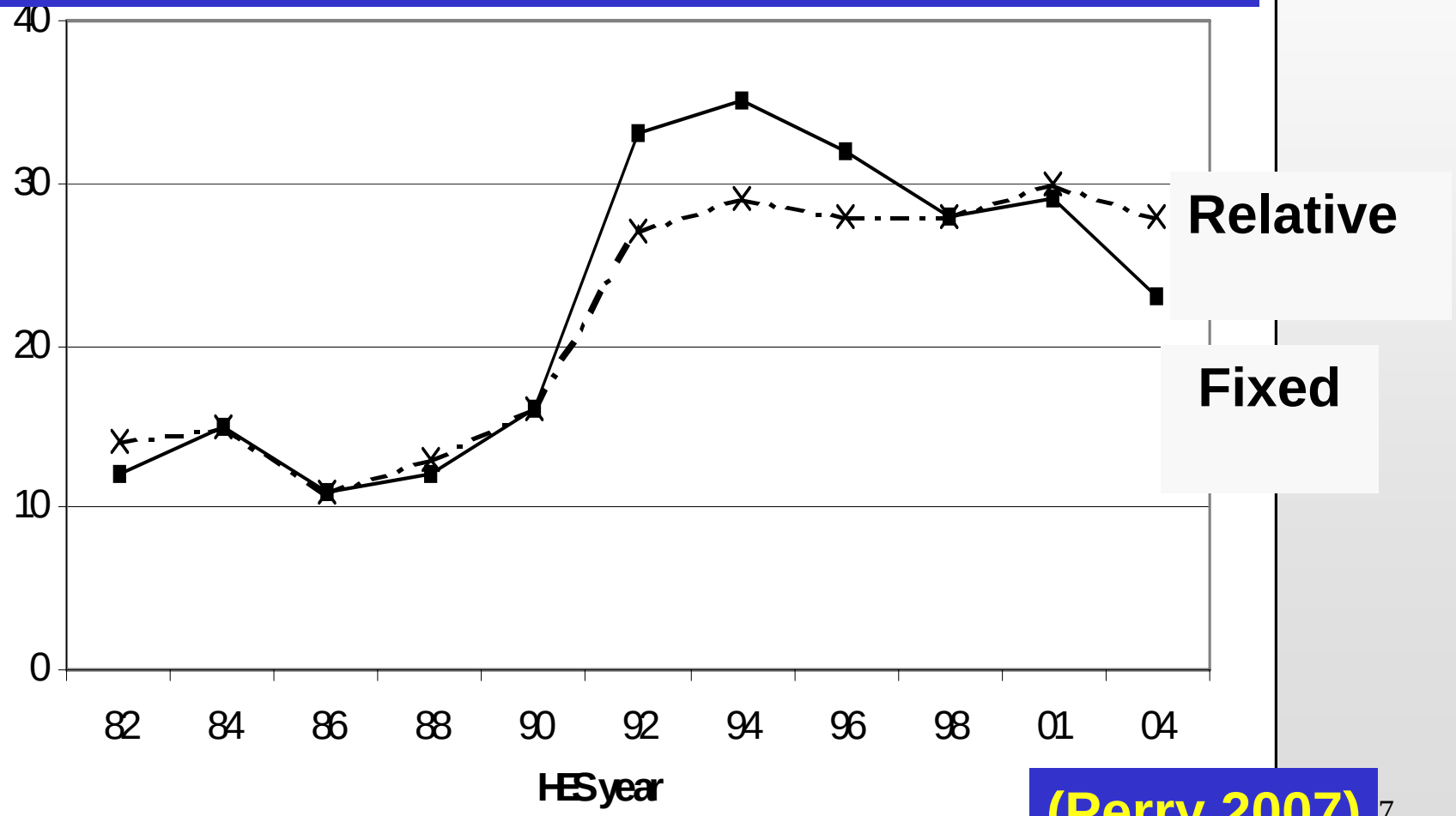
% children below after housing costs 60% median income poverty line



(Perry 2007)

Can we afford to age?

"….If we want a prosperous knowledge economy, where is the human capital going to come from?

…The fate of the bottom 20% of our children should be at the top of our list of national priorities…… "

Professor Dame Anne Salmond – NZ Snapshot - Community

In the meantime, who takes up KiwiSaver

pensionreforms
Promoting high quality international debate on pension issues
veritas propter investigationem truth through research

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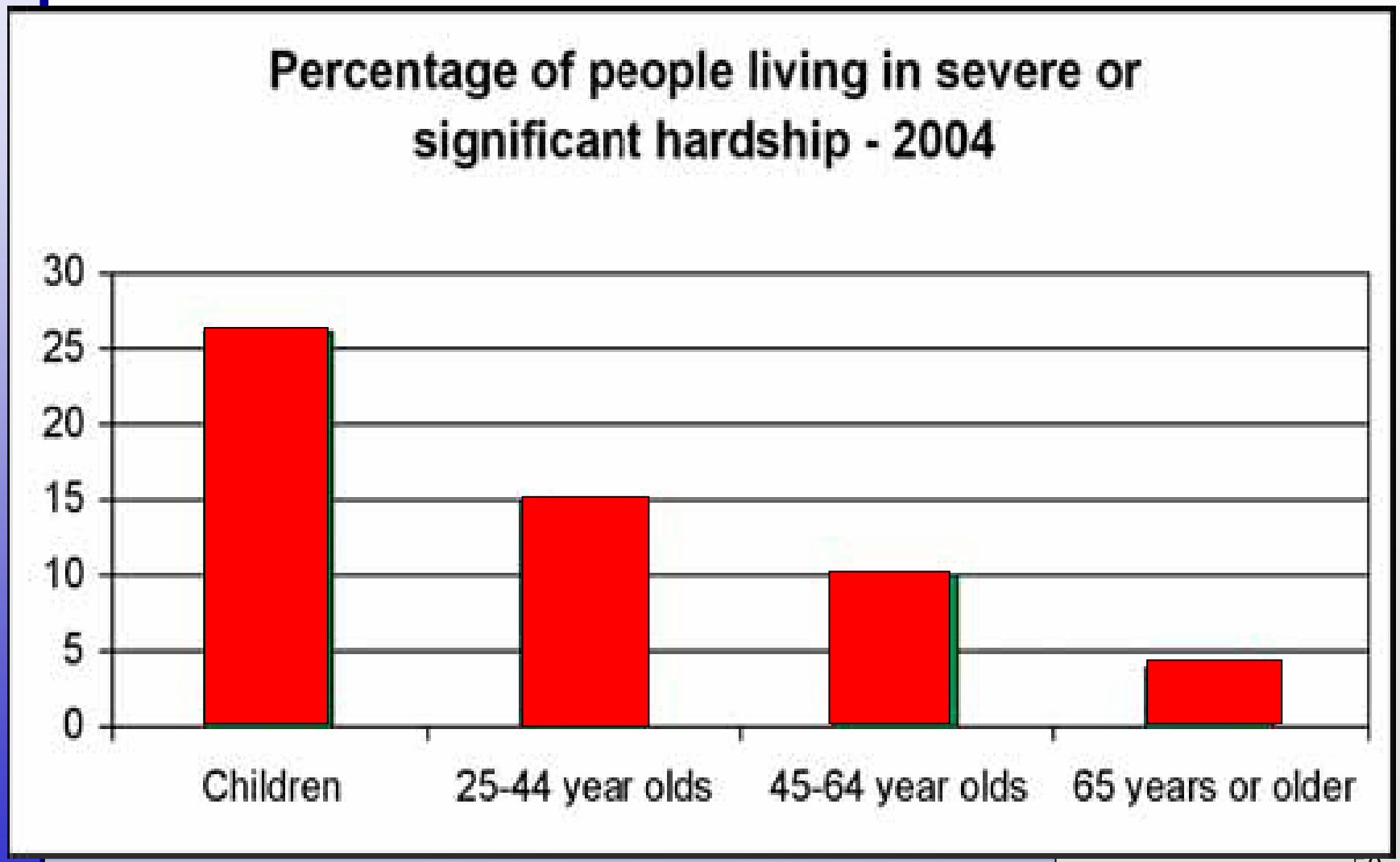
Preliminary evidence

- Enrolment rate increases as people near 65 years of age
- Over half (51 per cent) of people joining KiwiSaver are older than 45.
- Members under 20 years of age are 8.6 per cent of the total.

Are the baby-boomers the problem?



KiwiSaver for some replaces tax cuts for all

:

- $1000 sweetener- one-off
- Fees subsidy $40 pa
- Matching tax credit of $20 a week for member contributions KiwiSaver
- Matching employer contributions made compulsory (for members) rising to 4% by 2011
- Tax credit up to $20 paid to employers
- Matching employer contributions to 4% tax free
- PIE tax rate 19.5% or 30%
- First home buyer subsidy $3-5000

Tale of two couples

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Bob and Anne in their 30s

- **Just had their first child**
- **He earns $35,000**
- **She gets WFF $142**

They are only just getting by.. No KS

He loses his job

WFF falls $60 a week

Welfare state is no longer a cushion

Will never own their own home

Joan and Richard

Aged 50

Two houses and a boat and $500,000 invested

He earns $200,000

<u>Both join KiwiSaver- tax subsidies</u>

- Kickstart $2000 one off
- For 15 years
- Tax credit 2080
- Employer 1040
- Tax free 3120
- PIE 3600
- $9,840 pa

Tax subsidies alone may produce $190,000-247,000 in 15 years

Will they also get universal NZS worth another $500,000???