

ERIKSEN & ASSOCIATES LTD

Actuaries & Investment Strategists

Some Ideas on Retirement Savings Policy

With the election coming up we thought the political parties might like some ideas. The last Labour Government made great progress when it created KiwiSaver (KS) and set up the New Zealand Superannuation Fund (NZSF) to help maintain New Zealand superannuation (NZS). KS got ordinary New Zealanders saving for their retirement, while the NZSF helped NZS be more sustainable for the baby boomers. National has used the global recession to stop contributions to the NZSF and remove the Government incentives from KS. These are disappointing knee-jerk reactions which weaken our society and the economic strength of the country.

Clearly there is a need to cut spending following the GFC. The Government's policies have demonstrated their reluctance to make long-term but potentially unpopular decisions. They underestimate the severity and long-term risks of the global economic downturn. We agree that the NZ economy is not booming but it is relatively sound. We see this as a reason to continue, rather than stop, saving for the future. The PM's refusal to raise the age of eligibility for NZS ignores economic and social reality and delays the inevitable.

What Should a Wise Government Do?

A wise government would care for all age groups including an affordable superannuation funding policy as people live longer and the baby boomers retire. For example:

Encourage older people to continue working as long as possible

Older people who continue working can contribute to the economy longer, support themselves better and generally maintain their health longer. A higher age of eligibility for NZS, together with the opportunity to defer taking it until age 75 (at a higher rate) would provide an incentive to keep working, while still allowing an active retirement later.

Reduce the future cost of NZS by raising the age of eligibility but create workplace flexibility

While those currently aged 45 up would continue to get NZS from 65, those now under 45 would not qualify for the full rate until 70. This should be phased in over the next 20 years. Those not able to work until 70 should be able to get their KS savings from age 60 or 65, and would also be able to receive NZS from 60 onwards, but at a reduced rate. Those wishing to keep working beyond 70 could choose to defer taking it until age 75 (and then get it at a higher rate).

Encourage personal retirement savings by reversing National's latest changes to KS

Keep minimum KS contributions at 2% matching tax-free employer contributions at 2% and the member tax credit at \$1,042.86 per year. People can always save more if they want to.

Pre-funding NZSF to reduce the cost to be found in the future

A new government should resume modest contributions to NZSF. While we appreciate that the Government has a deficit to contend with, we also know that the costs of NZS will not go away. This is a cost which should be spread over as many years as possible.

Create a long-term annuity market in NZ by issuing longer term (25 year) Government Stock

There is a current need for annuities to protect retiring KS members by giving them a secure income stream rather than risk living beyond their savings. However this cannot happen until providers have access to suitable long term bonds.

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