

Pensions, Benefits and Social Security  
**4TH PBSS Colloquium**

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

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# Outline

- Compares NZS (*flat rate universal PAYG pension*) plus KiwiSaver (*funded defined contribution auto-enrolment*) with international approaches for state provision of retirement income

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- Compares NZS (*flat rate universal PAYG pension*) plus KiwiSaver (*funded defined contribution auto-enrolment*) with international approaches for state provision of retirement income
- Uses material from OECD 'Society at a Glance' and 'Pensions at a Glance', plus own calculations

# Simplicity

- NZS is flat rate and residence based – no need to track contributions
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  - 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
  - uses auto-enrolment and modest subsidies to overcome behavioural obstacles
  - is based on individual DC accounts – what you get is what you save

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- Measure by how effective in replacing income from paid work – common target is 60-70% of pre-retirement income

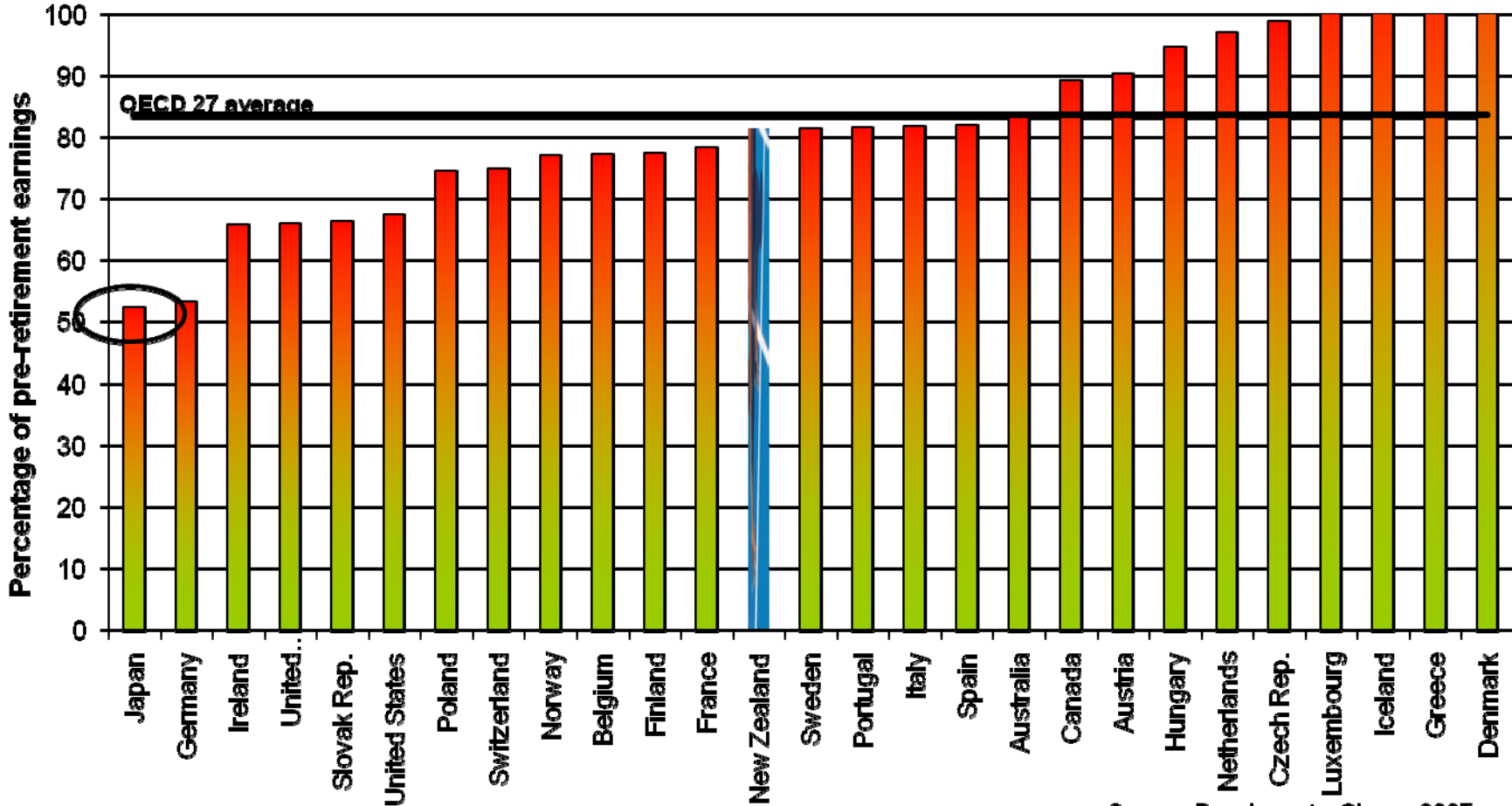
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- Measure by how effective in replacing income from paid work – common target is 60-70% of pre-retirement income
- Poverty measures not discussed - result for NZS very sensitive to comparison base



# Effectiveness

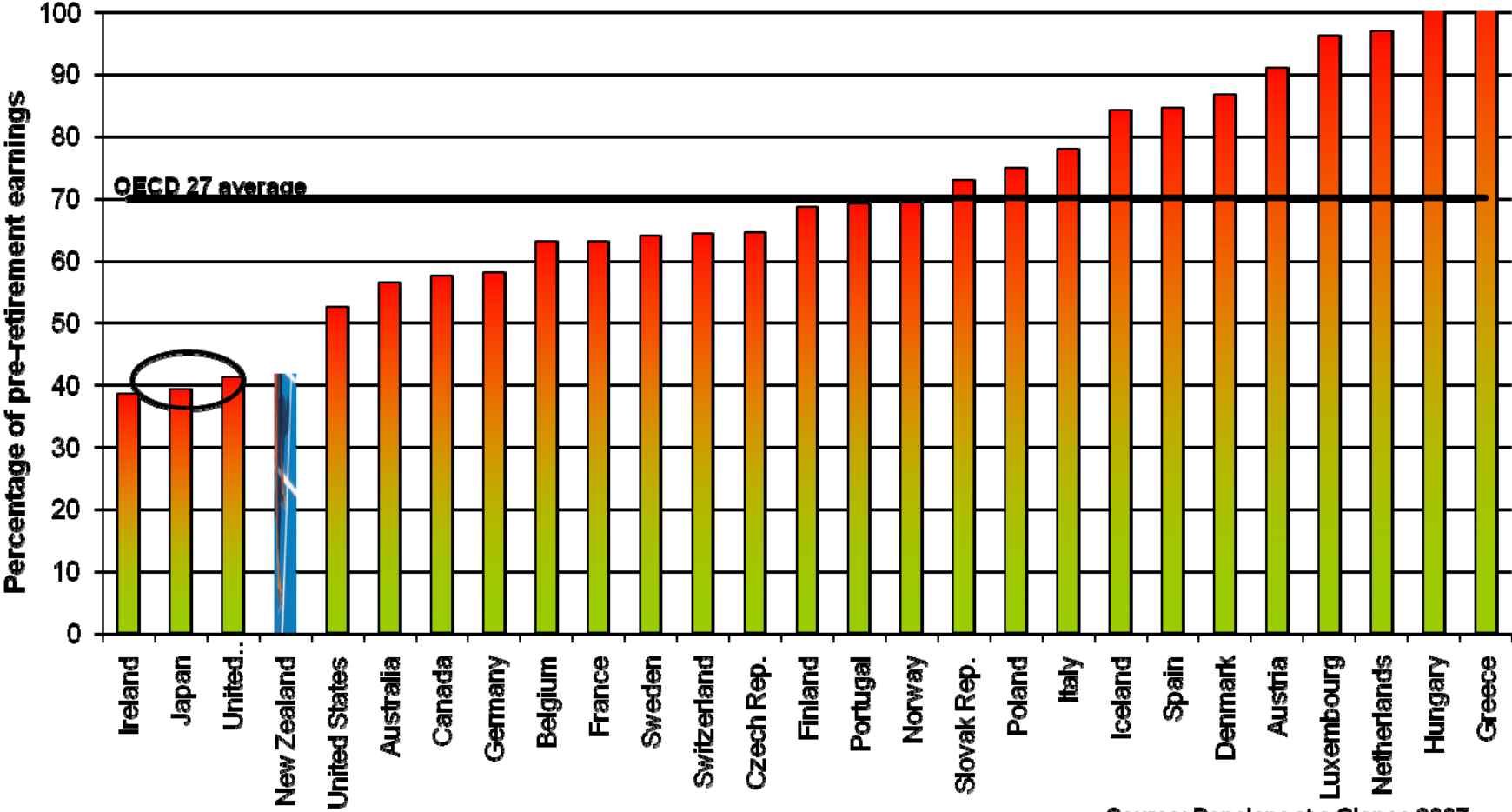
Net of tax replacement rates, OECD 27: half average earnings



Source: Pensions at a Glance 2007.

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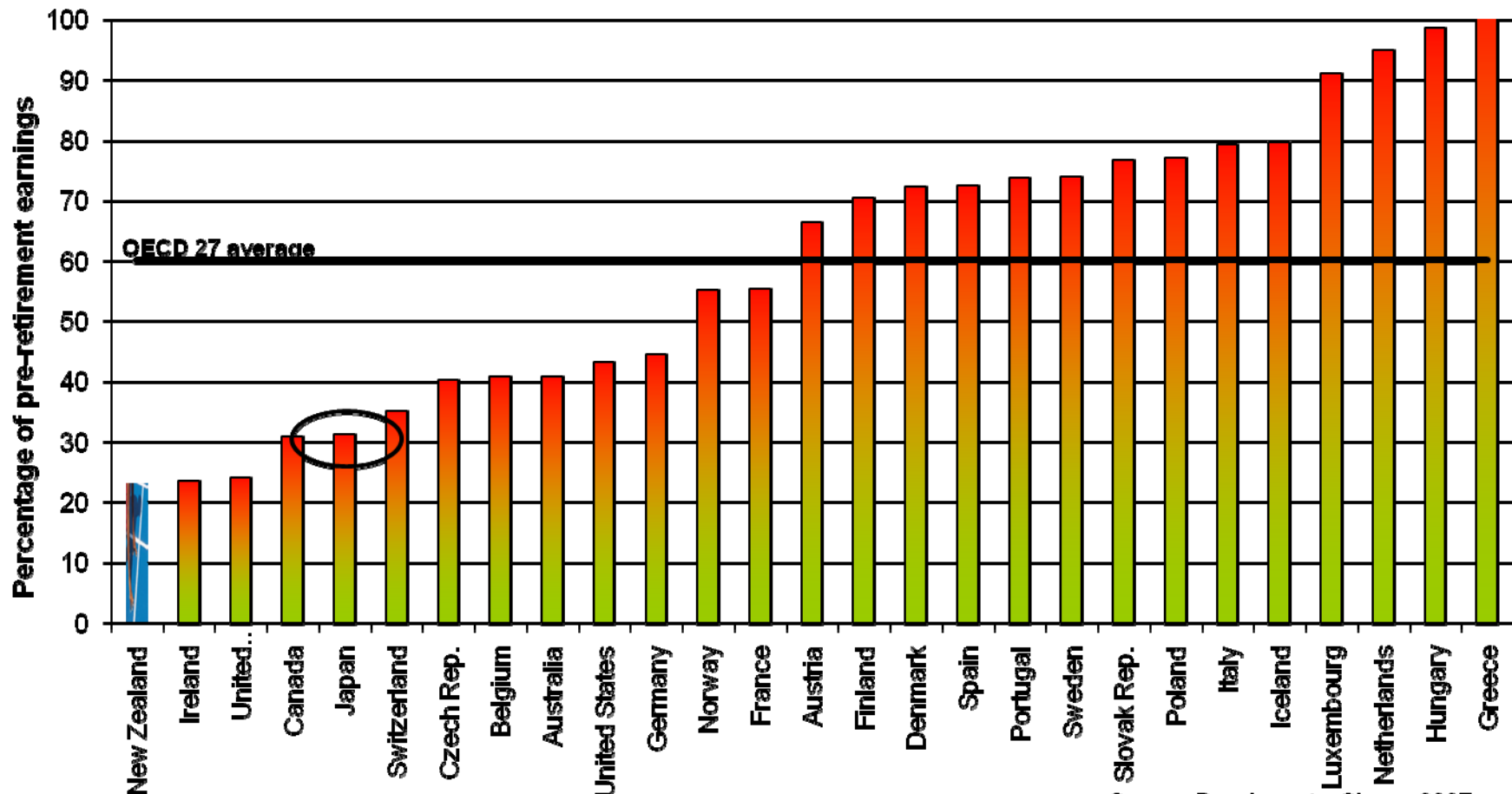
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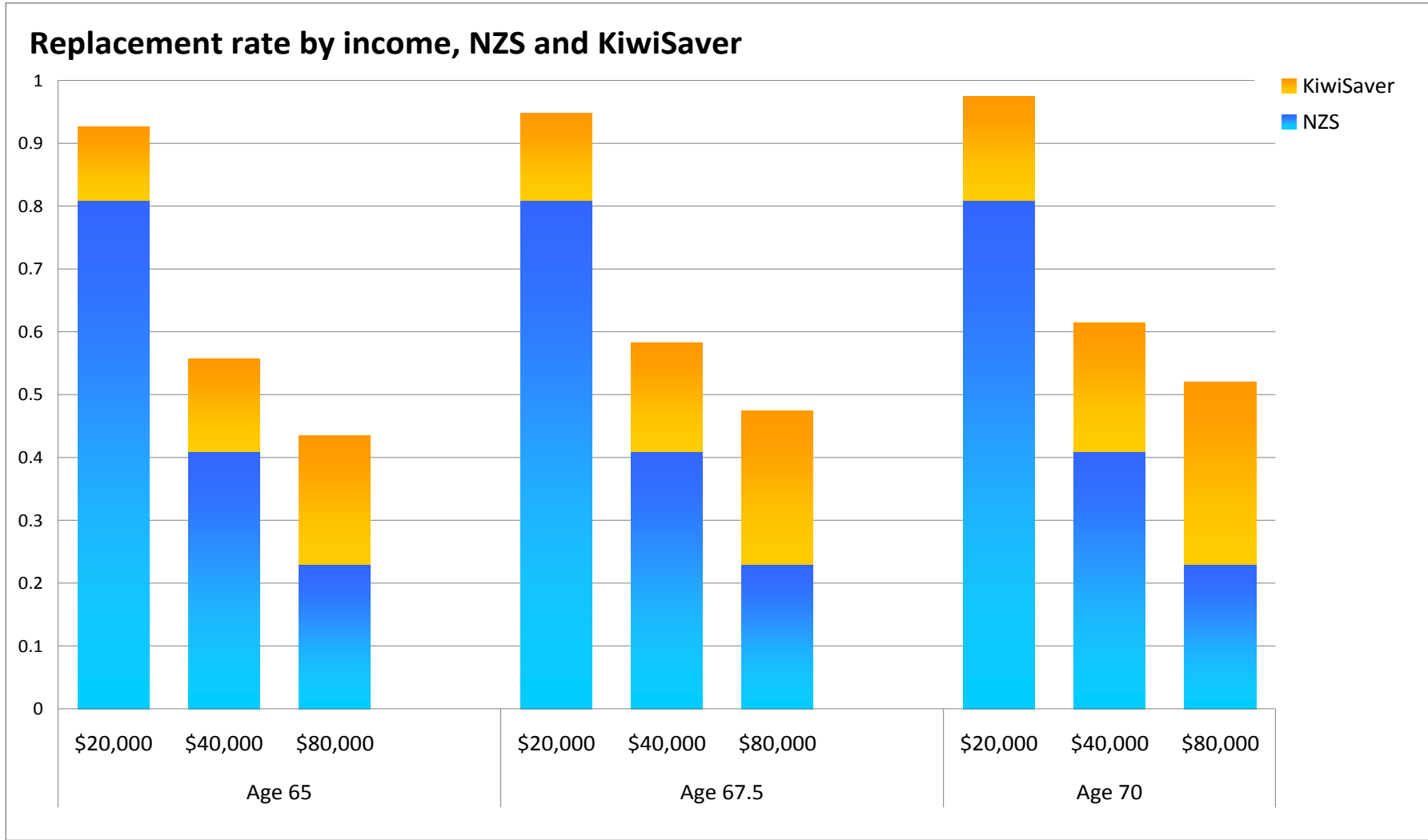
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- Accumulation interest 5% pa, wage growth 3.5% pa, subsidies, employer 2% contribution
- Decumulation 2% real, 10% profit & expense loading, NZ population mortality, 1% pa improvement



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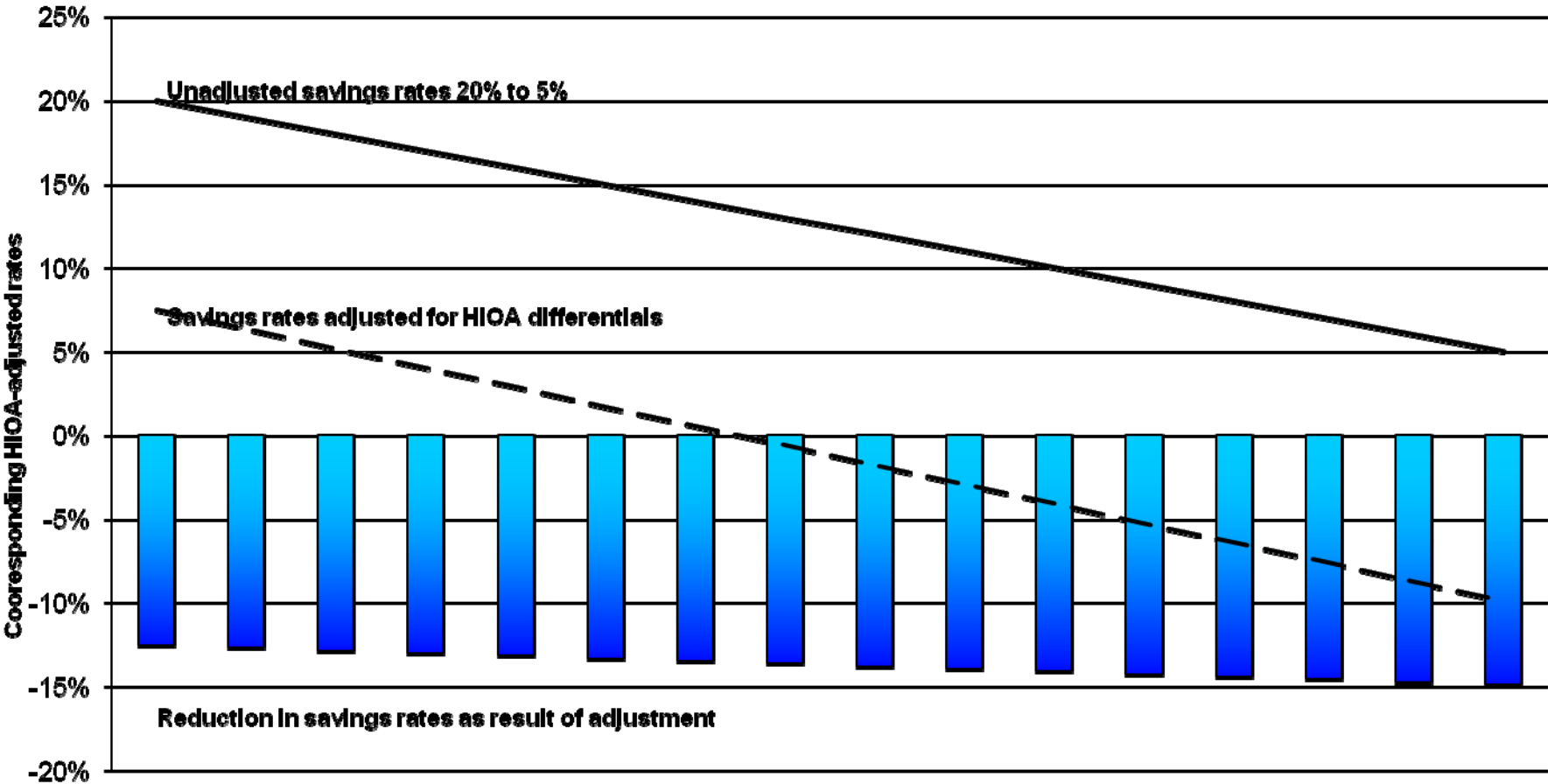
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- A study based on micro data suggests private savings may be adequate without KiwiSaver
- However, inconsistency between micro data and aggregate data:
  - micro data appears to record
  - **96%** of aggregate income
  - but only **84%** of aggregate expenditure

# Effectiveness

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



Source: own

# Effectiveness

➤ Conclusions difficult – but better safe than sorry!

# Effectiveness

➤ Note KiwiSaver is regressive, and likely to provide better outcomes for men than women (as per labour market outcomes generally)

# Effectiveness



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➤ Hence importance of stressing KiwiSaver **complementary** to NZ Superannuation



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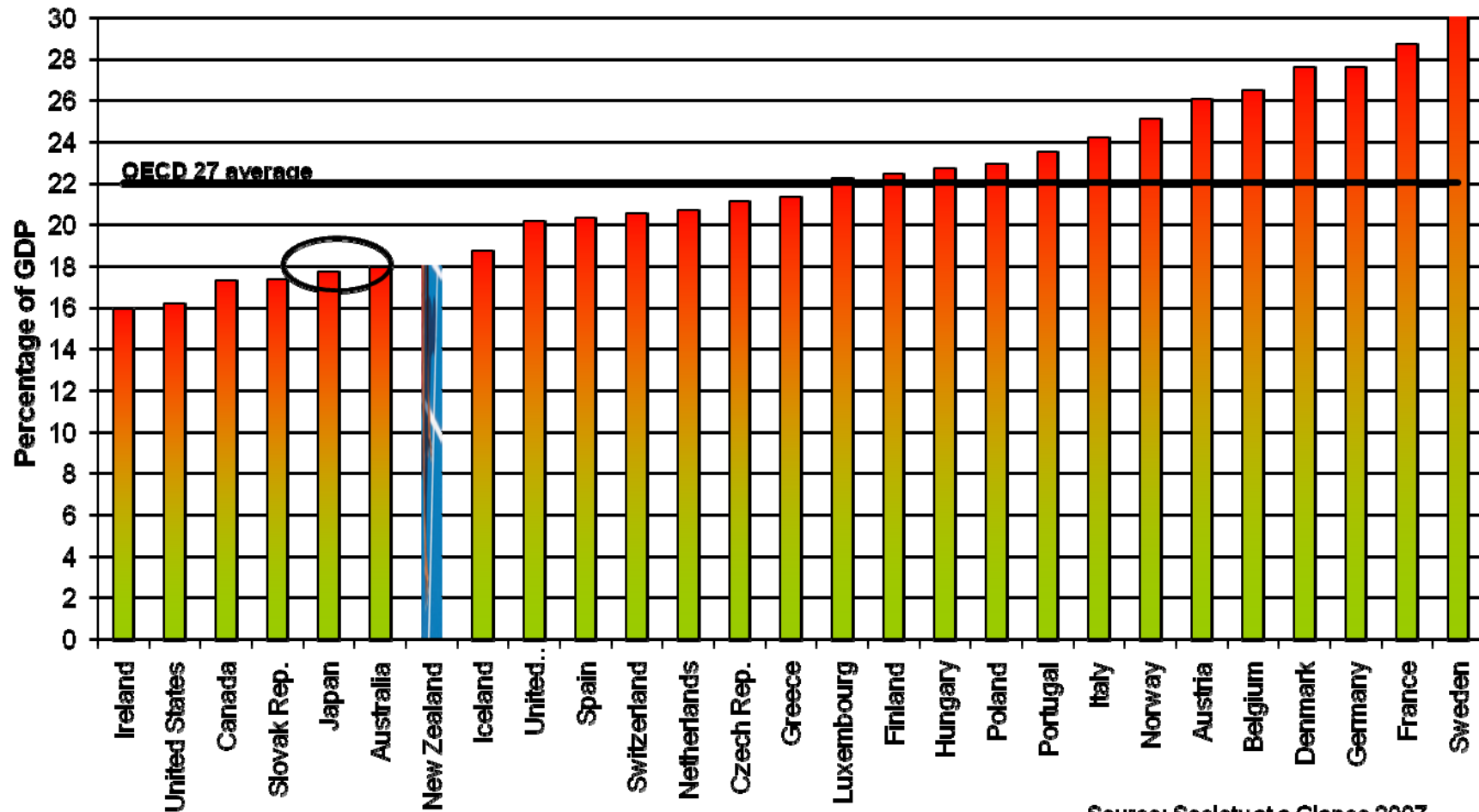
- To summarise:
- combination of NZS and KiwiSaver has potential to be effective in providing retirement incomes bearing comparison with OECD results over all earnings levels ...
- ... while still maintaining the belong and participate goal of NZS

# Cost comparisons

➤ From OECD data on social expenditure ...

# Cost comparisons

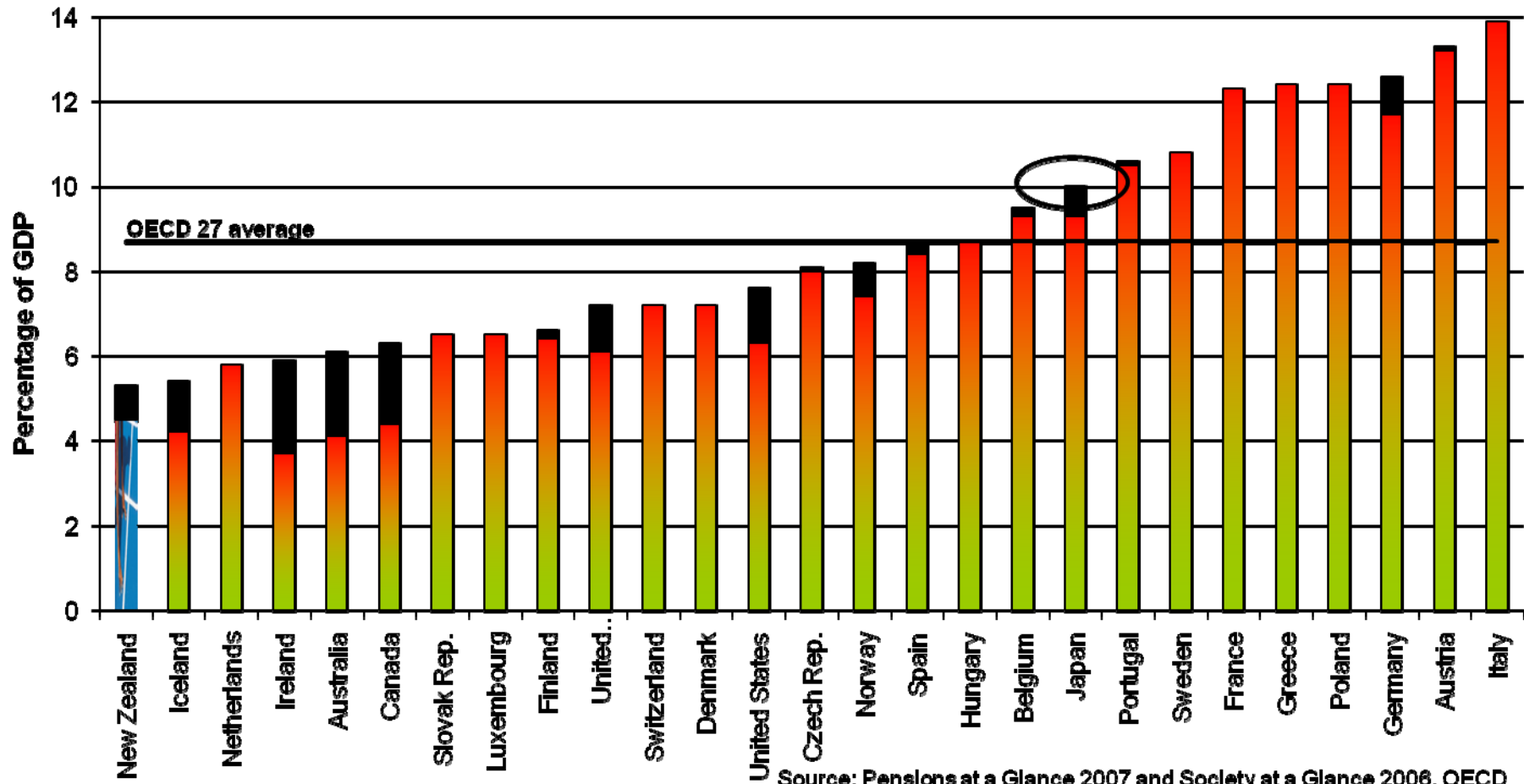
## Social security costs, OECD 27



Source: Society at a Glance 2007.

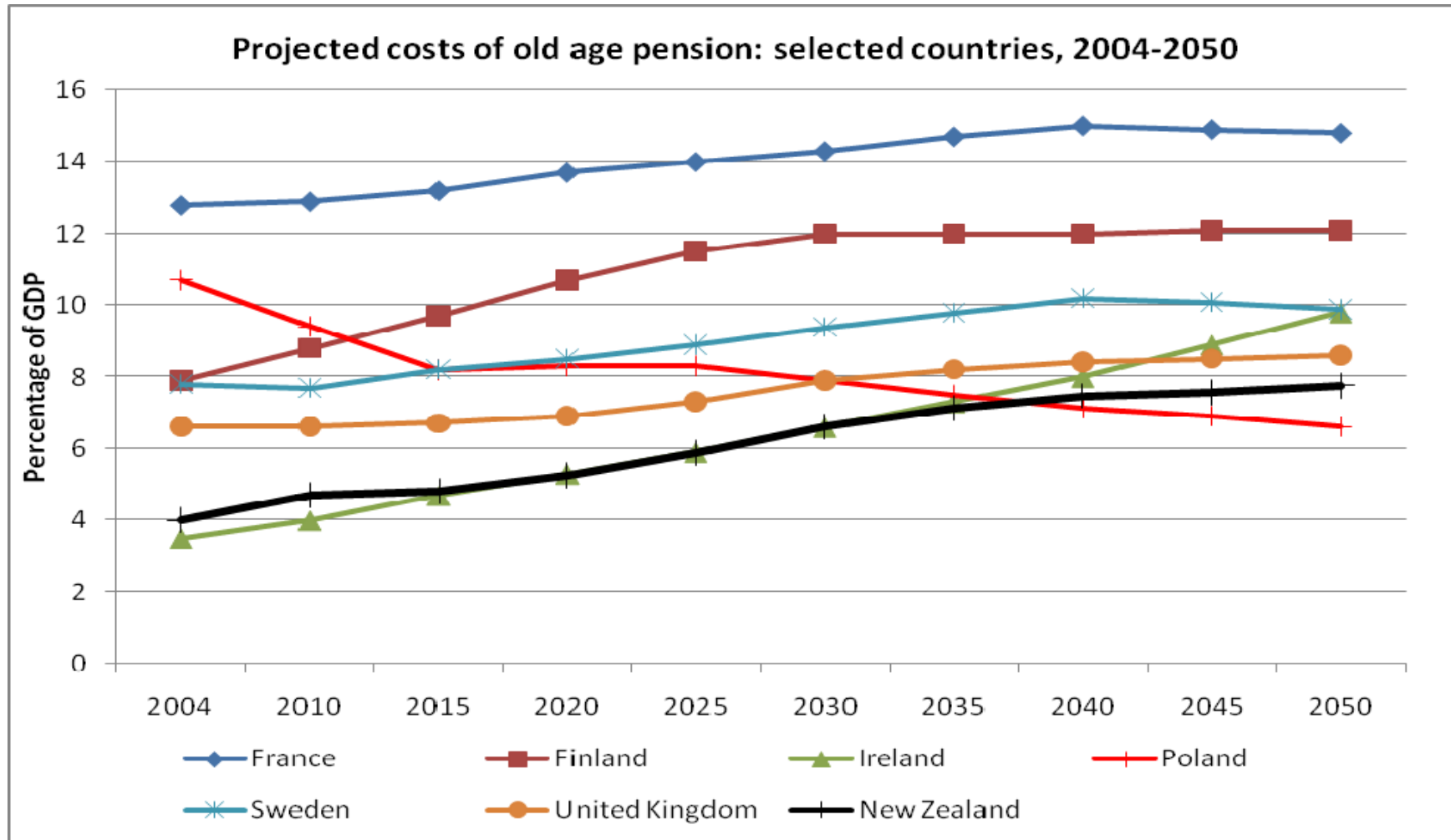
# Cost comparisons

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



Source: Pensions at a Glance 2007 and Society at a Glance 2006, OECD

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➤ Caveats

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- Data is not the most timely
- There are other pressures – notably health
- Haven't started to think about inter-generational equity under PAYG financing

# Conclusion

“The combination of NZS and KiwiSaver, in an international context, forms a design which is simple, effective and (relatively) inexpensive”.