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SAVINGS DOES MATTER

Superannuation: Vance Arkinstall, CEO, ISI, responds to claims that New Zealanders are not bad savers after all.

Mr Littlewood's article in the NZ Herald on Thursday 29 April, claiming that new Treasury research suggests New Zealanders are not bad savers does a disservice to the research and ignores the risks that an ageing NZ population faces.

There is ample evidence that New Zealanders have a poor record of personal saving. We should be very concerned at Mr Littlewood’s reference to Treasury research as a basis to support complacency with regard to future savings rates in this country.

The Periodic Reporting Group in its report in December 2003, stated "There is no room for complacency about the current systems ability to provide for future cohorts".

The reasons why it would be dangerous to place undue emphasis on the Treasury research as a platform for the future include:

- The research takes a ‘snapshot’ from the Household Savings Survey conducted in 2001.
- Many in the survey entered employment debt free (ie no student loans).
- Many in retirement or approaching retirement had access to employer subsidised superannuation schemes alongside relatively general tax deductions that existed until December 1987.
- Many bought their first home before a sustained period of double-digit inflation in the late seventies and early eighties escalated the value of their homes.
- Many had limited capacity to accumulate personal debt, given the tight rationing of consumer credit that characterised the finance markets of the past.
- Many have been employed in relatively secure career jobs in which there was predictable increase in annual incomes associated with length of service.
- Many who suffered ‘life shocks’ as a result of redundancy received generous redundancy settlements to either re-establish themselves or to provide a platform for early retirement.

These represent the legacy effects of a never-to-be-repeated set of employment, housing and saving conditions.

The PRG 2003 report clearly points to the heavy reliance that New Zealanders already place on New Zealand Superannuation as the major source of retirement income. Mr Littlewood seems to be saying that most of us (apart from the wealthy) should be satisfied seeing out our later years on a pension of $12,000 for a married person. No politician from any party that I am aware of will give an absolute assurance that NZ Superannuation will continue unchanged. We know that demographic changes will lead to a higher percentage of older people, placing further pressure on the system to cope financially and we also know that the health costs of any ageing population will further increase the fiscal pressure.

Young people (ie those below age 45) will approach retirement from the workforce from an environment that has been characterised by:

- Rapid labour market turnover.
- Decreasing access to employment-based superannuation.
- A tax structure that currently is indifferent and even penalises long-term savings.
- Student debt.
- Early access to credit card debt.
- Delayed first home purchase.

Faced with these challenges it is a disservice to use the Treasury research to imply that complacency to personal savings is an acceptable policy option.

I stick by my call to politicians for "immediate action to encourage personal savings for future retirees".

In the absence of unequivocal/supportive signals and actions from the political leaders, the day to day pressures most people face will act against any meaningful change in personal savings rates with serious potential consequences in the future.

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