FinancialServicesCouncil.
growing and protecting the wealth of New Zealanders

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For Immediate Release
Sunday 10 June 2012

Media release

Main points summary:

- **Savings industry to launch new retirement income policy options report**
- **Kiwis living longer: 44% of males born in 2011 will live to 100, 52% of females**
- **Tax rates will need to rise 28% later this century to continue funding NZ Super at 65**
- **Young New Zealanders can double their retirement incomes if they go to Australia**
- **New savings system needed to keep NZ Super incomes for all from 65 – and nearly double the retirement income of younger and future generations of New Zealanders**

New policy debate being launched to boost retirement incomes – and keep option for employees to retire at 65

New Zealand's savings and investment industry says it will next week launch new retirement income policy options report for the country to debate.

It proposes no change for those in or close to retirement – but a system which allows the country to keep NZ Super and also dramatically increase the retirement incomes of under-40 year-olds who will retire later this century.

The Financial Services Council says the options arise from new research it has conducted over the past year. One of the most significant findings shows New Zealanders after reaching 65 are living on average 2 years longer each decade. While in the past people lived 15 to 20 years after retiring, this could now lift to 30 to 40 years.

This, together with larger numbers of New Zealand baby boomers retiring during the next two decades, means the country would be best to debate building something better on top of its current New Zealand Superannuation (NZ Super) aged pension and KiwiSaver schemes.

The FSC, whose member companies manage nearly $80 billion in savings and provide other financial services on behalf of more than 1.9 million New Zealand investors and policyholders, says it will release policy option suggestions on June 17.

The FSC's chair, Rt Hon Dame Jenny Shipley says: "The FSC represents a major part of the New Zealand economy. Next week, the FSC will put up a policy proposal for discussion and hopes that many in the public, private and political sectors will consider this material as a starting point for one of the most important discussions of our time."

In undertaking the report, called *Pensions for the 21st Century: Retirement Income Security for Younger New Zealanders*, the FSC set out to

- provide the evidence base for a discussion in the community and across political parties for
- a long term retirement incomes, savings and KiwiSaver policy that is sustainable and stable.

KIWIS LIVING LONGER

One of its principal findings is that each decade 65 year-olds will live two years longer than the previous decade's 65 year-olds.

Applying this trend, medical and actuarial researchers say this indicates that

- 52 out of every 100 females and

- 44 out of every 100 males born in New Zealand in 2011

will live until they are 100 years old.

The length of time people in New Zealand can expect to live after reaching age 65 has nearly doubled in the past 100 years.

In addition, over the next two decades larger numbers of "baby boomers" (those born between 1946 and 1971) will be qualifying for NZ Super at age 65.

28% TAX RATE RISE PROSPECT

The FSC's Chief Executive, Peter Neilson, says, assuming New Zealand residents remain eligible for the NZ Super pension at age 65, this will more than double the cost of paying the pension to 12% of national income, as a percentage of gross domestic product, by the end of this century.

Current tax rates would need to go up about 28% to pay for this.

The current 17.5 % income tax rate would rise to 22 %, the 33 % rate to 42 %, GST from 15 % to 19 %, and the corporate rate from 28 % to 36 %.

The FSC says this means that the current form of New Zealand Superannuation cannot be maintained for younger Kiwis later this century without

- significantly increasing taxes in the future to maintain the same level of benefits, or

- cutting retirement entitlements, most likely by increasing the age of NZS eligibility. In this case people will have to fund their years in retirement between age 65 and the time they qualify for NZS by saving more by themselves, or by working for longer past age 65.

The extra tax burden of maintaining NZ Super access at 65 as the population lives longer means the tax burden may also be unacceptable to future taxpayers. They might decide through the political process to reduce the level of NZ Super or relatively suddenly tighten eligibility to make it more affordable for themselves.

SAVINGS MORE EFFICIENT

Savings can be more efficient than taxes for funding retirement incomes.

The FSC analysis finds that under very conservative assumptions, saving is likely to be at least 60% more efficient than taxation funding for retirement incomes.

More likely scenarios suggest that savings is likely to be more than two times more efficient than taxation looking out into the future. Most experts recommend a mix of saving and tax based funding for retirement incomes.

AUSTRALIA OFFERS TWICE THE RETIREMENT INCOME

Higher taxes could also drive younger workers offshore to avoid funding pensions paid out of current taxation - and to benefit from retirement schemes in other countries, like Australia's where employees are now required to contribute 9% of their income to retirement savings, someone on the average wage there will receive about 60% of their pre-retirement income when they retire. In New Zealand NZ Super currently gives someone on the average income just over 40% of their pre-retirement income when they retire.

The contribution rate in Australia will increase to 12% in 2019. Long term this means someone who works in Australia and is required to save for retirement, will retire on an income more than twice as high as a New Zealander of the same age and on the average income in each country.

KIWIS WORRIED ABOUT RETIREMENT INCOMES

At the same time a FSC-commissioned survey of 2,558 adult New Zealanders in December, 2011, shows only 10% believe NZ Super will pay enough to allow them to live comfortably in retirement. 80% fear their savings will run out before they die. 62% say they are not saving enough for retirement.

The study also finds only 29 % of New Zealanders thought NZ Super alone would be sufficient to meet their retirement needs and only 10.1 % thought it alone would provide enough for them to live comfortably in retirement. Only one third of New Zealanders thought they would have enough in retirement income from NZ Super alone to cover their basic costs, with another third not knowing whether it would.

RETIREMENT INCOME LEVELS KIWIS WANT

On average, New Zealanders felt the average income needed to live comfortably in retirement was

- $632 per week for a single person living alone (NZ Super then paid $339.92 after tax), and

- $845 per week for a couple (NZ Super then paid $522.96 after tax when asked in December 2011).

Mr Neilson says: "It does not appear that the mix of a low tax rate and early eligibility that has made New Zealand Superannuation attractive until now can be maintained in the 21st century.

"We need to discuss what is happening to longevity, what we can afford to fund from taxation, what should happen to the age of eligibility and if more reliance on private saving would help."

"The country needs a new savings plan built on KiwiSaver, which allows those closer to or in retirement to keep enjoying a pension like NZ Super. But we also need a 21st century retirement savings system – which can allow those under 40, and future generations, to nearly double their retirement incomes through their own savings," Mr Neilson says. "This would happen alongside access to NZ Super, even if it is at a later age which reflects our increasing longevity."

The FSC would detail those policy options on June 17.

It has also conducted nationwide polling on them and would be releasing those results.

Ends

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