

# Steve's Soap Box



The following is yet another contentious piece of opinion Steve has written for the newsletter. As we have warned previously, these pieces are on current issues affecting New Zealand and will be hard hitting and sometimes controversial. Steve is not known for his diplomacy and political correctness, and we have given him an opportunity to say it as he sees it. The opinions stated in these pieces will be his own and not necessarily those of the company or other staff members. We hope you enjoy them as much as Steve enjoys writing them.

## Can We Afford to Live to 100?

The challenges we face to provide our ageing population with a financially secure retirement are well known. In most countries, increased standards of living and healthcare are allowing people to live longer. Yet another retirement report has recently produced its results, and the results make poor reading.

Being election year, and given I have been writing about this subject for 27 years, I thought I would revisit the facts, and assess how both the Centre Right and Centre Left of the political divide handle this matter.

### Facts

- Babies born today can expect to live to 100. Life expectancy is increasing by one year every five years.
- Assuming no changes to retirement ages or expected birth rates, the global dependency ratio (the ratio of those in the workplace to those in retirement) will plummet from 8:1 to 4:1 by 2050. In New Zealand the dependency ratio will go from 4:1 to nearly 2:1. **How do we afford this?**
- The main drivers of the challenges facing our retirement system are:
  - Increasing life expectancy and lower birth rates
  - Lack of easy access to affordable pensions
  - Lower long-term rates of return on retirement savings
  - Low levels of financial literacy
  - Totally inadequate savings rates

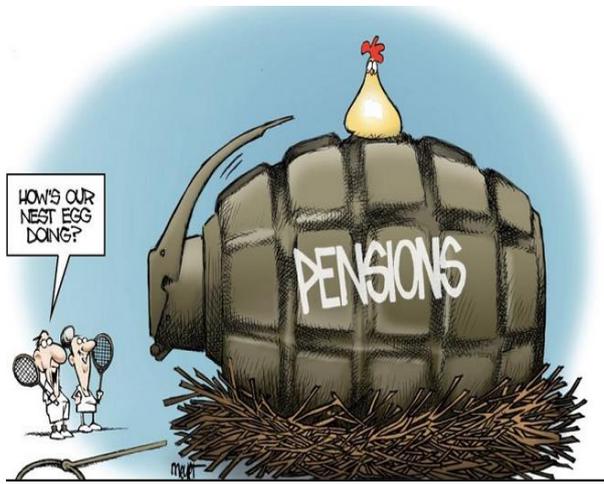


### What is New Zealand's Retirement System?

#### We have a 3 level approach:

1. Tax payer funded "safety net" of 65 at 65 (NZ Superannuation paid to all retirees at the rate of 65% of the net average wage from age 65)
2. Access to private Superannuation with tax payer supported KiwiSaver and employer supported pension plans
3. Personal savings

Although our savings system compares well with many countries, there are still large pockets of our population that struggle to access what's provided. Firstly, is 65 at 65 sufficient to keep retirees above the poverty line? (a basic tenement of any safety net system). Company pension plans, with all their incentives, are only available to employees. KiwiSaver provides the maximum benefits only to employees. Those of us who are self-employed have difficulty



accessing these schemes and little incentive to do so. Those on low or no incomes have no income left after paying for basic living costs to contribute to KiwiSaver. Ironically therefore, those who need to save the most don't save at all.

### What should our politicians be doing?

1. Review and adjust our retirement age. Retirement at 65 was ok when our life expectancy was 72 (7 years in retirement) but this is not sustainable if our life expectancy is 100 (35 years in retirement).
2. Make saving easy for everyone, including self-employed and non-workers, by providing incentives, increasing financial literacy, and addressing the gender imbalance.
3. Provide clear communication, identify specific objectives for each of the 3 levels of our retirement system, and remove future superannuation from the hands of politicians whose focus is to secure votes to win power.

Given the facts, and a clear checklist that has been identified, how are both sides of the political divide addressing these matters?

It would appear that both Labour and NZ First are building a policy based on polling and voter feedback, and not on the facts or what is right. Superannuation is once again being used as a political football, and if not our futures, then our children's futures, are very much in doubt because of it.

	Left of Centre	Right of Centre
<b>Raising the Age of Retirement</b>	<p>Labour has flip-flopped and will now keep 65 at 65. Greens and NZ First also wish to retain 65, and both refuse to join a government that will increase the age of eligibility.</p> <p><b>Steve's Rating – Poor</b> </p>	<p>National has already signalled an increase from 65 to 67 to be phased in over time.</p> <p><b>Steve's Rating – Good</b> </p>
<b>Increase Level of Contribution to KiwiSaver</b>	<p>Labour's current policy is to make KiwiSaver compulsory, and to increase minimum contributions from 3% to 4.5% over a 4-year period. At a combined 9%, plus \$521 MTC, that is approximately 10% of the average salary and at that level the sums saved will be meaningful.</p> <p><b>Steve's Rating – Good</b> </p>	<p>National has stated publicly they do not have current plans to raise the minimum contribution level or make KiwiSaver compulsory.</p> <p><b>Steve's Rating – Poor</b> </p>
<b>Contribution to Clear Communication and Non-Political Interference</b>	<p>Bottom line policies of both the Greens and NZ First is nothing short of blackmail. Labour has a stated clear policy which is totally flip-flopped from the last election based on polling.</p> <p><b>Steve's Rating – Poor</b> </p>	<p>National has a stated clear policy which relies heavily on individual self-motivation. Very little effort is made to ensure adequate superannuation is available for all.</p> <p><b>Steve's Rating – Average</b> </p>