

Incentives for retirement saving

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Introductory remarks



A controversial but an important topic

Note

- Taxes change behaviour
- Governments need revenue
- The social context is changing
 - A shorter term focus eg consumerism, labour mobility, global view
- Equity – intra generational, intergenerational

The tax options for superannuation



Options	Contributions	Fund's investment earnings	Benefits
New Zealand (bank a/c)	Taxed	Taxed	Exempt
Many countries (deferred)	Exempt	Exempt	Taxed
Australia	taxed	taxed	taxed

Reflections on tax options



- The deferral model (EET) can have the same result as the TEE model. However normally the tax rates are lower in retirement.
- The deferral model can lead to greater revenue to the Government due to the fund earning rate being at a higher rate than bonds.

Some relative figures



Option	PV from Govt perspective
TTE at 33%	100.0
ETT at 33%	127.9
ETT at 21%	94.9
ETT at 21%, 33%	116.5
ETT at 33%, 21%	110.3
EET at 33%	85.9

Reflections on tax options



- Deferring revenue to the Government can be useful with an ageing population.
- The Australian model is not recommended!

Is there a good system?



- Simplicity
 - Understood, easy compliance
- Clear incentives
- Broad political support
- Equity over lifetime; easier at the end
- Future Government revenue

Why might the Government give support?



- Change behaviour and generate a social/economic outcome
- Reward lack of access
 - Long term savings
- Offset future Social Security costs
 - Depends on the system e.g. means tests
- Increase level of savings
 - Must allow for Government and private savings
 - NZ relies on overseas savings

The long term social good



- Can establish a mindset
- Who is responsible for future financial security?
- Future economic health is to be encouraged
- Inability to consider long term risks
- Government partnership
 - What message does it send?

The evidence on incentives



- Level of private savings increases
 - Some reallocation from other savings
- Total savings, allowing for revenue loss
 - Generally inconclusive
- Quality of savings is important
 - Savings should encourage wealth creation
- Incentives favour higher incomes who already save

Some criteria



- Must be simple with a clear incentive
- Must be integrated with other pillars eg age pension
- Some incentive for preservation/lack of access
- Limited transitional issues
- Should not provide windfall winners
- Equity is important – within and between generations

A solution – a rebate



Example: A cash refundable rebate of:

21% of member contributions for those under age 35

14% of member contributions for those aged 35-45

7% of member contributions for those aged 45-55

Limit: \$4,000 of qualifying contributions per annum

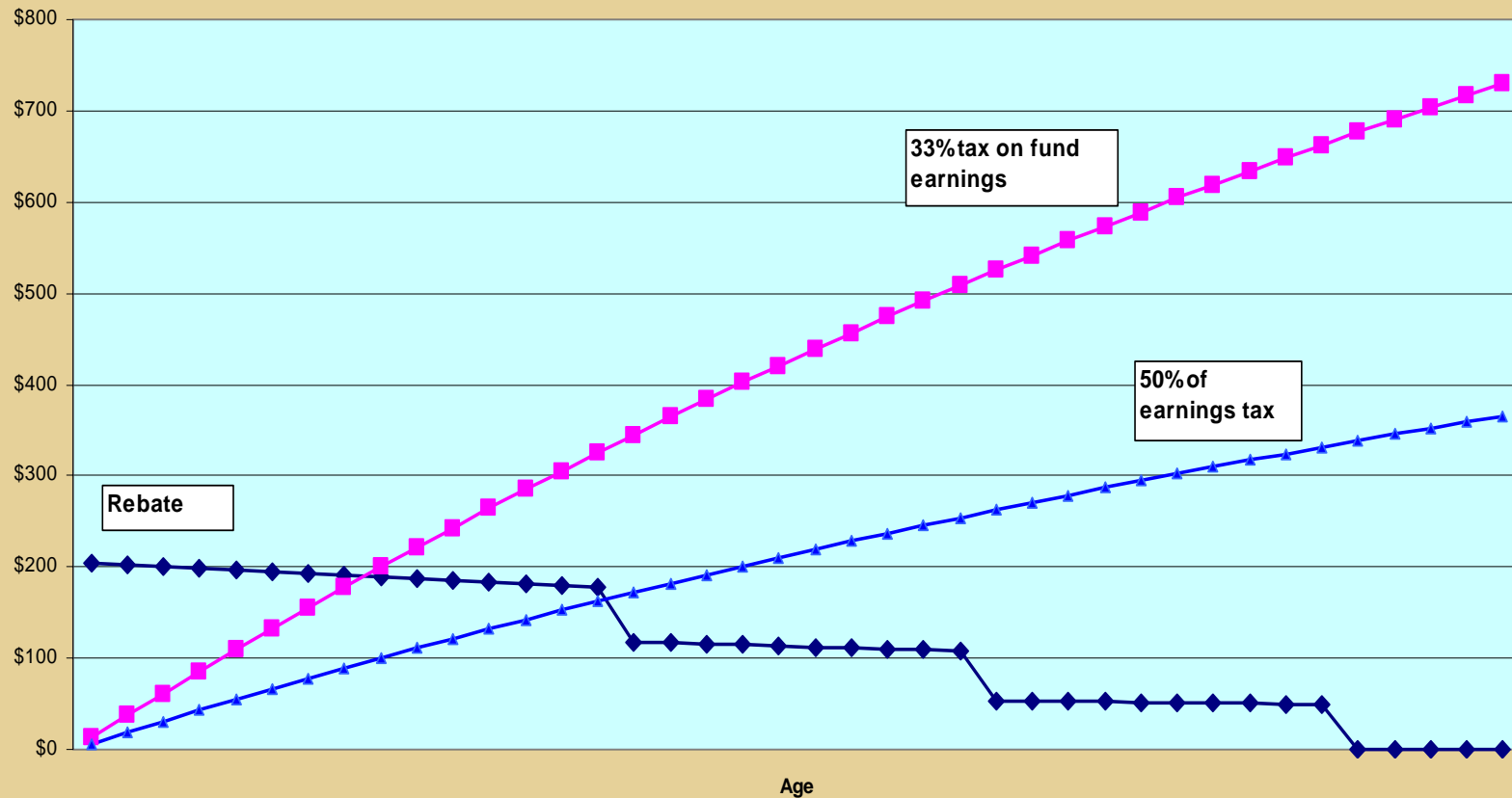
Extra

- within a 5 year accumulation, permitting a 50% increase in the limit

Effect on revenue



PV of tax rebates and extra fund earnings



Advantages



- immediate – cash in the pocket for all
- biased towards the young – establishing a mindset
- targetted
- not a windfall nor disruptive
- simple
- could be broadened eg spouse
- costs to revenue are predictable
- allows for changing labour market involvement
- **Conditions could be set**
 - Eg preservation to age 60; pension form

Additional comments



- The conditions are changing
 - We need immediacy but flexibility
- The taxation rates used for fund earnings can be unfair
 - However, a flat tax rate is the only option
- Compliance costs need to be low

To conclude



- There are different views!!
- What behaviour is desired?

Should the Government encourage it?

A partnership but at what cost?

- Rebates are immediate

They can be targetted and capped



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Our people

