

Retirement Wealth

An Initial Analysis of the Retirement Wealth of New Zealand Households

John K Gibson

&

Grant M Scobie

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Acknowledgements

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Key Messages

- Adequacy: no simple answer
- Wide dispersion of retirement wealth
 - Implies wide range of saving rates
- 50% of people not saving for retirement – too many? Perhaps too few?
- NZS plays a critical role:
 - Reduces the inequality of retirement wealth
 - Provides a floor for retirement income
 - Affects the pattern of accumulation
- Some evidence that actual saving rates match those required for smoothing consumption

The paper does not address.....

- Whether aggregate household savings are too low
- Whether more household saving would be “good” for New Zealand
 - (growth? CAD? Too reliant on foreign saving?)
- Whether there should be changes to retirement income policy
- Whether savings should be encouraged by new instruments, employer schemes, or incentives
- Whether population ageing means we should save more/less as a nation

Are we saving “adequately” for our retirement?



- No simple answer!!
- We focus on predicted income in retirement
- But first we need to ask what is meant by “adequate”

How much is adequate?.....



- A proportion of pre-retirement income?
- An absolute level of income?
- A constant share of the working age income?
- Not below 60% of the median of your cohort?

Adequacy means.....



- Being able to maintain real consumption
 - Standard of living/well-being in retirement

All now... or some for later?



- Key underlying assumption: = smoothing consumption

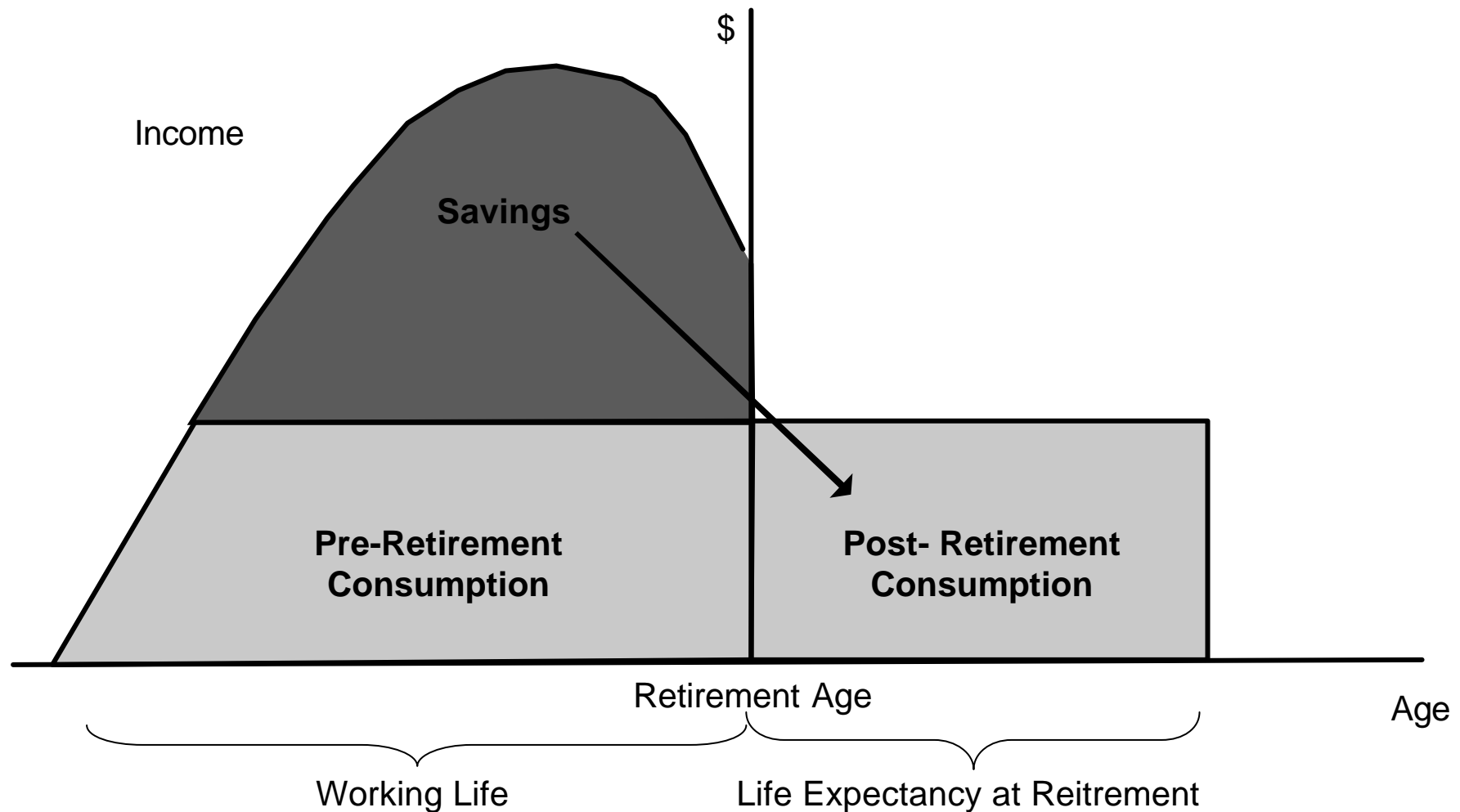
Squirrels and Cicadas



**Which
one are
you?**



Retirement savings with certainty

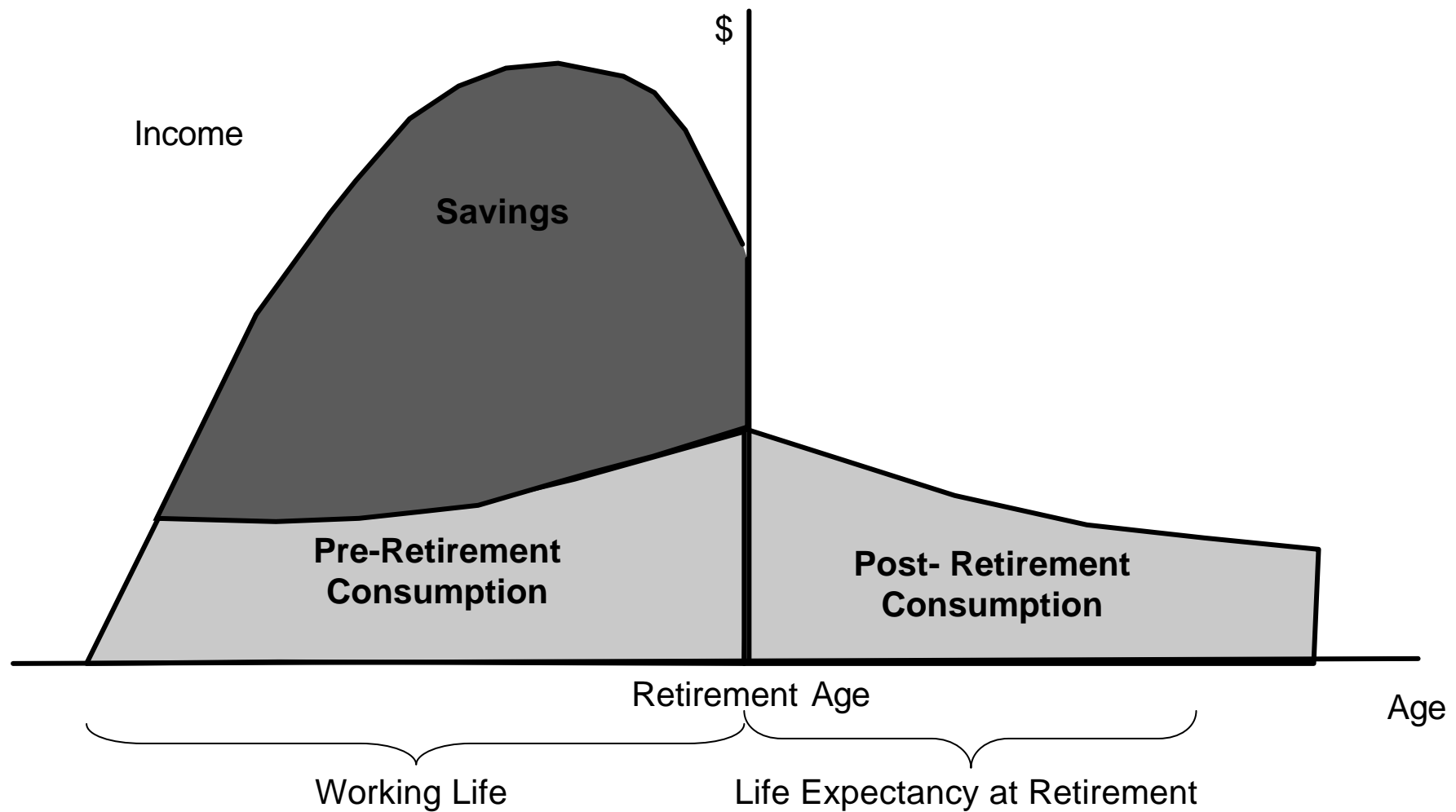


Retirement Planning is not easy...



- Uncertainties
 - Health
 - Inheritance
 - Children
 - Jobs
 - Earnings
 - Life Expectancy
-Assume perfect foresight

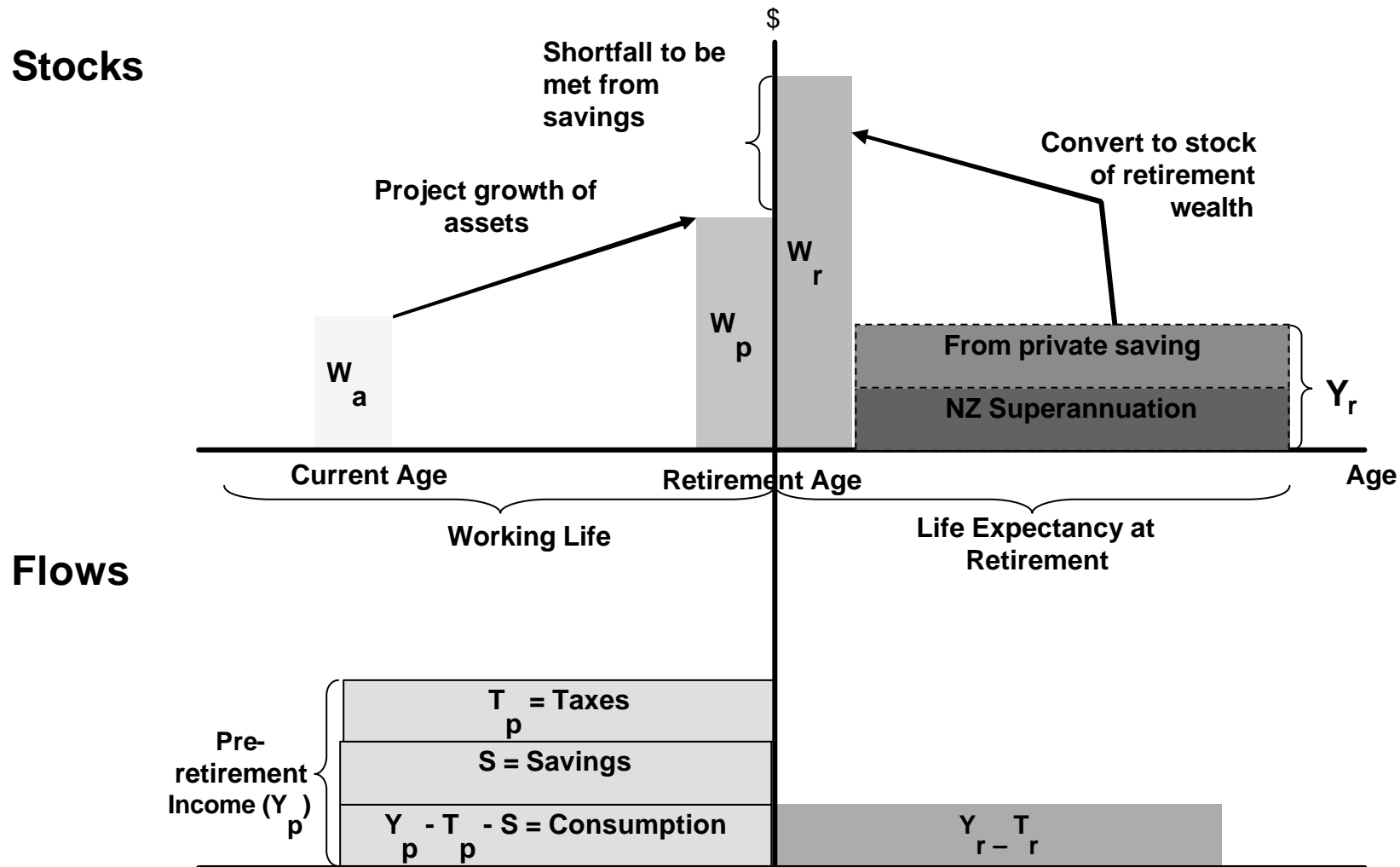
Retirement savings with uncertainty



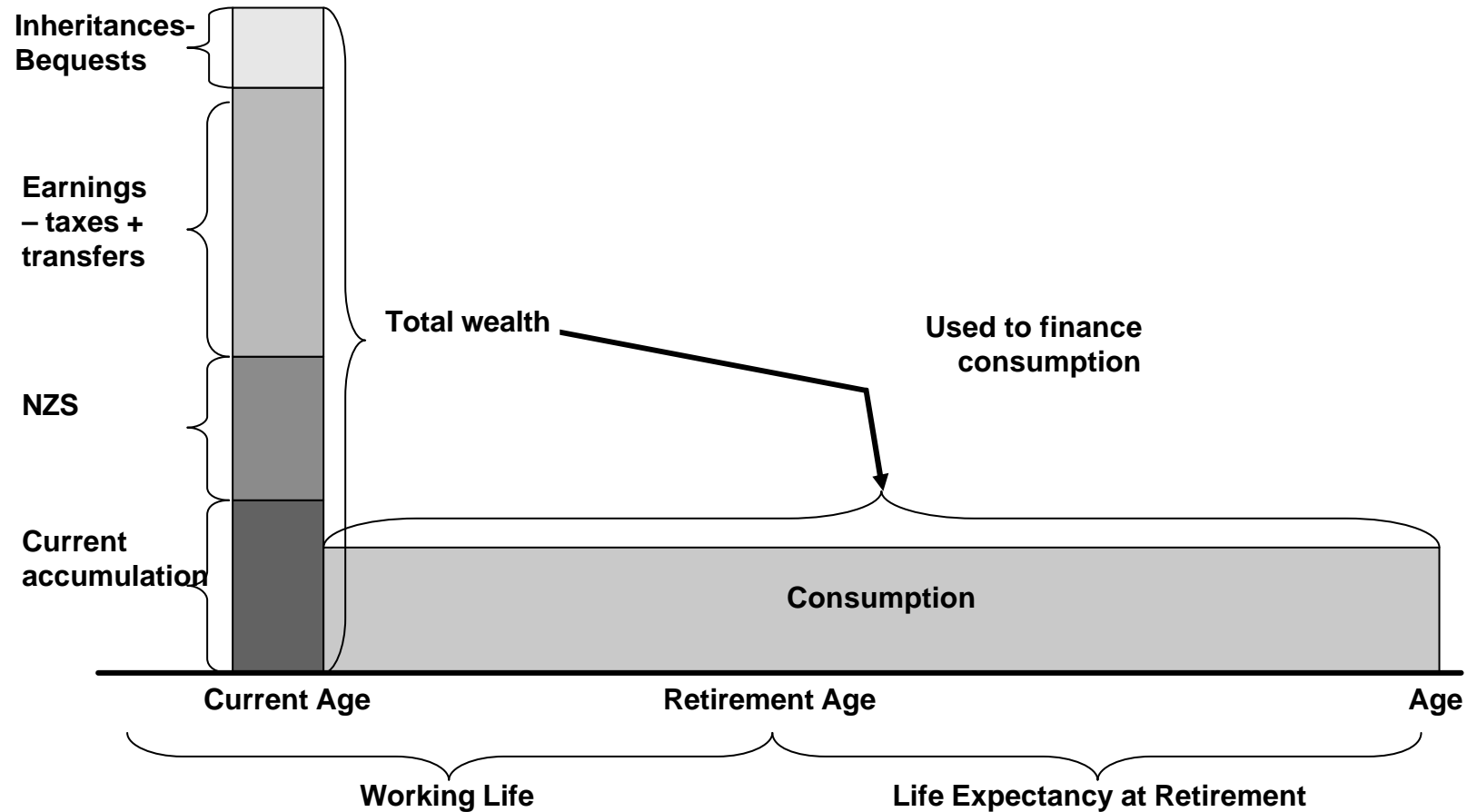
How long to go really matters.....

	Retirement Age 62		Retirement Age 65		Retirement Age 68	
	Pakeha	Maori/Pac.Is	Pakeha	Maori/Pac.Is	Pakeha	Maori/Pac.Is
Male	18	14	16	12	14	11
Female	22	16	19	15	17	13

A stylised model of the joint determination of saving and replacement rates



Life-time wealth and consumption based on a simple model of utility maximisation



Remove the worry...maintain consumption



- If you wish to smooth your level of real consumption....
- You will need an income of \$.....
- Given your current accumulation, then you would need to save ...%

Analysis based on 45-55 yr olds



- Peak earning/saving
- Can they sustain consumption levels into retirement?
- What will it take?

What about bequests.....



- Common
- Usually involve house
- Assume no other bequests
 - (except housing)

Average Current Wealth of Couples:

45-55 yrs (\$'000)

Wealth Decile	Housing	Financial	Pension	NZS
1 (lowest)	12	-1	1	195
5 (middle)	124	88	22	218
10 (highest)	193	1,359	86	226

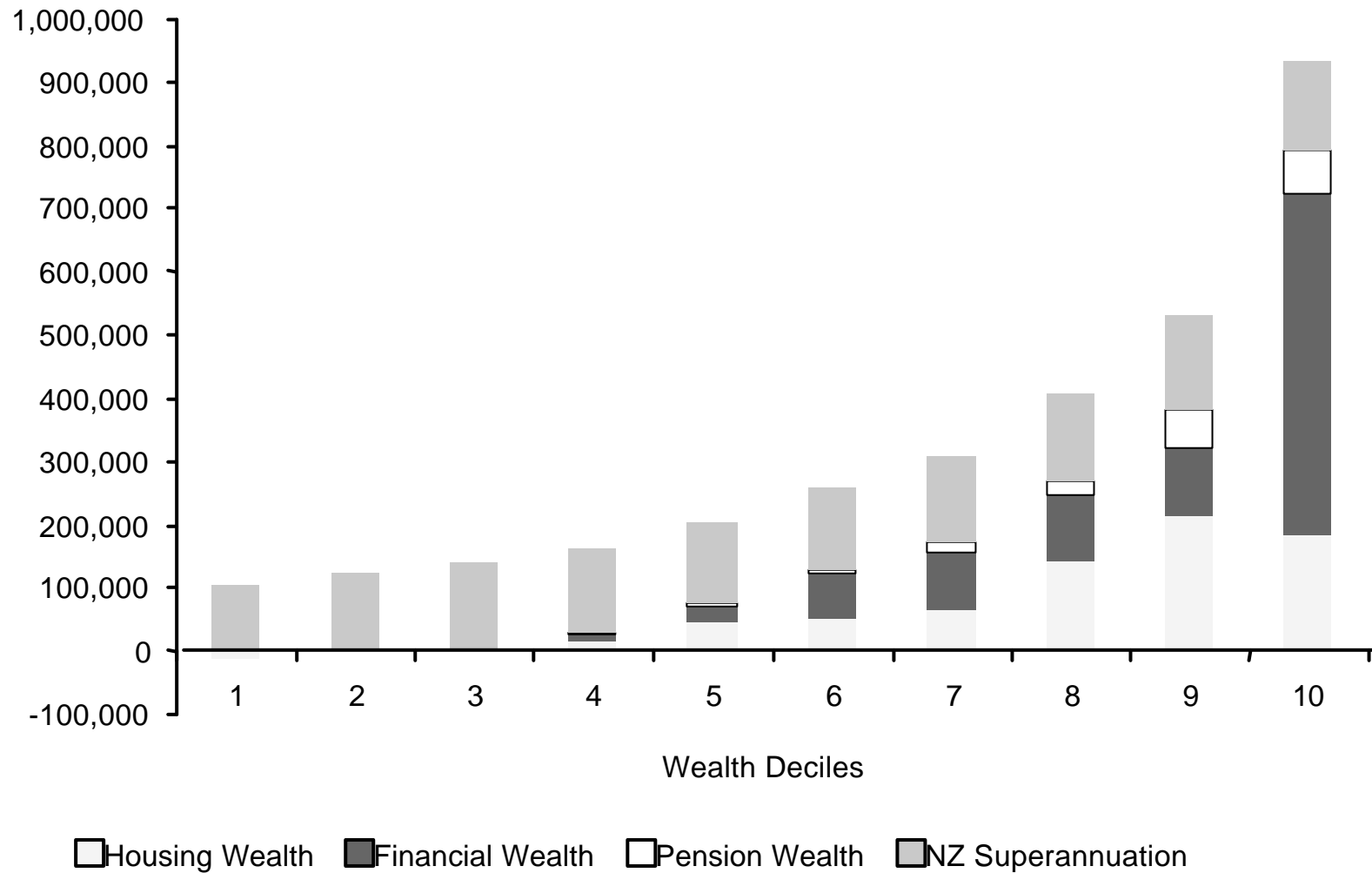
Current Retirement Wealth:

Unpartnered Individuals

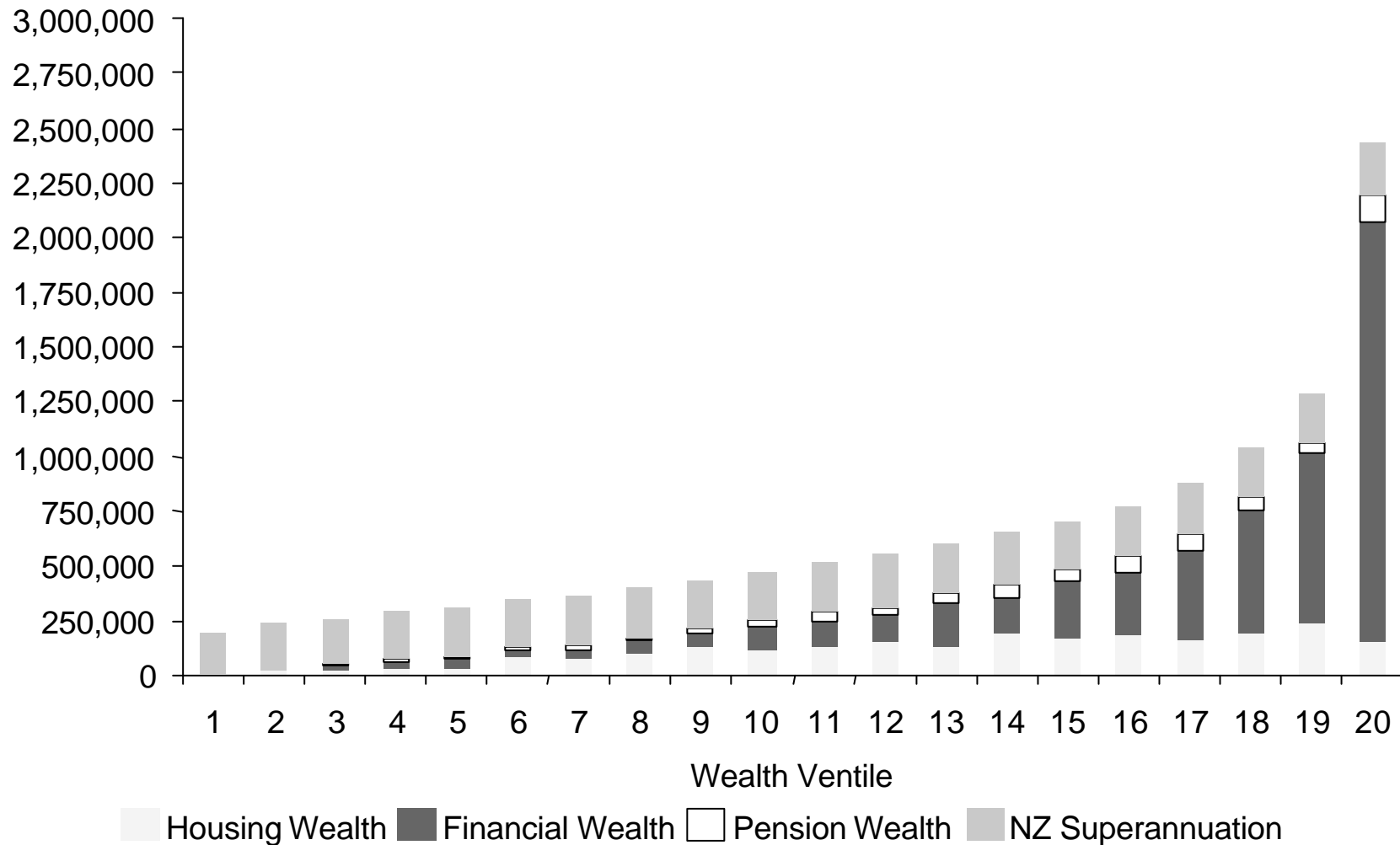
Means and (Medians) \$'000

	Housing	Financial	Pension	NZS
Male	42 (0)	111 (21)	15 (0)	118 (122)
Female	87 (21)	87 (20)	19 (0)	139 (144)

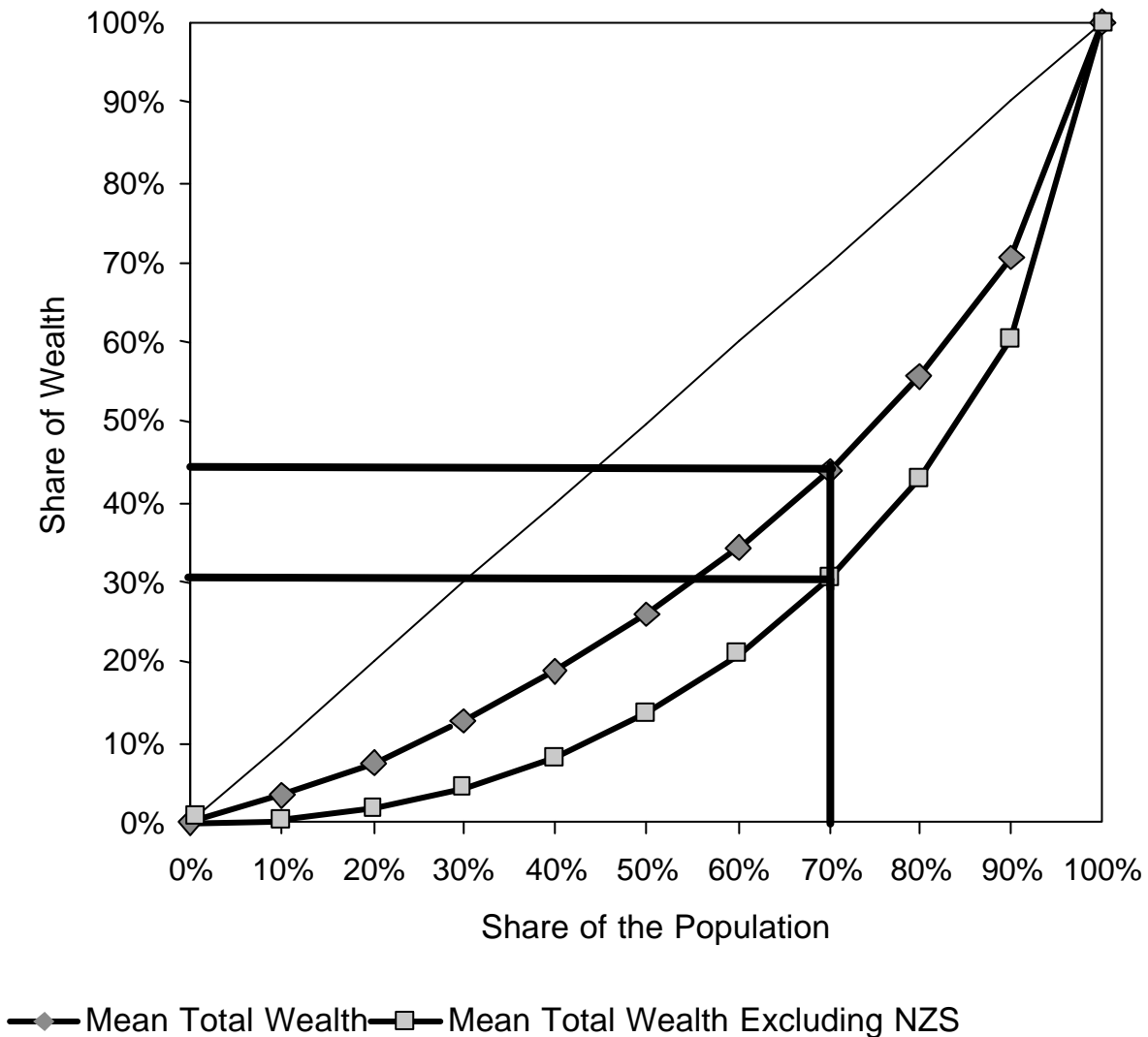
Level and composition of mean current wealth by wealth decile: Unpartnered respondents aged 45-55



Level and composition of mean current wealth by wealth ventile: Couples aged 45-55



Distribution of retirement wealth for couples with and without NZ Superannuation



A couple of definitions.....



- Saving rate =

$$\frac{\text{Saving}}{\text{Gross Income}}$$

- Replacement rate =

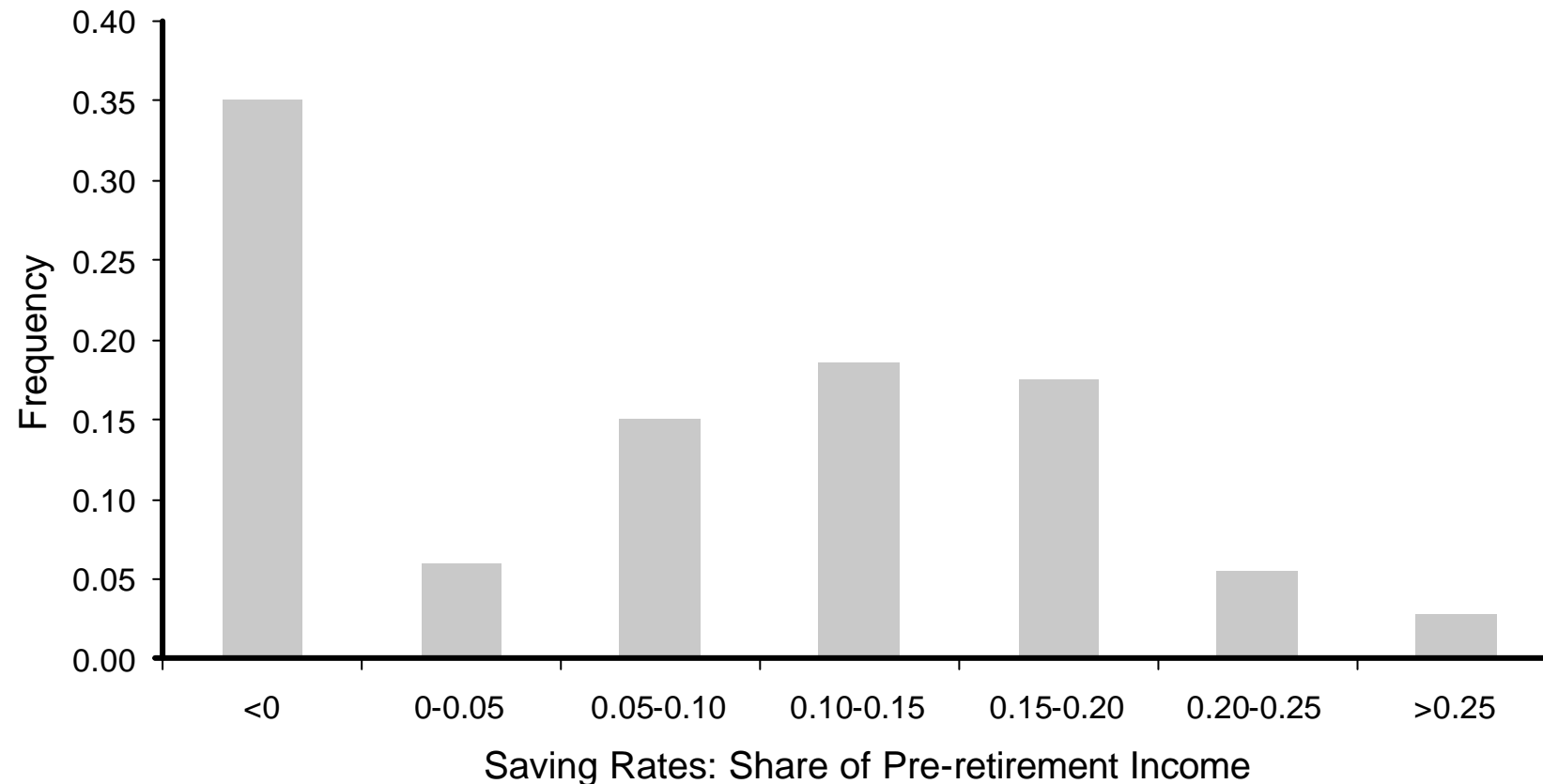
$$\frac{\text{Post-retirement Income}}{\text{Pre-retirement Income}}$$

Prescribed Saving Rates

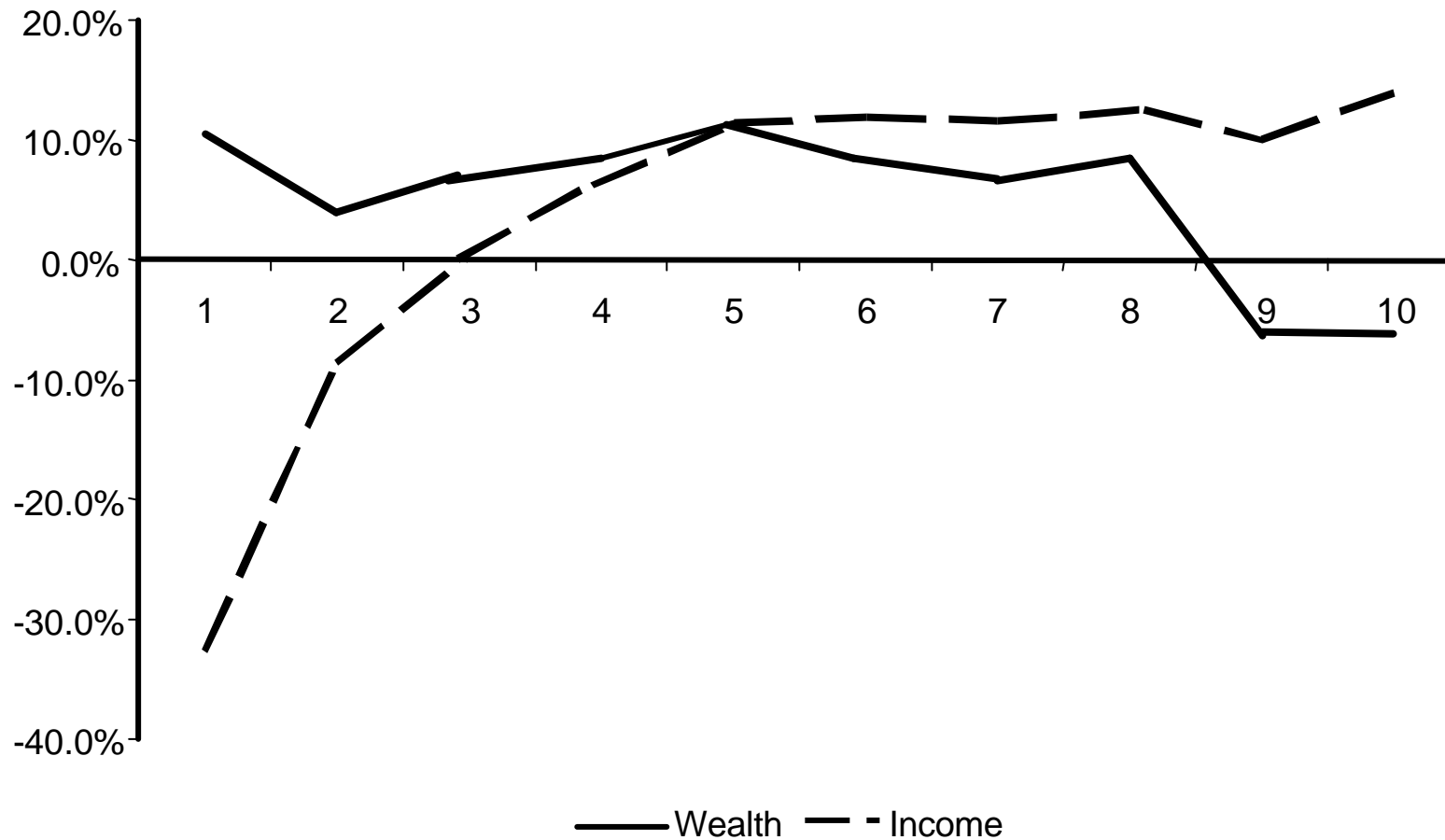
(medians for individuals)

	Saving Rate	Replacement Rate
Overall	6%	69%
Pakeha	6%	69%
Maori: Pac Is	9%	69%
Male	10%	62%
Female	1%	73%

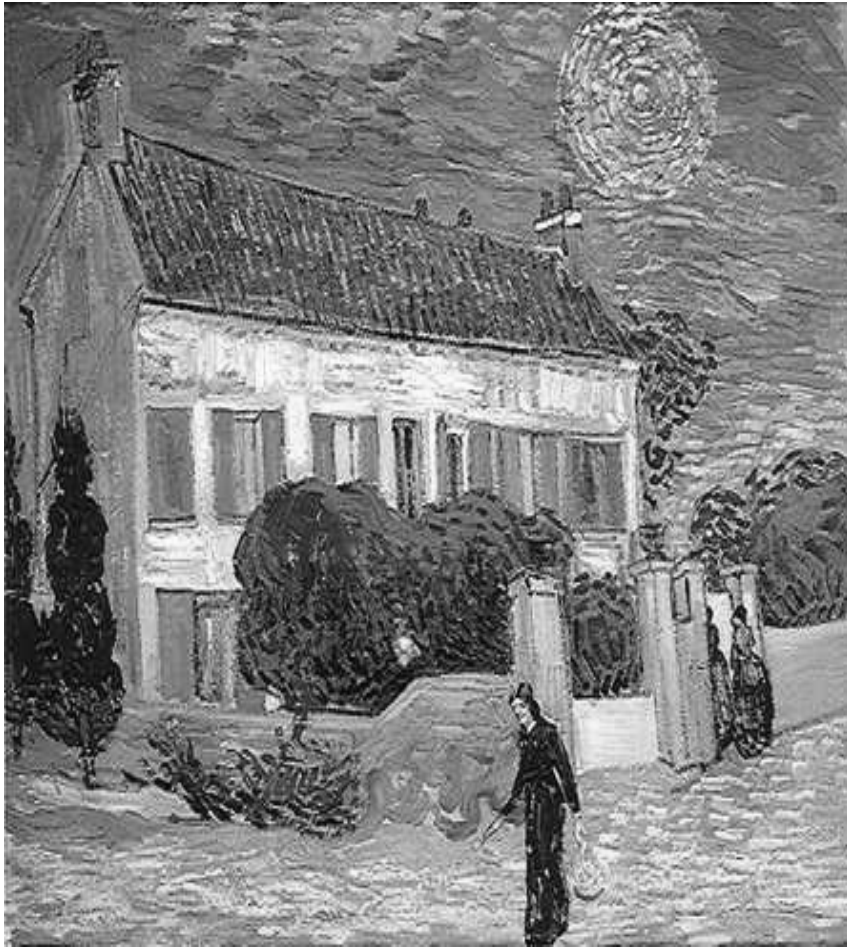
Frequency distribution of prescribed saving rates for unpartnered individuals aged 45-55: retirement at age 65 and consumption of 50% of housing wealth



Prescribed median saving rates for unpartnered individuals retiring at age 65 with no consumption of housing: by wealth and income deciles



Housing is a critical element...



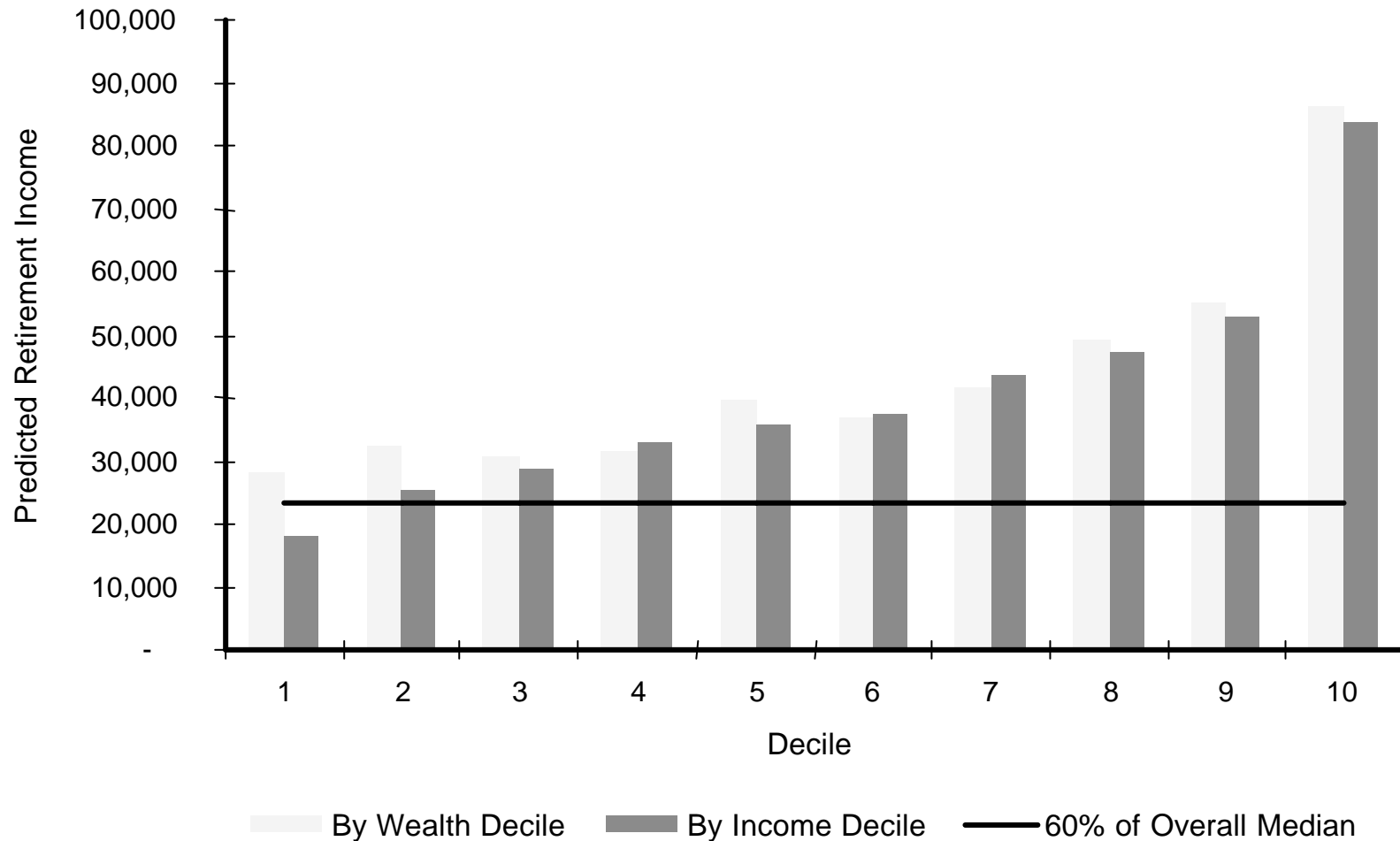
- Repaying the mortgage?
- Us or the kids?
- 0%, 50%, 100%

How much to save.....?

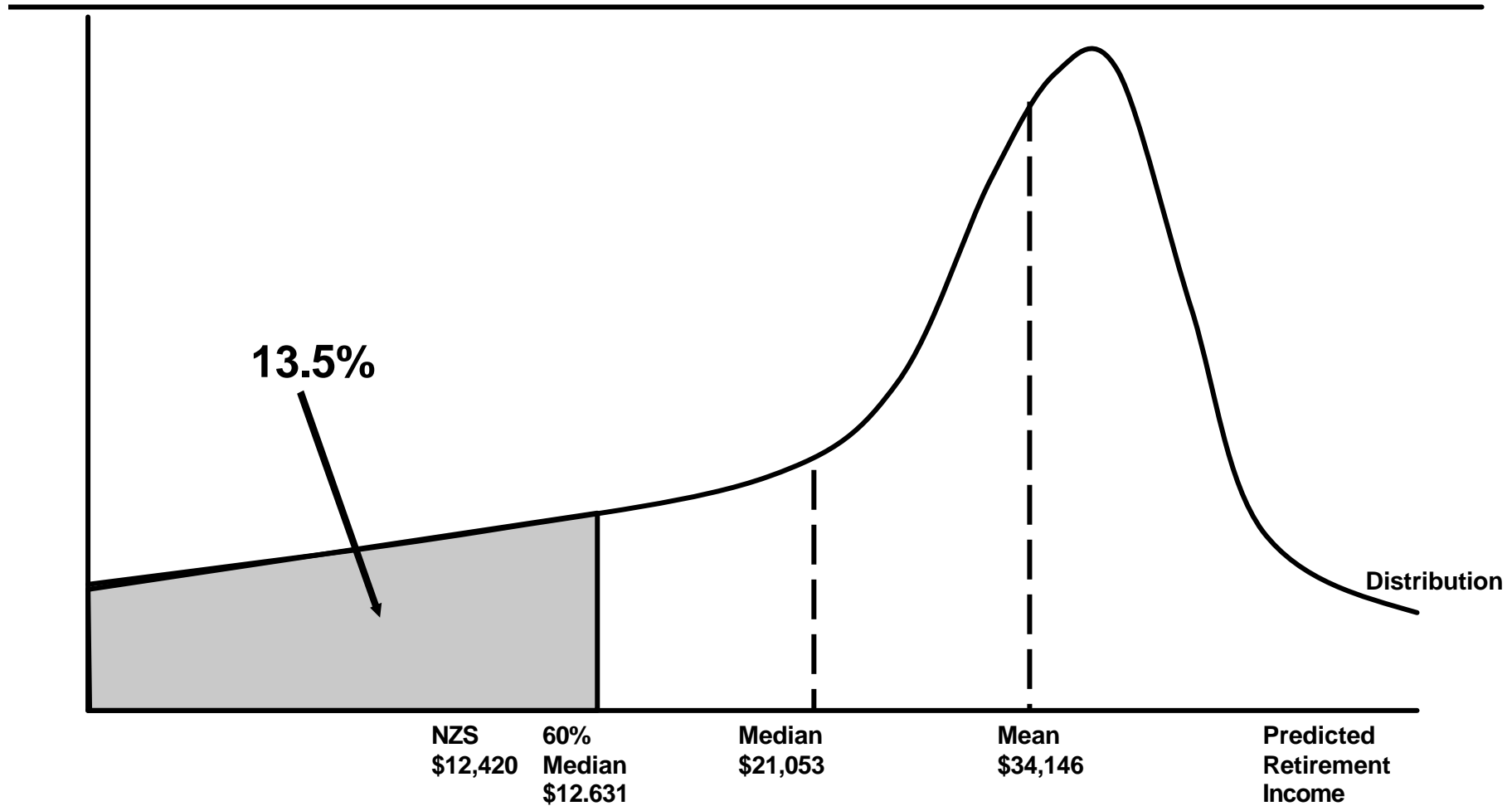
(median prescribed saving rates for individuals)

Consume House	62	65	68
No: all for the kids	8%	6%	5%
Half each	5%	3%	1%
All for us	2%	1%	-1%

Median predicted retirement income by income and wealth deciles: Couples aged 45-55 retiring at 65



Distribution of predicted retirement incomes for unpartnered individuals (aged 45-55)

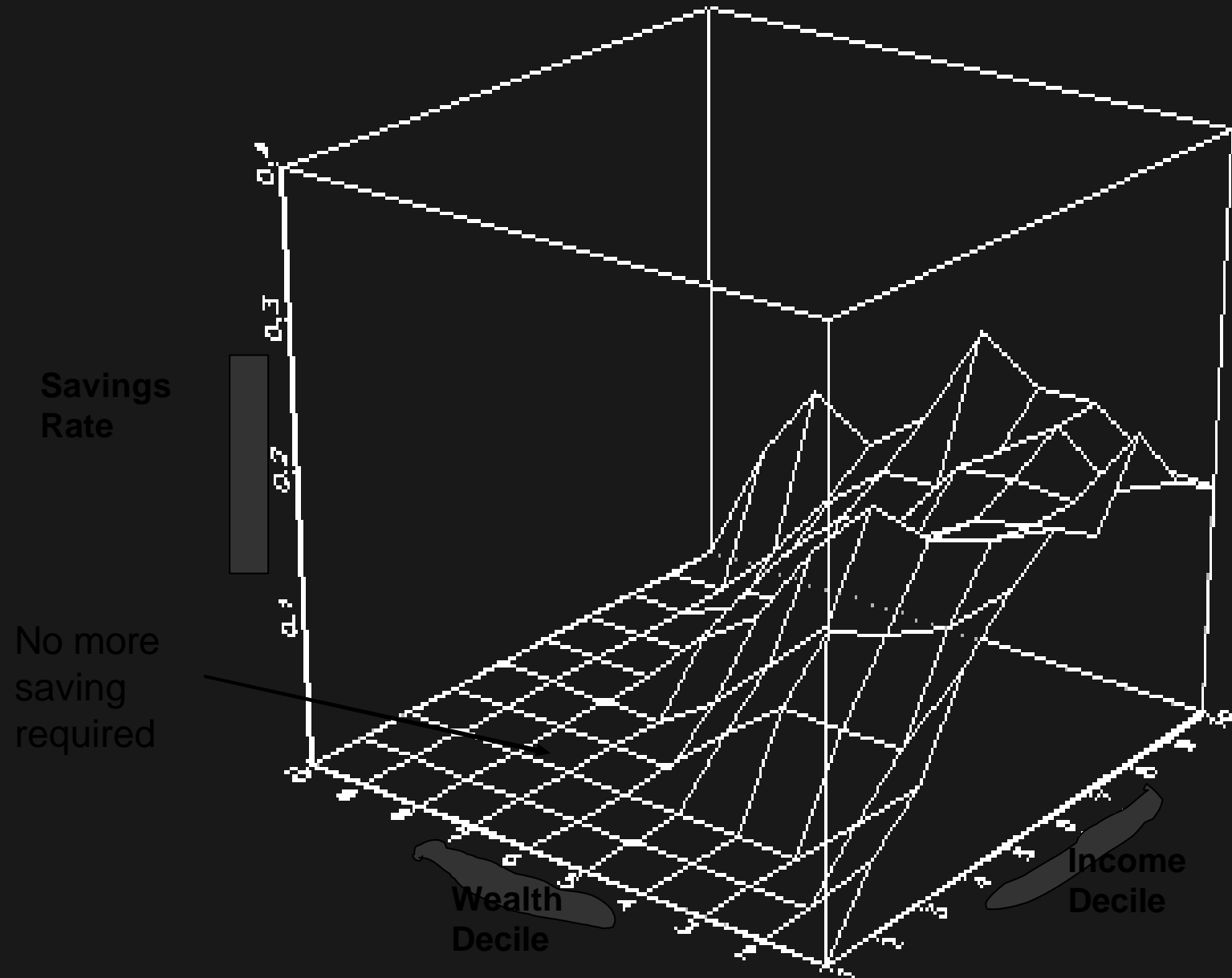


Falling below 60% of the median....

Individuals	14%
Couples	12%
Total Population* (net of housing costs)	23%
Those with main income from NZS*	7%

* From MSD

Prescribed savings rates for unpartnered individuals



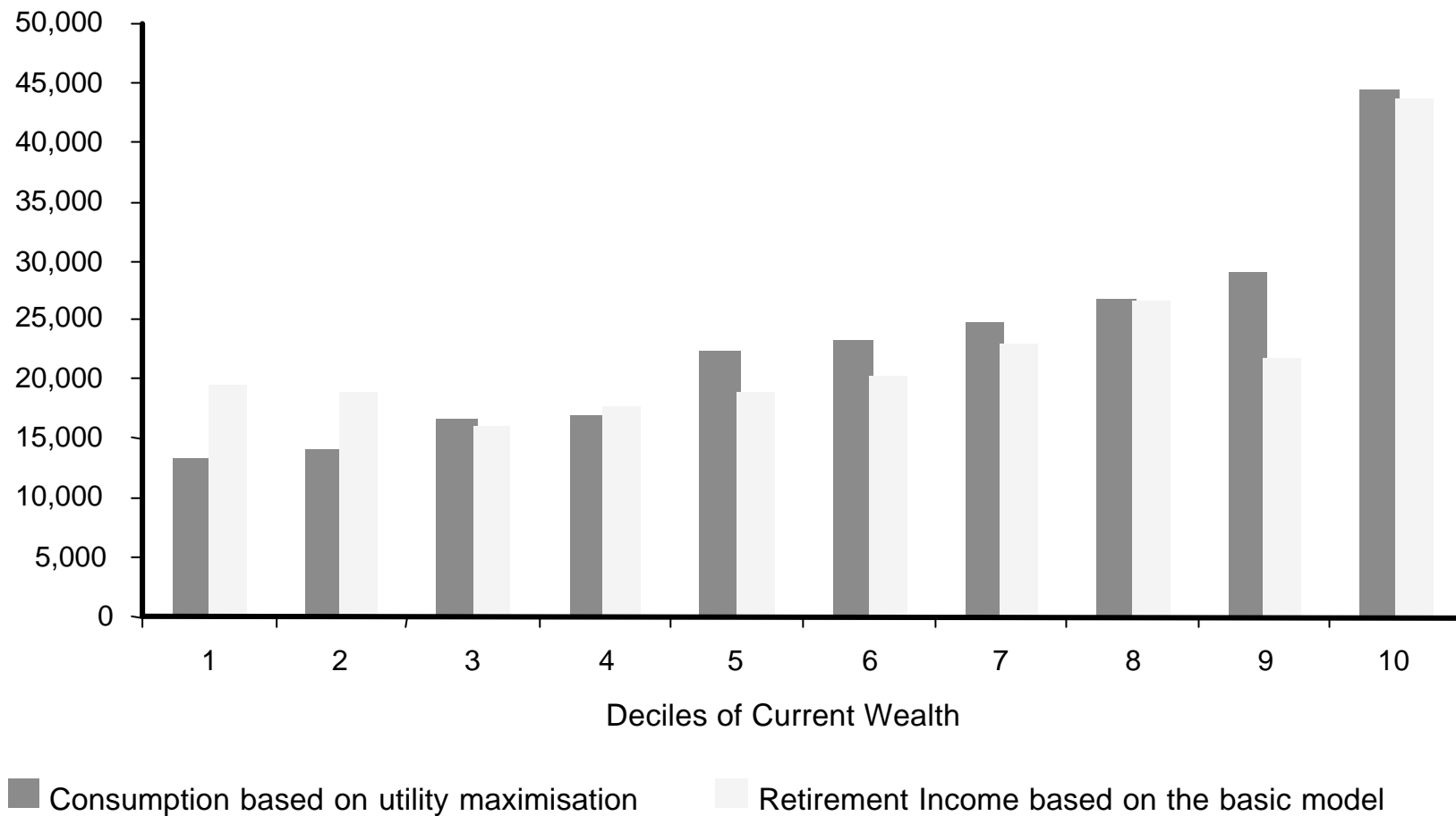
A Similar Story from the USA

“The fact that the recommended saving rate is close to zero for the low income group and that the rate rises with income is not surprising. Most of the low-income households will receive the majority of their post-retirement incomes from New Zealand Superannuation.”

Prescribed Saving Rates: USA and NZ

Income Decile	USA Bernheim	USA Moore and Mitchell	New Zealand
Low (1)	0	Neg	0
Lower Middle (3-4)	13	3	3
Upper Middle (6-7)	14	9	12
High (10)	17	17	14

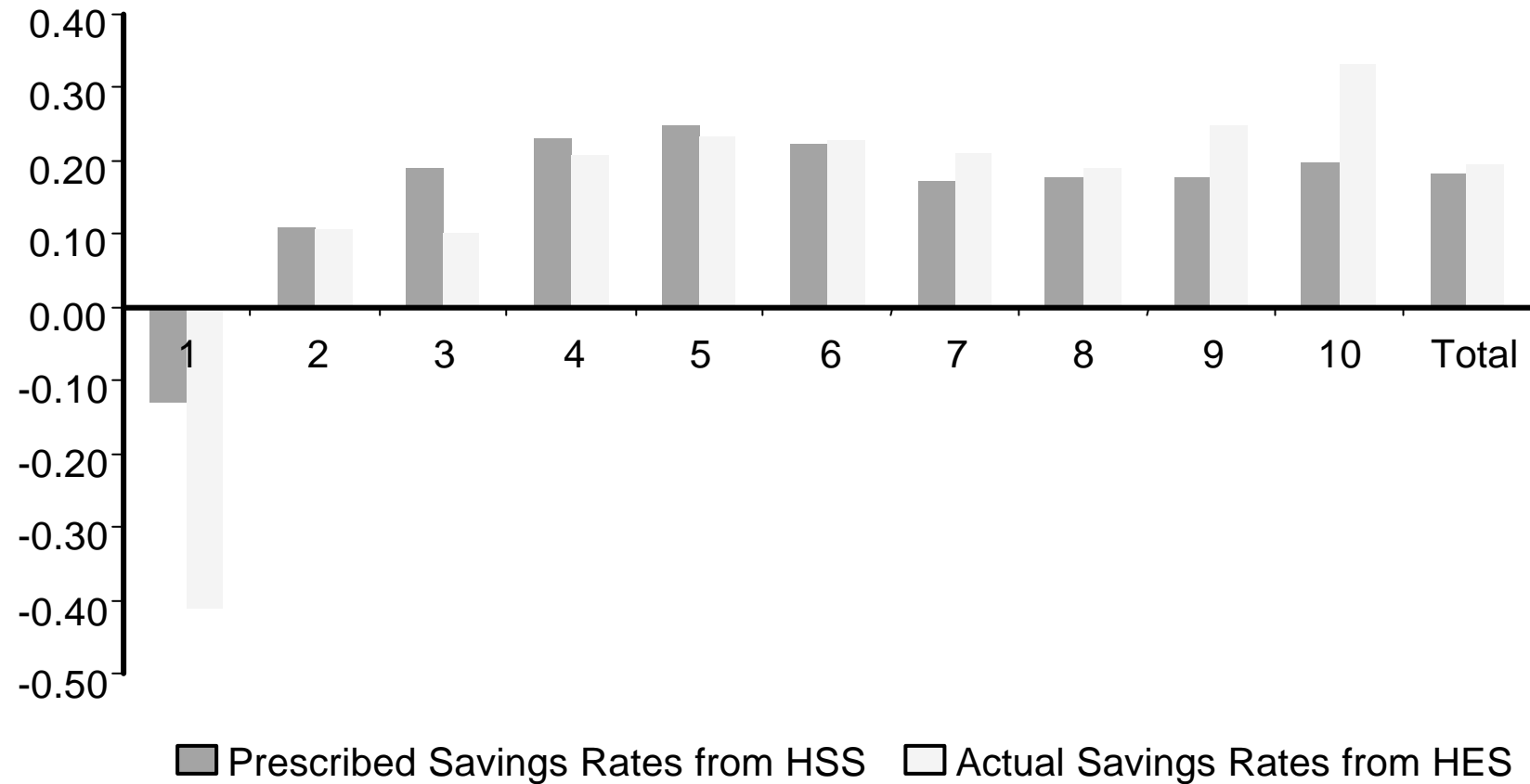
Comparison of predicted retirement income from the basic model with consumption derived from a lifetime utility maximising framework for unpartnered individuals aged 45-55 retiring at age 65 with no consumption of housing wealth



How well does the model predict?

	Prescribed from the model	Actual rates from the HES
Median Saving Rate (%)	18.1	19.3
Mean Saving Rate (%)	6.3	5.1

Actual and prescribed median savings rates



Let's recap the main points.....

- What is adequate?
- Consumption smoothing
 - Saving rates and replacement rates
- NZS very important
- Low income or wealthy – OK?
 - Many are not saving – perhaps quite rationally?
- What do people actually save?
 - Look at the HES
 - No evidence of widespread under-saving

Where to now?.....

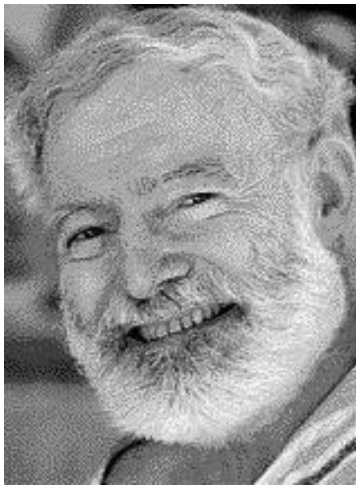
- Uncertainty
- Impact of business and government
- Analyse other age groups (35-44, 55-64)
- Labour force participation around retirement
- Cohort effects & asset valuations (after 2001)
- More studies: a rich data set
- Value of repeated surveys

We have seen some wide differences..



F. Scott Fitzgerald to Ernest Hemingway:

“The very rich are different from you and me”



to which Hemingway replied:

“Yes. They have more money”.

It has to beat working



The authors wish you
a long and happy
retirement...

[....provided you have
been good and saved
enough!!]