

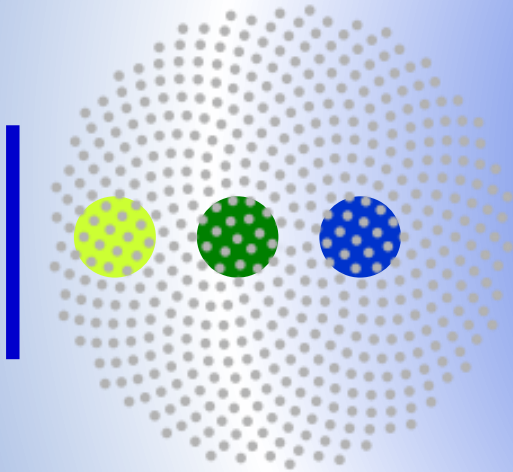
Into Thin Air: Global Trends in Pension Reforms - Issues for New Zealand

Retirement Policy & Research Centre – University of
Auckland

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Themes for the Presentation

- Broad Issues and Macroeconomic Insights
- Ageing & Cognition Issues
- Product Design Development
- Global Considerations
 - Australia
 - Ireland
 - The United Kingdom
 - Denmark and Sweden
- Self-care and Financial Wellness
- Insights for New Zealand



Broad Issues and Macroeconomic Insights



- Globally: 'More people are worried about living too long than dying too soon' – generational shift
- Ageing populations – baby boom nations USA, Canada, Australia and New Zealand
- Since 2007/Global Financial Crisis (GFC) has generated historically low interest rates
 - Some Anglo Saxon countries have seen investors remain in cash/missing equity uplift
- Regulatory co-operation and information sharing/reciprocation – OECD (IOSCO) & (IOPS)
- Greater levels of political, security and economic uncertainties
- Generational disparities – Baby Boomers and Millennials: Shirley Turkle MIT– Connected, but Alone?
- Financial Literacy Challenges - XXXX
- Artificial Intelligence and Big Data – understanding the customer
- Customers becoming 'more demanding, less loyal and much more willing to complain'
- On-line real time engagement – 24 hour cycle
- More connected economies and cities – Brexit and Political Uncertainties – USA/Russia/EU/China
- Difficulty with home ownership – encouragement and engineering
- More complex generational transfers of assets across a spectrum of family members – legal issues: The Pinch
- Higher rates of divorce, later in life > Housing purchase impacts, insurance and retirement
- THE AGE OF UNCERTAINTY – GROWS



Financial Friendship

Financial Advice
Financial Guidance
Financial Information

Tell and Sell
Click and Stick

Ageing and Cognition

Lack of sleep, poor diet, no exercise and stress - prolonged poor lives

Cognition decline after 60 - 1% p.a.

Democratization of insurance and investment risk

10,000 US retirees every week

1 million new middle class in Asia

Old World and New World of Market
Conduct for the elderly and the infirmed

Abandonment of traditional insurance
businesses in mature markets - capital
adequacy e.g.. Australia and the UK

Responsive regulation for an ageing society

Product Developments

- Bespoke for specific customer needs
- Meeting and anticipating Long Term Care Needs - Mastertrusts
- Blending of accumulation and retirement solutions
- Smashing together of drawdown, insurance and annuity products
- Investment, Insurance and default fund solutions becoming more focused on by regulators
- Transparent fees and charges – insurance and retirement products blending
- Set and Forget Investments and Insurance – Financial Friendship
- Rise and rise of platform and tools based solutions
- Interwoven with mobile and iCloud technologies
- Shorter periods for the repricing of risk products
- Affinity groups or brands with product sales e.g. Airlines and Life Insurance
- Growth in equity release or reverse mortgages as a retirement/risk income supplement



Australian Snapshot

- Move to compulsion 1987 and 1992 – formation of industry funds and EBCs becoming product manufacturers
- Differing political treatment and considerations for superannuation – \$2.6 trillion AUM
- Individual Discretionary Portfolio Services (IDPS) and Mastertrust Growth – promoted platforms
- 9.5% employer contributions increasing to 12% by 2025 (starting in 2021) + 3% voluntary contributions
 - Strong growth in Profit for Member – Industry Funds/Overtaking Retail Funds
 - Fee compression through the development MySuper – Default Fund
 - Insurance – Total Permanent Disability (TPD) plus additional opt in units. Also in salary continuance (unemployment)
- Eligible Rollover Funds for the Lost or Inactive Accounts (6 million in the system)
- TTE – Taxation Approach and SMSFs – containment/governance worries



Types of Australian Funds Numbers & \$ Assets

	NO			\$ assets b	
	2006	2012	2017	2012	2017
Corporate (2600 in 1990)	1000 (approx.)	119	24	58	55
Industry		56	44	295	590
Public	1000 (approx.)	38	18	237	439
Retail (Big 4 Banks)		131	128	398	613
Small (Trustee Companies)	6665	3242	2079	2	2
Self Managed	250,000	500,000	600,000	478	721

Overview of the Market – Major Elements

- Big Four Banks - Dominated retail superannuation market but have sold out of insurance and in some cases asset management/superannuation
- KiwiSaver in NZ dominated by Australian banks – Royal Commission into Financial Services
- Insurance – AIG/Japanese insurers and Zurich
- Major shakeup and sell off – AMP only life insurer left in the market
 - Large losses in Group Insurance Book
- EBC product manufacturing – Mercer, AON and Russell Investments
- New Wave – New Retail Funds – Grow Super – Ethical Super – Space Ship/Digital App with Social Media: Higher Charges
- Continued growth in Self Managed Super – Accountant Driven



Retirement Income Considerations



- Cash Lump Sum for Small Superannuation Accounts – reduce debt, repairs and replace white goods
- Allocated Pensions/Drawdown Products – continued to be popular
- Strong growth in Traditional Annuities – 2008 Global Financial Crisis
- Comprehensive Income Products for Retirement (CIPRs) – Group Basis/Government Review
- Government commitment to sustainable/flexible retirement income savings – Deferred Annuities and Tax Changes
- Need for retention of members – Industry Funds developing retirement income solutions

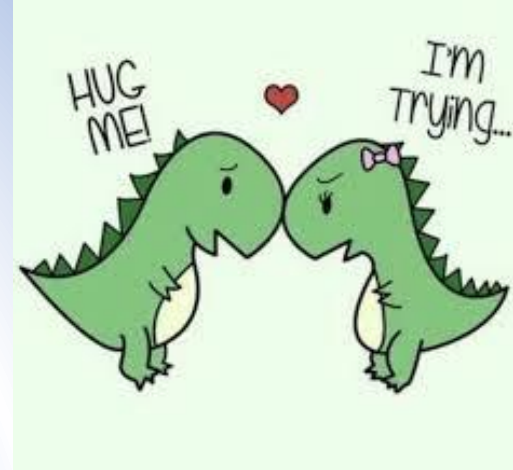
Australian Investment Insights

- Diversified Growth Funds shaped by tax advantages of Australian Equities – franking credits
- Target Dated Funds – haven't been embraced in the same way as in the US and to a lesser extent the UK
- Investment growth apart from the Global Financial Crisis – no economic recession
- Strong growth in Alternative Investments – Infrastructure: Airports/Toll Roads and King's Cross Redevelopment – IFM
- Around 20% Australian superannuation assets invested abroad
- Choice of Fund and Investment – over 80% embraces the default option
- No price capping – greater levels of innovation against a backdrop of a low interest rates



Ireland – State of Play

- *A Roadmap for Pensions Reform: 2018–2023*
 - Favoured Auto Enrolment considerations – NZ Experiences
 - Political and Pension Policy considerations
 - Overarching roadmap – First Pillar, Defined Benefit and Workplace solutions
 - Four models being discussed – Role of the State – Hub/Administration, Investments, Governance and Workplace considerations
 - Coverage and contribution levels > tax incentives to Auto- Enrolment
 - Consultation process begins in June 2018 – New Zealand’s experience is under the microscope
 - State vs Private Sector – level playing field
 - Future of Defined Benefit Schemes and the Sustainability of the First Pillar
 - Recycle and reuse the existing financial services infrastructure
 - Higher rate tax relief – future considerations and purpose in an AE system
 - Government confined policy – UK and OECD input
 - Retirement incomes – annuities and ARFs



The United Kingdom

One of the sharpest increases in the OECD of employee and employer contributions

* 1% to 3% for employees April 6th 2018 > 3% to 5% April 6 2019

* 1% to 2% for employers – 2% to 3% – same period

Impact on opt out rates and the fiscal impact for the UK economy – Brexit

– Measure of success – ‘close your eyes and hope’

– Cost containment – charges

– Strong growth in mastertrust membership > compression of life insurance providers

Collective Defined Contribution (CDC)

– Royal Mail experiences with closure of defined benefit schemes

– Minimising democratisation of risk – less transparent/government legislative responses

Governance considerations for Trustees – IGC/Independence

Pension freedoms (liberty) – ongoing challenges of soft compulsion and move towards transfers – BSPS > ‘sausage and chips IFA meetings’ – Political and Pension policy colliding – slow regulatory response

NEST Loan – 1.8% contribution charge/0.3% ongoing management fee – continued loan growth – 2026 GBP 1.2 billion



Denmark, Sweden and The Netherlands



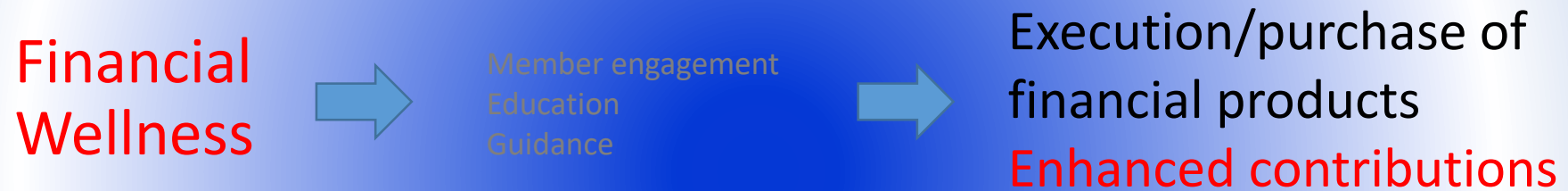
- Denmark – first pillar means tested pension and compulsory, second pillar occupational pension contributions and the third pillar – voluntary, tax incentivised pensions
- Dashboard development – complete, overarching solution
- Sweden – allowing part of the first pillar to be converted into NDC/PAYG – wide array of investment options. State constructed payment and collection hubs
- Occupational pension – 3% /3% employee and employer white and blue collar pension hubs – move to defined contribution solutions
- Self employed – tax incentivised third pillar – industry sponsored dashboards
- The Netherlands > sharp move away from DB solutions – CDC – Pure DC solutions
- Cross Border solutions for multinational corporations and the movement of their staff – reflecting pension benefits
- PAYG, DB pensions vs DC Anglo Saxon model: France and Germany/United States/Australia

The Growth in the concept of Self-care



- Self supporting and sustaining for medical, long-term and pension issues
- Tax incentives – targeting those who are frugal are rely less on the State
- Tax equity Basis/Government Review
- Social contract
- Growth in social media and cynicism in centralised government, in some cases
- Prolonged lack of engagement with welfare mechanisms and structures
- Financial and General Health Wellbeing
- Differentiation for Men vs Women – retirement and long term care > The Pinch

And specifically... Self-care



What I worry about

Indebtedness

Health of me and loved ones

Elderly care – Industry fund contribution

Education for my children

Retirement choices and decisions

Housing – affordability/bank or borrow

Give me a confidence boost or a Financial
Friend

Generational and Gender differences



For New Zealand

- Lack of political will and appetite for necessary pension reforms
 - Using some of the PM's political capital
- Regulatory alignment and fragmented policy development
- Harnessing complex retirement income and fiscal modelling – academic outreach
- Housing and Long Term Care pressures on pension policy
- Lifting contribution rates and actively minimising opt out rates
- Global pension policy trends – insights and lessons for NZ – things to admire and improve
- Pension reform is not a sprint but a marathon – needs a finish line
- Self-care and Financial Wellness – Millennials and engagement with the workplace



And for the Retirement Policy & Research Centre ...Continue!

“Success is Not Final, Failure is Not Fatal. It is the courage to continue that counts.”

Winston S. Churchill – Prime Minister, United Kingdom

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