



# Our road to security



Why it is still a bad idea to make it compulsory to provide privately for our retirement.

BY MICHAEL LITTLEWOOD

It looks like we'll have another inquiry into private provision for retirement, apparently aimed at making this compulsory. Despite the Government's insistence that it wants to debate the issues, the review's direction is clear. Other political parties are also getting in behind.

I used to be a strong advocate of compulsion, once even calling for National Superannuation, as it then was, to be "privatised". And I didn't even question whether tax breaks for retirement saving schemes were a good idea – I just assumed they were. I was probably asked to join the 1992 Task Force on Private Provision for Retirement (the first Todd Task Force)

because the Government wanted our answer to be "compulsion" – much like the current Government's objective.

During 1991-92, I spent 15 months helping to review the evidence, debate the issues and lay all that out in three comprehensive reports: in December 1991 ("The Issues"), August 1992 ("The Options") and December 1992 ("The Way Forward"). In summary, I wasn't rolled on the issue of compulsion but was turned against it – I was *converted*.

In broad terms, here's what we found:



**PUBLIC PROVISION:** Before we think about public policy on private provision for retirement,

we first need to fix the long-term policy on public provision (now New Zealand Superannuation, or NZS). It's crucial that citizens know, decades in advance, what the state might provide when deciding how much they should save themselves. There may not be any need for them to have extra savings for retirement.

The 1992 Task Force initially had the job of looking only at private provision, but it became clear the then National Government didn't know what to do about public provision, so we took that on as well. We devoted pieces of our final report to the design of what was then called National Superannuation and found much to like about it. I still think NZS is the best basic public scheme in the world. But it's only part of the mix, albeit a vital one.

The Government says changing NZS is off the agenda. That will tie the hands of the proposed review group. Private provision is the yin to public provision's yang.

Taking it off the agenda also doesn't



matters. The links between forced savings and greater investment, and then between investment and growth, are unproven.



**PRIVATE PROVISION:** Of the three main approaches to private provision (providing tax incentives, making it compulsory and making it voluntary), we concluded giving tax incentives for retirement saving was by far the worst of the three. Tax incentive-based saving schemes are complex, expensive, regressive, distortionary and inequitable. But their worst fault is they don't seem to increase national saving. Their fatal flaw: they don't work.

We also decided compulsion was better than tax incentives, but not by much. Compulsion has the modest virtue of applying to all employees, but again, the international evidence as to whether that increases national saving is unclear.

Statistics from a number of countries suggest compulsion really isn't working. For example, Chile has had to improve its public superannuation safety net because of poverty among retirees.

The 1992 Task Force unanimously concluded the best approach by far was to let New Zealanders decide whether, when, why and how to save, including saving

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make economic sense. We are going to have lots more old people and they are going to cost the economy more when they stop producing and start retiring. I don't think we have an affordability problem, but because the Government has anchored NZS firmly in place, adding a compulsory private scheme will actually make things less affordable, because the future old will be even more expensive than we now expect.

Both public and private provision will be claims on tomorrow's production. Making private provision compulsory without means-testing NZS (as Australia does with its Age Pension) is economically illogical.

The advocates of compulsion must also be advocates for means-testing if they think compulsion will help meet the costs of an ageing population. If they disavow that linkage, it's a sign they haven't thought the issues through.

Economic growth to deal with the larger claims of the elderly is what really

for retirement. Paying off debt is "saving"; so too is having a mortgage-free home by retirement, building a business and getting an education (which increases one's lifetime earning capacity). A superannuation scheme is only one way, and it can be part of the mix.

Since 1992, my hobby has been based on my own damascene experience: my conversion to favouring letting people decide for themselves whether to save privately for their retirement.

The local and international evidence in favour of those 1992 findings is now stronger than it was 20 years ago. As the principal editor of [www.pensionreforms.com](http://www.pensionreforms.com), I see reports from around the world that I think reinforce the basic approach that New Zealand adopted for retirement incomes (KiwiSaver aside). There are even Australian reports questioning the efficacy of both tax breaks and compulsion.

If the previous Government had looked at that international evidence, it might

have concluded that KiwiSaver would be a costly, flawed, unneeded intervention that probably wouldn't increase national saving – in other words, a solution looking for a problem.

For nearly 20 years, governments left us to make our own decisions on saving for retirement. So, how did we get on?

The New Zealand evidence is in fact quite heartening. Despite many unsupported comments to the contrary, New Zealanders seemed to be saving enough for retirement before KiwiSaver. Overall, they seem to have relatively well-structured household balance sheets, seem to be investing in businesses rather than with superannuation providers, and haven't over-borrowed given their total assets. They also have a lot less in housing, especially residential investment properties, than many claim.

Best of all, the over 65s have by far the lowest levels of economic hardship of any group in New Zealand and also, apparently, compared with other countries: Australia has one of the worst records on this count. So the policies of the past 20 years seem, on a number of measures, to have "worked". The evidence for most of these things is available on [www.pensionreforms.com](http://www.pensionreforms.com).

I concede that some of the New Zealand evidence is not as good as it should be, but it's the best we have – we must improve the quality of the data we collect. We must also improve the quality of our political discussions. Requiring evidence-based proposals would be a good start; KiwiSaver is unlikely to have survived that vital first step.

I sighed deeply on hearing about the proposed review, but maybe it's time to re-examine the findings of the 1992 Task Force to test whether we were wrong. It's nearly 20 years since that groundbreaking work (I know of no other country that has done quite the same job, before or since).

As long as the review proceeds on the basis of hard data, rather than simplistic headlines and shallow cheerleading from self-interested financial service providers, I am confident the 2010 review will endorse the 1992 conclusions. That's mainly because they seem to be working, but also because international evidence indicates other strategies, such as compulsion, aren't working. And why shouldn't someone else share my pleasure of a damascene experience? ■

*Michael Littlewood is a former member of the 1992 Task Force on Private Provision for Retirement and is co-director, Retirement Policy and Research Centre, University of Auckland.*