ERIKSEN & ASSOCIATES LTD

Actuaries & Investment Strategists

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Dr Brian McCulloch
Head of Secretariat
Savings Working Group
PO Box 3724
WELLINGTON 6140

Dear Dr McCulloch,

Submission from Eriksen & Associates Ltd to the Savings Working Group

Thank you for the opportunity to make this submission to the Savings Working Group. The key points we wish to comment on are:

- NZ Super
- KiwiSaver
- Long Term Savings Bonds
- PIR Tax Rate

NZ Super

We consider that the age of eligibility for NZ Super should be increased progressively to 70 over 20 years. At the same time it should also be made accessible from 60 at a 6% per annum discount or, for those wishing to retire later, it should be made accessible up to age 80 at a 6% premium per year (the discount or premium was actuarially determined).

KiwiSaver members should continue to get access to their benefits at 65. This means that the ages of eligibility for KiwiSaver and NZ Super would be delinked. Effectively age 65 becomes the "normal" early retirement age.

Working people are healthier and improving longevity statistics make these changes essential. See the attached graph showing that the average life expectancy for all New Zealanders has increased by at least 5 years for the over 60s in the last 25 years.

KiwiSaver

KiwiSaver should not be made compulsory but should be left voluntary. As a voluntary scheme it is still attracting a large number of new members (1,000 per day). Participation is already high and still growing. The current benefits, including the members' tax credit, should be retained. As a form of quantitative easing it is far more effective than the U.S. or U.K. approaches to helping lift our economy out of recession.

We plead for the Government to let KiwiSaver settle down by not making <u>any</u> changes for several years. The changes tend to undermine the public's confidence in the product.

The costs to a provider of maintaining their own processing resources and computing systems can be very high, especially when there are major legislative changes. This can be a barrier to new providers and a threat to the profitability of small existing providers. There are also extra costs (which must eventually be borne by all KiwiSaver members) in having these resources duplicated across all schemes.

To overcome this we suggest that the Government (or private sector) establish a central KiwiSaver administration and processing centre so that the costs of system upgrades and legislative changes are paid only once by the industry - and also to ensure that the larger schemes do not gain a competitive advantage by being able to spread their fixed upgrade costs over a higher number of members.

Returns for KiwiSaver funds should be reported net of tax and fees. The returns applying for each tax rate should be quoted separately.

Long Term Government Bonds

The lack of longer term government stock is inhibiting the development of an annuity market which could be used to provide regular incomes in retirement and ensure that the lump sum benefit entitlements from KiwiSaver are not frittered away or invested unwisely. It would also greatly strengthen and deepen our financial markets. It would also attract Australian investors who are also currently limited to 10 year Government Stock.

For that reason we consider that long term government stock should be offered in both nominal and inflation proofed forms. The current low interest rate environment provides an ideal opportunity to lock-in low long-term yields from the Government's perspective. Straight 25 year bonds could be priced currently at around 6.5% - 7.0%, or perhaps 7.5% if issued at a later date. If inflation proofed, they might be priced at around 3.5% real.

We note the recent publicity regarding the high level of New Zealand's debt which is held overseas (approximately 90% of GDP), and much of which is held in long-term residential housing mortgages. Since the banks fund these loans overseas for much shorter terms there is a potential liquidity issue for New Zealand if for some reason they cannot be renewed. Long term borrowing by the New Zealand government could potentially be used to provide funding of last resort if overseas funding became unreliable.

As an aside we note the concern expressed at the high level of New Zealand borrowing overseas. This will be offset to a large extent by the level of New Zealand owned assets held offshore. Has the Savings Working Group attempted to quantify these?

The proceeds from selling the bonds could also be used to fund infrastructure. The longer duration would more closely match the term of the liabilities and straight Government funding would be more efficient that PPP's for many projects.

PIR Tax Rate

We consider that the PIR should be reduced to make the retirement savings sector more efficient and attractive to savers. An appropriate level to compete with Australia would be to reduce the overall maximum PIR to 15% and make it 15% for all individuals and 0% for charities.

Yours sincerely,

Jonathan Eriksen
Eriksen & Associates Limited

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New Zealand Life Expectancies At Age 60