

# How to make decumulation a success

**Retirement Income Interest Group of the New  
Zealand Society of Actuaries (RIIG)**

**Financial Advice NZ, September 2022**

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## This presentation covers:

1. About RIIG
2. How much near-retirees have in KiwiSaver
3. Why decumulation is difficult
4. A drawdown framework for Aotearoa New Zealand
5. Policies to make drawdown a success

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## RIIG

- Retirement Income Interest Group of the NZ Society of Actuaries
- Current members: Ian Perera, Christine Ormrod, Kelvin Prisk, Fraser McKay, Simon Ferry, Alison O'Connell
- Since 2015, papers on:
  - Retirement Income Policy, Longevity
  - Guidance for decumulation, Rules of Thumb, KiwiSaver balances
- November 2021 report: *How to make drawdown a success*
- July 2022 report: *Insights into pre-retirement KiwiSaver accounts*
- Coming soon: *Projected future KiwiSaver balances*

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## RIIG's data science investigation

- Six KiwiSaver providers supplied anonymous individual account data, as at 31 March 2021
- Over 450,000 accounts after data prep
- 40% of KiwiSaver members aged 45-64, 50% of those aged 65-84
- Eight attributes of each account



*Allows investigation of spread of KiwiSaver balances across the population, and how that is linked to account attributes.*

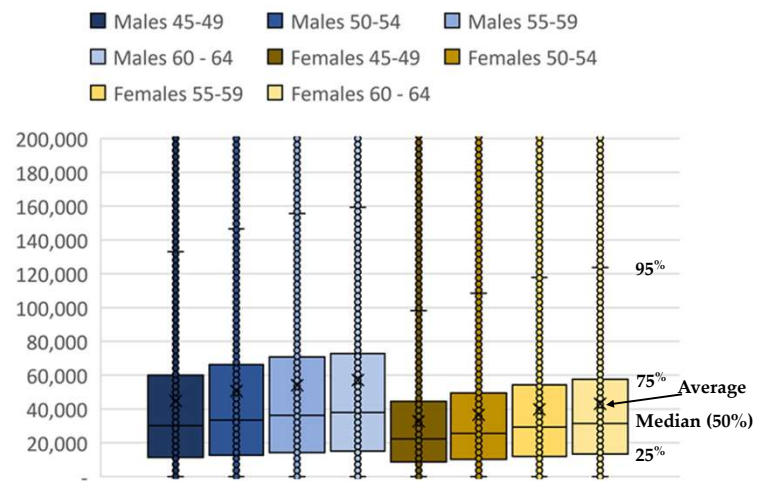
*Uses information from all accounts, not just the average.*

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## How much do near-retirees have in KiwiSaver?

Distribution of account balances, in dollars, for KiwiSaver members aged 45-64 in 2021, by age group and gender, from RIIG's sample as at 31 March 2021

- Modest amounts for most – cluster and tail
- Older people have more than younger
- Generally, women have less than men



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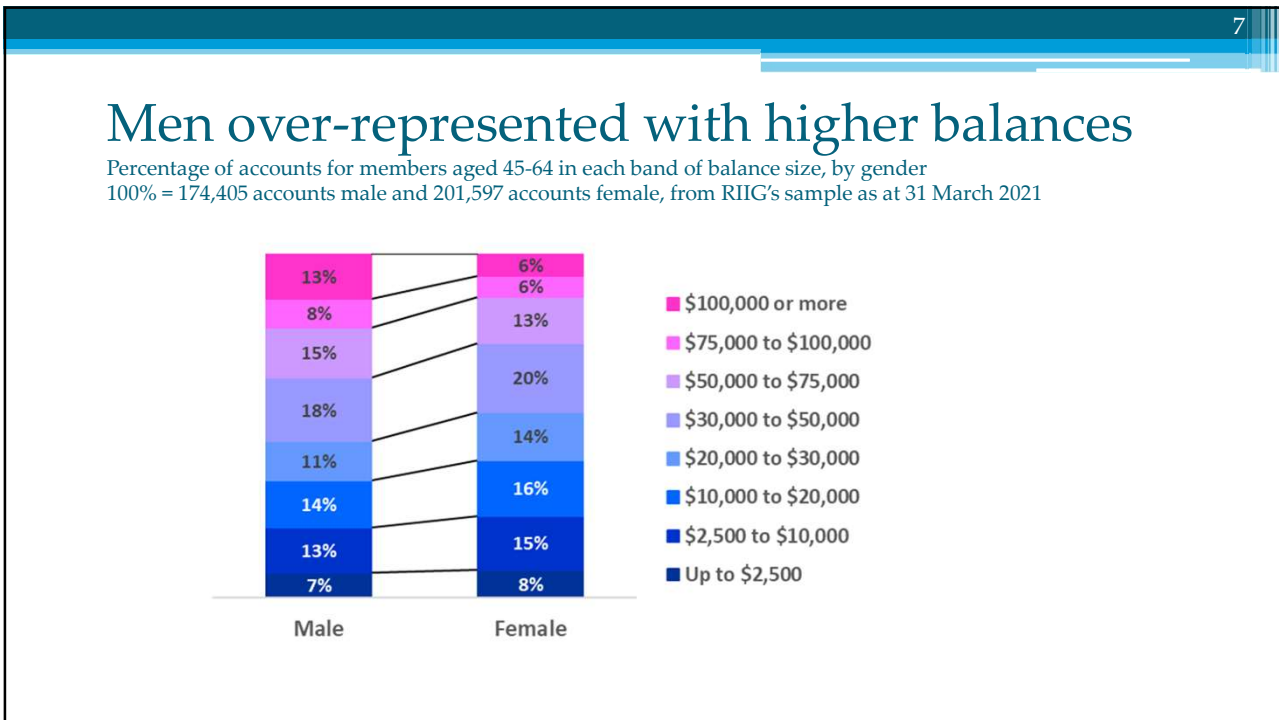
## Looking only at averages can mislead

Measures of account balance distribution, in dollars, for KiwiSaver members aged 45-64 in 2021, by age group and gender, from RIIG's sample as at 31 March 2021

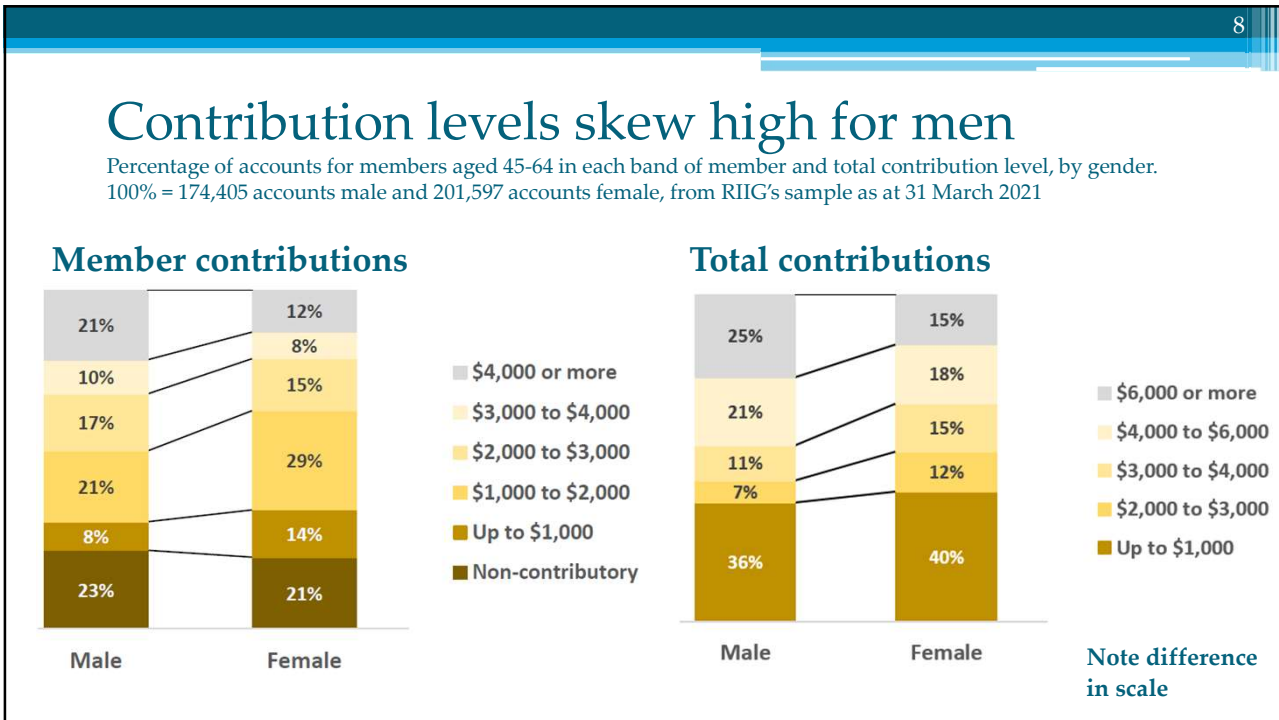
		Age group			
Males	Total	45-49	50-54	55-59	60-64
Median	34,294	30,182	33,368	36,248	38,008
Average	51,494	44,842	50,555	54,084	57,265
Maximum	3.2m	1.7m	1.9m	3.2m	2.1m
Females	Total	45-49	50-54	55-59	60-64
Median	26,897	22,302	25,644	29,218	31,412
Average	37,853	32,656	36,484	39,756	43,102
Maximum	2.0m	0.7m	2.0m	1.0m	2.0m

- Median significantly less than average
- Gap between men and women on median measure is significantly less than on average
- For example, at ages 60-64, gap is \$14,163 (average) or \$6,596 (median)

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## Women are not more conservative investors than men

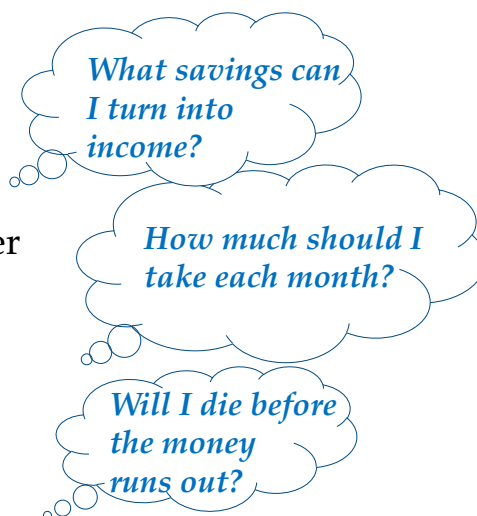
Heat map showing how accounts of different balance size in dollars are distributed into funds described by proportion of growth assets, ages 45-64, from RIIG's sample as at 31 March 2021

	Male				Female			
	0 - 30%	30% - 50%	50% - 75%	75% - 100%	0 - 30%	30% - 50%	50% - 75%	75% - 100%
Up to \$5,000	Red	Light Brown	Light Brown	Light Brown	Red	Light Brown	Light Brown	Light Brown
\$5,000 to \$10,000	Red	Light Brown	Light Brown	Light Brown	Red	Light Brown	Light Brown	Light Brown
\$10,000 to \$20,000	Red	Light Brown	Light Brown	Light Brown	Red	Light Brown	Light Brown	Light Brown
\$20,000 to \$30,000	Red	Light Brown	Light Brown	Light Brown	Red	Light Brown	Light Brown	Light Brown
\$30,000 to \$50,000	Red	Light Brown	Light Brown	Light Brown	Red	Light Brown	Light Brown	Light Brown
\$50,000 to \$75,000	Light Brown	Light Brown	Light Brown	Light Brown	Light Brown	Light Brown	Light Brown	Light Brown
\$75,000 to \$100,000	Light Brown	Light Brown	Light Brown	Light Brown	Light Brown	Light Brown	Light Brown	Light Brown
Over \$100,000	Light Brown	Light Brown	Light Brown	Light Brown	Light Brown	Light Brown	Light Brown	Light Brown
Total	Red	Light Brown	Light Brown	Light Brown	Red	Light Brown	Light Brown	Light Brown

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## Why decumulation is difficult

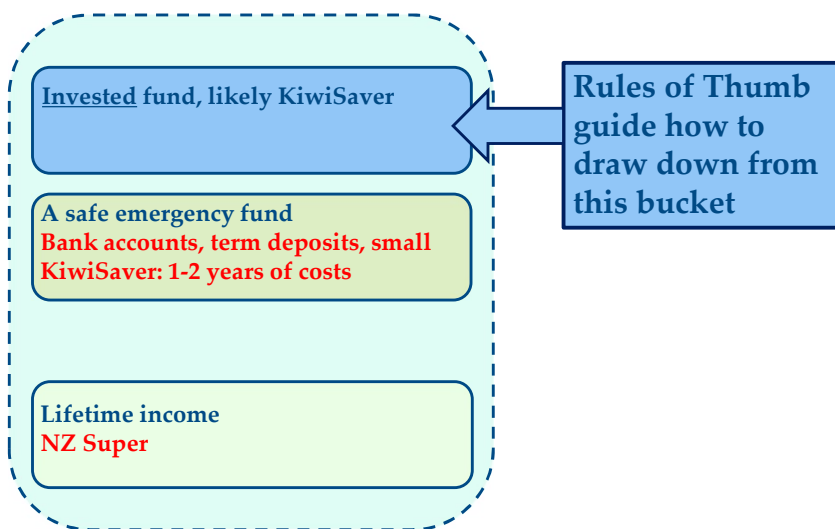
- Diverse situations and preferences
- Things change during retirement
- Risks: Longevity, mortality, inflation, investment return, sequencing
- Low financial capability, 'mistakes' matter
- Tendency to take less than could
- Not everyone looks for advice
- KiwiSaver new; but no country has "solved" decumulation
- Other financial and social pressures in retirement income policy



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## How to think about drawdown

1. What buckets?
2. What drawdown plan?
3. How long might I live?
4. Review regularly - not set and forget



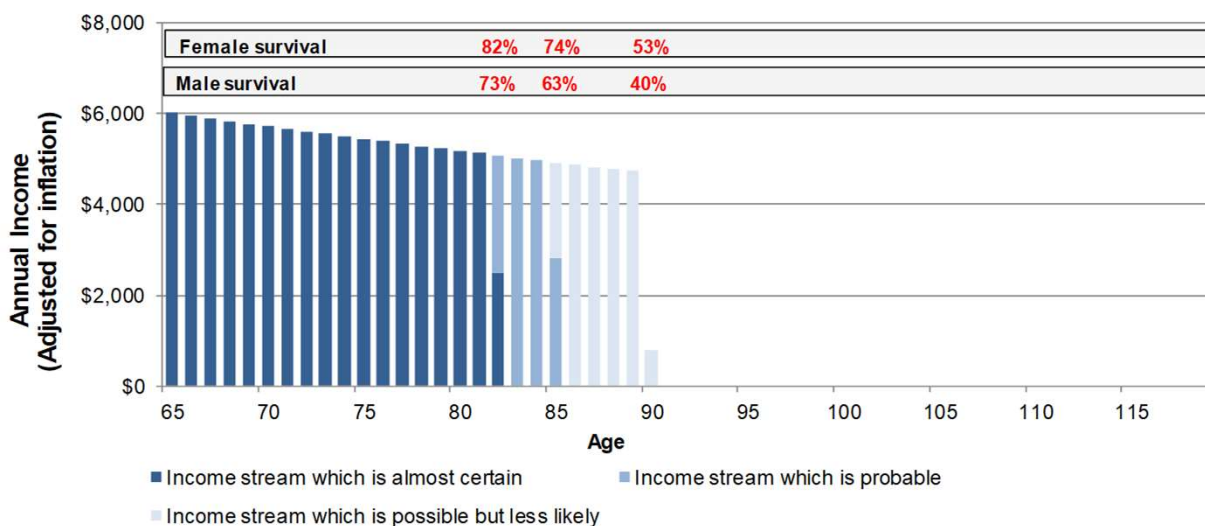
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## 2. What drawdown plan? RIIG's four Rules of Thumb

Rule of Thumb	How it works
<b>6% Rule:</b> Each year, take 6% of the starting value of your retirement savings.	You receive the same nominal amount each year but the length of time you receive it for varies.
<b>Inflated 4% Rule:</b> Take 4% of the starting value of your retirement savings, then increase that amount each year with inflation.	You receive the same real amount (i.e. inflation adjusted) each year but the length of time you receive it for varies.
<b>Fixed Date Rule:</b> Run your retirement savings down over the period to a set date – each year take out the current value of your retirement savings divided by the number of years left to that date.	The amount you receive each year varies but the length of time you receive it for is known.
<b>Life Expectancy Rule:</b> Each year take out the current value of your retirement savings divided by remaining life expectancy at that time.	You receive a payment each year until you die but the amount varies.

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### 6% Rule (2020) start age 65 with \$100,000 in a Conservative Fund (20:80)

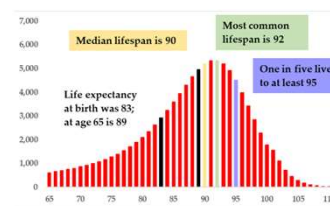


Source: RIIG (2020) *Decumulation Rules of Thumb: An Update*

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## 3. How long might I live?

- We suggest people currently aged 45 years or over should test their drawdown plan against the likelihood that they live until 90 to 95 years old.



## 4. Review: things change, including spending needs

- Expenditure Guidelines do not reflect diversity of individual situations – use personal calculators
- Definite planning for future 20-30 years not feasible
- Focus on short-term needs; then review and change drawdown if necessary every year or so

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## Policies to make drawdown a success

1. **Retain NZS** as a strong foundation, entirely separate from KiwiSaver
2. **DIY for many, so: Consistent content, shared widely.** The National Strategy for Financial Capability: *“agencies should work together to provide consistent content that demystifies financial topics”*.
  - *We think consistency is critical: using one framework for drawdown, one set of Rules of Thumb, one set of investment assumptions (return and volatility) and one set of longevity data. This allows for providers to differentiate without confusing with too much contradictory information.*
  - *Standard wording on KiwiSaver statements should show more than ‘straight line to age 90’*

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## Key takeaways

1. **Individual account data gives us new information – beware averages**
2. **Most people with KiwiSaver accounts will have modest amounts for drawdown for at least the next 15-20 years**
3. **NZ Super will remain vital**
4. **Drawdown will be DIY for many, personalized for some**
5. **General guidance on drawdown will be best provided by consistent content, shared widely**

More at: <https://actuaries.org.nz/resources-and-publications/reports/>

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