

Retirement income adequacy

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- How do we define adequacy?
- Should there be guidelines and goals
- If not – what other tools?
- Wealth in homes?

Sources of Income...

- Replacements rates will vary
- Income level and tax rates
- Savings rate
 - A higher savings rate means lower pre-retirement consumption and therefore a lower standard of living to replace
- Family status
- Level of Social Security – NZ Super

Needs...

- Changes in spending patterns
 - Variable depending on individual circumstances
- Cost of medical care
- Inflation
 - Often overlooked in replacement ratio studies
- Family status

Adequacy

- Simple, transparent design and predictable costs
- Promote tax-incentivised savings
- Individuals should have to make only a few key decisions

Sustainability

- Avoid intergenerational subsidies and financial risks associated with generational shifts
- Predictable outcomes through:
 - Default risk-managed investment option
 - Regulated system of distributions to provide income for life
- Minimal "leakage"

Integrity

- Government-run social security limited to basic subsistence-level pensions
- Governance should be at arms length from the government
- Administration should be cost-effective, with some degree of competition

What's wrong with the current situation?

A hodgepodge of past “fixes”

Individual responsibility without capability

Inadequate provision

The demographic tide is shifting

Weakening government fiscal positions

Volatile and increasing costs

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What can we do about it?

Mercer is taking a fresh perspective on the retirement plan of the future

Holistic

- A clear, principles-driven review of how retirement systems *as a whole* can best be structured

Clean Sheet of Paper

- Principles-driven and transparent, not taking “installed base” or transition into account

Agnostic to Politics

- Aims for simplicity to promote discussion while recognising that some facets may be politically difficult

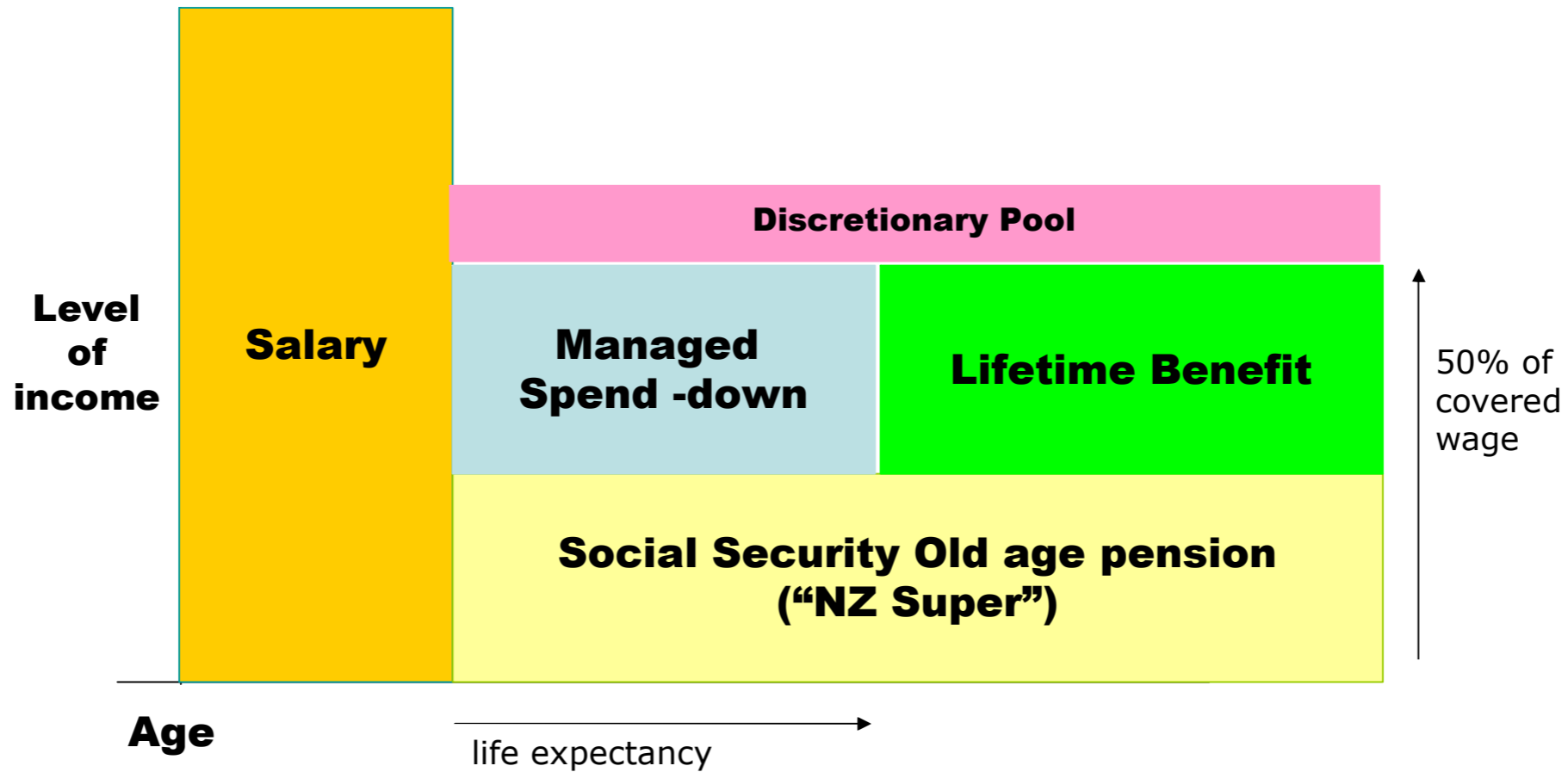
Global

- Global – but allows for the significant flexibility necessary to adapt it to widely varying social and economic systems

This is meant to encourage the long-term public policy debate providing strong guidance for short term design strategies

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Mercer Retirement Design for the Future - Income



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