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Are Kiwis saving enough for retirement? Evidence from SOFIE


Trinh Le , Grant Scobie & John Gibson

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Abstract

The extent to which people are saving for retirement is a key element in formulating public policy toward saving and retirement incomes. This paper adopts a life cycle model of...

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Notes

1. According to Table 2.5 of the Pre-Election Economic and Fiscal Update, expense changes due to KiwiSaver costs that were not apparent in the May 2008 budget contribute 7% in 2011 and 10% in 2012 of the replacement of government surpluses (of the operating balance before gains and losses) with deficits (Treasury, 2008, p. 30).
2. It is more challenging to apply the model to younger ages as the further one is from retirement, the more imprecise projections of retirement wealth, income and consumption become.
3. SOFIE's target population is ordinary residents who live in private dwellings. Excluded from the survey sample are short-term overseas visitors (intending to stay for less than 12 months), members of non-NZ families living offshore, and members of offshore islands communities.
4. Retirement is also subject to a distinction between those who are retired and those who are not retired. Income is also subject to a distinction between those who are retired and those who are not retired.
5. Investment income (including dividends and interest) is also subject to a distinction between those who are retired and those who are not retired.
6. The measure of retirement value is based on the insured value for replacement (59.4%); (2) insured value not for replacement (6.3%); (3) amount that



would be received if sold (13%); (4) amount that was paid (8.1%); (5) other method of estimation (11.7%); (6) don't know; (7) refused; and (8) missing.

7. Informal communications and unpublished notes from staff of Statistics New Zealand.

8. Uncertainty, including such sources as sickness, disability, employment, earnings, inheritances and life expectancy, can best be introduced using micro-simulation models. See, for example, Statistics Canada (2004).

9. For example, Love et al. (2009) use a rule of thumb of having sufficient wealth to generate 150% of poverty-line income over expected future lifetimes and find that only 18% of households in the US Health and Retirement Survey have less wealth than this threshold. Scholz et al. (2006) study a younger cohort from an earlier wave of the same survey, and apply a stochastic life cycle model to calculate the optimal wealth for each household, in the face of various uncertainties, and find that fewer than 20% of households have less wealth than their optimal target.

10. TTE refers to a system where the savings are made from after-tax income, the returns are taxed and the withdrawals are exempt. It differs from those systems that exempt savings or earnings from taxation and tax withdrawals (TET, ETT or EET).

11. The New Zealand Superannuation Act mandates that NZS payments are kept within a narrow band of net average wages after tax, which is why it is appropriate to assume the same growth rate for future superannuation payments and wages. In terms of the actual growth rate chosen, in keeping with the conservative assumptions used

throughout this paper, we use the growth rate of net average wages in New Zealand (Scholz et al. (2006) Long-term Fiscal Sustainability: A Review of the Productivity and Labour Participation Series: Statistics New Zealand, 2006).

12. The results presented in this paper depend on the assumptions made. We would like to thank the referees for their helpful comments. Please allow us to

13. [http://www.stats.govt.nz/press-releases/2006-04-04/2006-04-04-to-equity-](#)
[release](#)



14. We have set negative prescribed saving rates to zero to preclude literal interpretation.
15. In 2003, NZS after-tax payment was \$12,756 for non-partnered individuals (who live alone) and \$19,624 for couples.
16. See Banks et al. ([1998](#)), Engen et al. ([1999](#)), Hubbard and Judd ([1987](#)) and Hubbard et al. ([1995](#)).
17. Equivalent to an annual consumption of \$92,000 for couples and \$46,000 for non-partnered individuals.
18. For examples of estimating saving as the difference between income and consumption see Paxson ([1996](#)), Attanasio ([1998](#)) and Deaton and Paxson ([2000](#)).
19. Examples include Palumbo ([1999](#)), Blundell et al. ([2004a,b](#)), Dynan et al ([2004](#)), Waldkirch et al. ([2004](#)), Charles et al ([2006](#)), Toledo ([2006](#)) and Ziliak and Kniesner ([2005](#)).
20. The survey is briefly described in Appendix A. Some parts of HES annual expenditure are estimated by multiplying by 26 the expenditure information recorded by diary for a household for a two-week period. Therefore, even though expenditure is its primary focus, annual expenditure from the HES is still likely to be measured with errors.
21. See Appendix B for further details.

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