Preparing for the Retirement Bulge

Keith Rankin, 14 Oct 2013

We keep hearing about the need to save much more for our retirement, and that the present public superannuation system is unsustainable. Much of the intensification of this discussion appears to be self-serving advocacy on behalf of the financial services sector.

If we consider, say, the 2030s, the issue will be the balance between the employed and the non-employed adult population. If we assume there will be no recession in that decade, then the non-employed will be a mixture of retired persons, caregivers, students and those without capacity to be employed. The latter group includes the structurally unemployed, meaning those with insufficient skills to apply for vacant jobs.

We are assuming, quite reasonably, that the proportion of retirees will be greater than it is now. But we may be wrong.

First, even in the absence of changes to NZ Superannuation, more people may retire at higher ages. This is especially likely if there is strong demand in the labour market at that time; an assumption implicit to the retirement discussion.

Second, and despite advances in medical science, we cannot extrapolate the longevity of one or two generations to subsequent generations.

Present mortality statistics predominantly reflect the generation sometimes referred to as the "builders"; the generation before the baby "boomers", born especially in the years from 1925 to 1940. This is a generation uniquely favoured by twentieth century history. Missing World War 2 and only experiencing the Great Depression as young children, the 1938 welfare state has largely followed them. They have almost no knowledge of the ravages of unemployment and income insecurity.

The generation following the baby boomers has had very different life experiences, and will enter their sixties in times of huge economic uncertainty and inequality. They are at the vanguard of an obesity (and likely diabetes) epidemic, and will face a world in which antibiotics can no longer be relied upon. They have faced constant economic insecurity, huge mortgages, and have little idea what their property and financial assets will be worth in the 2030s and 2040s.

Labour's plan to raise the age of entitlement for NZ Superannuation will adversely affect this post-boomer generation. Such a policy is justified by mortality statistics relating to pre-boomer longevity. However, pre-boomers have had diametrically different life circumstances from post-boomers.

The productive capacity of the economy in the 2030s depends on the quantity and quality of investment in physical and social capital, the conservation of natural capital, and the quantity and quality of the working-age population.

In our present retirement-funding model, we tax current output sufficiently to pay for, among other things, a universal retirement pension. And in the 2030s, we will similarly tax 2030s' output sufficiently to support our non-employed population. Indeed working-age persons in the 2030s will have to forego at least that level of goods and services, whatever the retirement-funding model.

We need to focus our policy today on ensuring that the 2030s' economy has a sufficient productive capacity. That means investing today in our children, in our environment, in our social capital, and generally making wise choices about the uses to which today's savings are put.

For the world as a whole, this century, IMF statistics show that the private sector has been a net saver. That means, by definition, that the private sector has been a net lender, and the global government sector a net borrower. This pattern is unlikely to change anytime soon. Indeed, as the private sector is exhorted everywhere to save more and to reduce debts, the governments of the world – the present recipients of those savings – must ensure that these private-sector savings are spent productively.

It means that governments should not resist their present role as debtor-of-choice, and should keep the wheels of commerce oiled through poverty-reduction programmes (that, more than anything else, restore social capital) and through other forms of spending which can clearly be shown to be investments for the future.

If we think of 'the future' as the 2030s, the decade in which the post-boomer Generation X retires, then we can understand that today's unspent (ie saved) private income should be recycled in ways that will support the required social and physical environment for that future.

Such government-facilitated income-recycling will be debt, by definition. This is because debt is the conceptual flipside of saving. When anyone does not spend a part of their income today, they are expecting to be spending part of someone else's income tomorrow. That's what saving and debt mean.

The issue for future retirement is providing appropriate investment today. That will be a government matter, so long as governments continue to be our debtor of choice.

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