The Second International Workshop on
The Balance Sheet of Social Security Pensions

New Zealand: financing retirement
- lessons from the New Zealand Way on necessary reforms
Comment

by

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１． Main Results of the paper are as follows.
(1) There is some evidence that New Zealanders are behaving rationally and that they will have adequate retirement incomes, including the Tier 1 pension, which is sufficient.
(2) Despite all this, the government decided in 2001, without debate, to set up the “New Zealand Superannuation Fund” to build financial assets in public ownership, which is needless.

2.This paper suggests that the NZSF is an unnecessary public intervention and fails to address the issues that really matter: how to stimulate growth. It also introduces some avoidable economic and policy risks. The “KiwiSaver” scheme is another needless public policy initiative. public policy interventions in capital markets All of public interventions distort capital and labour markets but none of them deals directly with the issues that are central to the potential financial pressures faced by countries with ageing populations. The only thing that really matters is growth; how does this help the country to grow more? It is interesting to understand that there are many things wrong with the NZSF – from the economic to the political. The paper is very informative.NZSF is described as a "smoothed pay as you go" way of providing for NZS rather than the "pure" PAYG system that was used for, effectively, 104 years. Many developed countries, including Japan, have a similar "smoothed (modified) pay as you go" system. We can learn a lot from the paper.

3.According to the paper, the ability to produce goods and services and to buy imports is the key to the living standards of present and future retirees. This is true. However, under a funded scheme growth would be more stimulated than under PAYG. Saving may be stimulated due to income effect. Labour supply may be stimulated due to substitution effect See Auerbach=Kotlikoff (1987) among others. How about the issue of intergenerational equity?

4. From the macroeconomic viewpoint, funded pension system is the same as privatized system (no public pension).If no public pension is good, then funded system is also good. The author emphasizes that a reduction of the size of PAYG is the same as an increase in no public pension. It seems that a change from the PAYG approach to a partially funded basis requires workers during the transition to pay twice. This is true. However, the second burden is not a real burden. Their funding for their own NZS when they retire is not a burden. This

burden also occurs when PAYG is privatized. In Japan this burden would be huge. In NZ the size is relatively low.

5. It is true that the partly funded scheme will not reduce the cost of NZS, other things being equal. However, if the population growth rate (the rate of return in PAYG) is less than the rate of interest (the rate of return in funding), it would matter. In an ageing society, intergenerational equity becomes an important issue. Then, transition to funding scheme may increase the rate of return of pension. People are more likely to save for retirement themselves if they doubt the future sustainability of NZS or if they think it won't be enough. It is true that public saving due to NZSF is perfectly substitutable with private saving. However, total saving under funded system is larger than under PAYG since PAYG depresses private saving without having public saving.

6. This paper shows that the impact of incentives on national saving is unclear and may even be negative – in other words, incentives may actually reduce national saving. This is an important result. As to the substitution effect, this seems true. However, how about the tax-timing effect of consumption taxes? EET may stimulate savings due to this effect. There are several ways of looking at whether New Zealanders are saving "enough". This is an interesting result. I like it very much. However, although New Zealanders seem to be responding rationally to the public policy signals they are receiving and save well, it does not necessarily mean that the macro saving level is optimal from the viewpoint of intertemporal efficiency. It may depend on intertemporal time preference: dynamic inefficiency.

7. The traditional proposal is that what countries need is more, preferably compulsory, defined contribution, funded pension schemes and fewer defined benefit, "pay as you go" or unfunded schemes. See World Bank. On the contrary, the author emphasizes that unfunded, defined benefit promises are not necessarily "bad". Funded, defined contribution arrangements aren't necessarily "good". In an ageing society, reducing the size of PAYG is good, and it may be attained in the defined contribution scheme. The only central and common issue in relation to the pensions problem is economic growth. Any other issue in relation to the pensions problem is of the second, rather than first order. These are nice points. However, in an ageing society with PAYG interegenerational equity becomes an important issue.

8.The "universal", underpinning Tier 1 should almost certainly be unfunded. It's simply cheaper and more efficient to do it that way. I agree with this. How about the relation to other social programs such as supplementary benefit? Politically the benefit level of Tier 1 could be too much if the number of elderly increases due to ageing.

9.In conclusion the author stresses that pensions (both public and private) are a huge, complex, subtle and very, very expensive subject. Over-arching them all is the economic growth issue. Forced saving into approved, tax-favoured financial products simply won't cut the demographic mustard if dropped on to most countries' current pension arrangements. These are plausible and interesting results. Overall, my comments are as follows. First, PAYG itself may depress total saving. Second, PAYG may be unfair or not incentive-compatible for the young generation in an ageing society.