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How prepared are New
Zealanders to achieve adequate
consumption in retirement?

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Robert John Lissington

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Abstract

The majority of New Zealand retirees are happy with their current level of retirement income; however, the critical issue is “Will their financial resources last?” This question provides the catalyst for this thesis, requiring a definition for, and a way of measuring retirement adequacy that is appropriate for New Zealanders.

Government-funded NZ Superannuation forms the foundation of New Zealanders’ retirement income, sufficient to cover basic needs and prevent retirees falling below the poverty line. Some (passive) retirees find that NZ Superannuation is sufficient to meet their needs, achieving retirement adequacy regardless of their financial behaviour and actions. However, others (active) retirees, desiring a higher retirement income, are required to make financial decisions and take action to augment their NZ Superannuation in order to achieve the lifestyle and level of consumption desired in retirement. While retiree retirement adequacy can be calculated with a degree of certainty, that is not the case for pre-retirees as future employment, income, and health are susceptible to change.

This study found the Consumption Replacement approach was to be a more appropriate methodology than Income Replacement for measuring retirement adequacy. Financial calculations using data collected from an on-line survey of 1,044 respondents found that 60.4% of all ‘current’ retirees and 48.6% of ‘active’ retirees were likely to be adequately prepared for retirement, by being able to maintain pre-retirement lifestyle and consumption in retirement.

Significant retirement adequacy factors drawn from the data were used to develop the Financial Preparedness for Retirement (FP_rR) Index to compare the preparedness of retirees to pre-retirees. This study found that fewer pre-retirees (32.1%) were likely to achieve retirement adequacy than retirees. Significantly, nine out of ten inadequately prepared pre-retirees would need to save more than 25% of their current household income pre-retirement in order to achieve their required retirement saving accumulation targets. The conclusion reached is that New Zealand pre-retirees are less prepared financially for retirement than current retirees.

Findings from this thesis will help provide a greater understanding of retirement preparedness amongst policymakers, government agencies, educationalists, financial institutions, professional financial advisers, and others, both internationally and in New Zealand.

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Table of Abbreviations

CCR	Capital Consumption Ratio
CPreRInc	Current annual household Pre-retiree Income
CRetInc	Current annual household Retirement Income
ERI	Expected Retirement Income
FS	Financial Support (received or given)
HhldInc	Current Household Retirement Income
HhldRetCons	Current Retiree Household Retirement Consumption
HhldRetInc	Current Retiree Household Retirement Income
IRR	Income Replacement Rate
LYE	Last Year's Earnings (before retirement)
LYE ^P	Last Year's Earnings – Projected (forward or backwards to 2015)
NPV	Net Present Value
ProjHhldIncc	Projected Household Income, capital Consumption approach excluding home equity.
ProjHhldIncp	Projected Household Income, capital Preservation approach excluding Home Equity
ProjHhldIncc ^{HEq}	Projected Household Income, capital Consumption approach including partial home equity.
PHRI	Projected Household Retirement Income (excludes Home equity)
PHRI ^{HEq}	Projected Household Retirement Income includes Home equity
PRRI	Prerequisite Replacement Retirement Income
PV	Present Value
RHS	Right Hand Side
RHY	Remaining Home Loan Years - The number of year remaining for a home loan
RR	Replacement Rate
RRI	Required Retirement Income
RRR	Required Replacement Rate
RRoR	Real Rate of Return
RRRI	Required Replacement Retirement Income
RetCons	Total household Retirement Consumption
RetConsc	Total household Retirement Consumption – capital Consumption
RetConsp	Total household Retirement Consumption – capital Preservation
<i>PVTotHhldFinRes</i>	NPV of Total Household Financial Resources, excluding partial home equity.
<i>PVTotHhldFinRes^{HEq}</i>	NPV of Total Household Financial Resources, including partial Home Equity.
RYIR	Remaining Years In Retirement
Y	Annual Income
YIR	Years In Retirement
YSR	Years Spent in Retirement
YTR	Years To Retirement