

Biennial Convention 2007

Adventures in Risk

23-26 September 2007 • Christchurch, New Zealand



Institute of Actuaries of Australia



It's time to abolish Retirement

(Work, Learn and Play till you drop)

Darren Wickham

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Part 1

The History of Retirement



1. Overview – Retirement is new

1. Overview - Retirement is a new idea
2. Occupational Pensions / superannuation
3. Social Security
4. The exit of older people from the workforce
5. Changing Attitudes
6. Four Reasons why retirement exists.



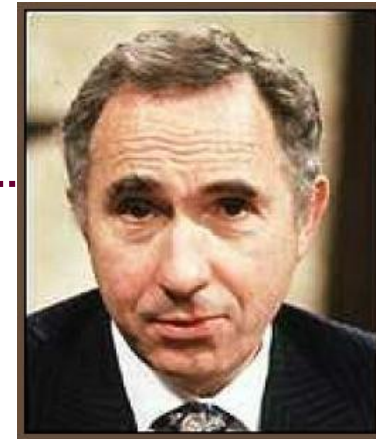
2. Occupational Pensions

13BC



16th C

1834



1860s



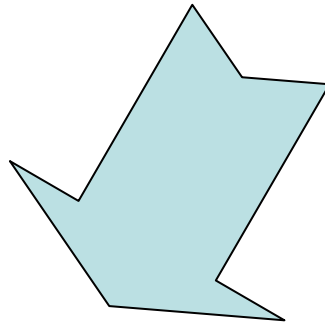
1862



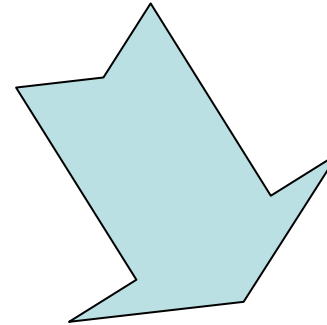


2. Occupational Pensions

- Discretionary Paternalistic Generosity



Attraction /
Retention



Tool to remove
older workers



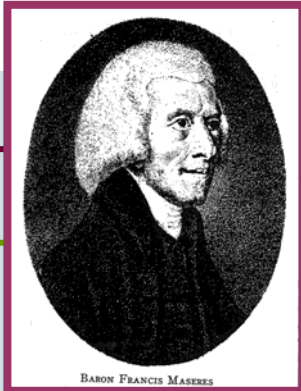
3. Social Security

- Solution to 19th Century Old Age poverty
- Not intended to permanent



3. Social Security

1772



BARON FRANCIS MASERES

1784



1898



1900

1908



1909

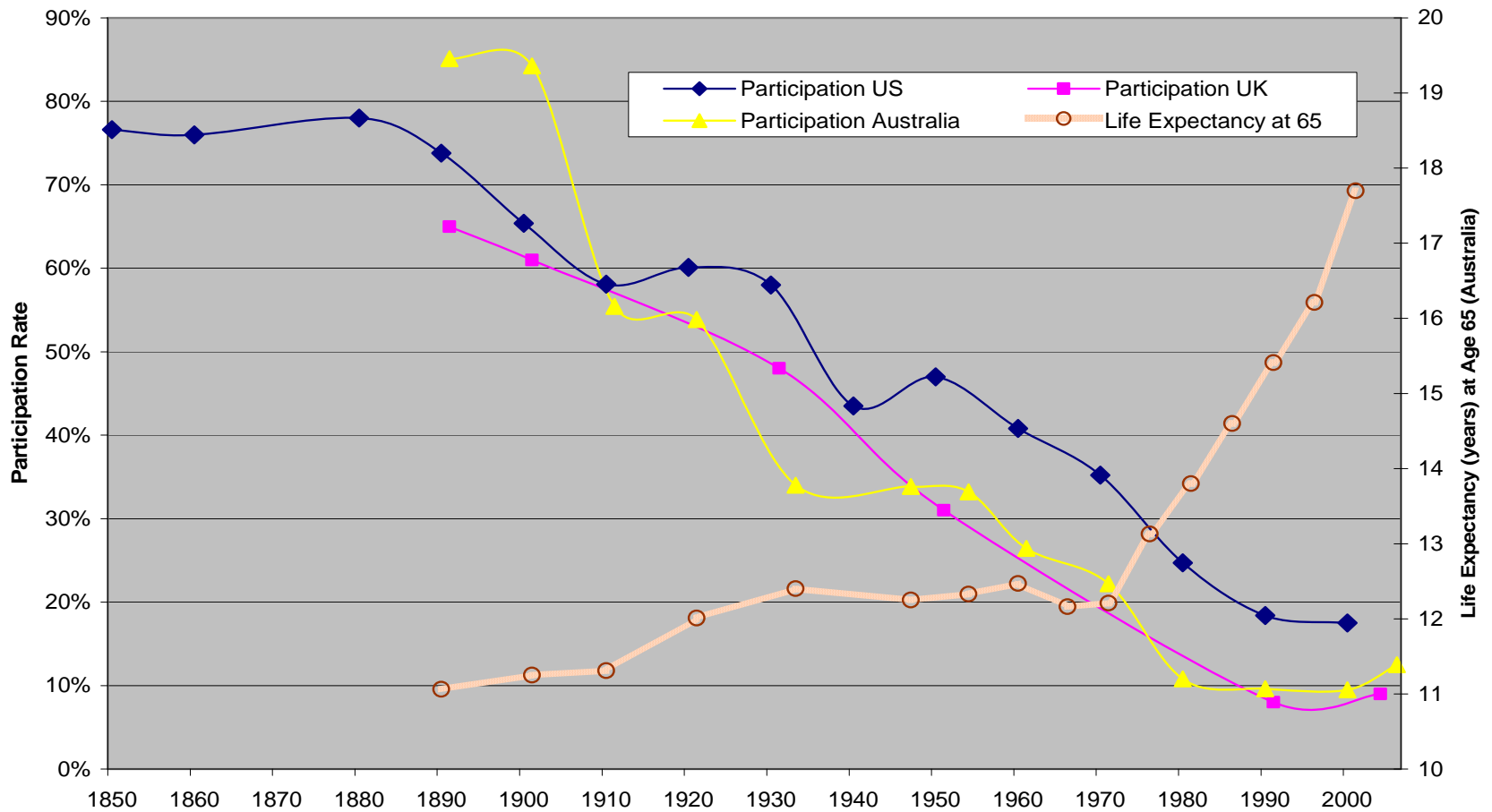


1935

|



4. The Exit of Older People from the workforce





5. Changing Attitudes

Pre **1890**

**Work till
you drop**



5. Changing Attitudes

1890-1950

A Rest before Death



5. Changing Attitudes

1950-70/80s

**A Reward for
hard work**





5. Changing Attitudes

1970/80s-2000

**Right to
Leisure**



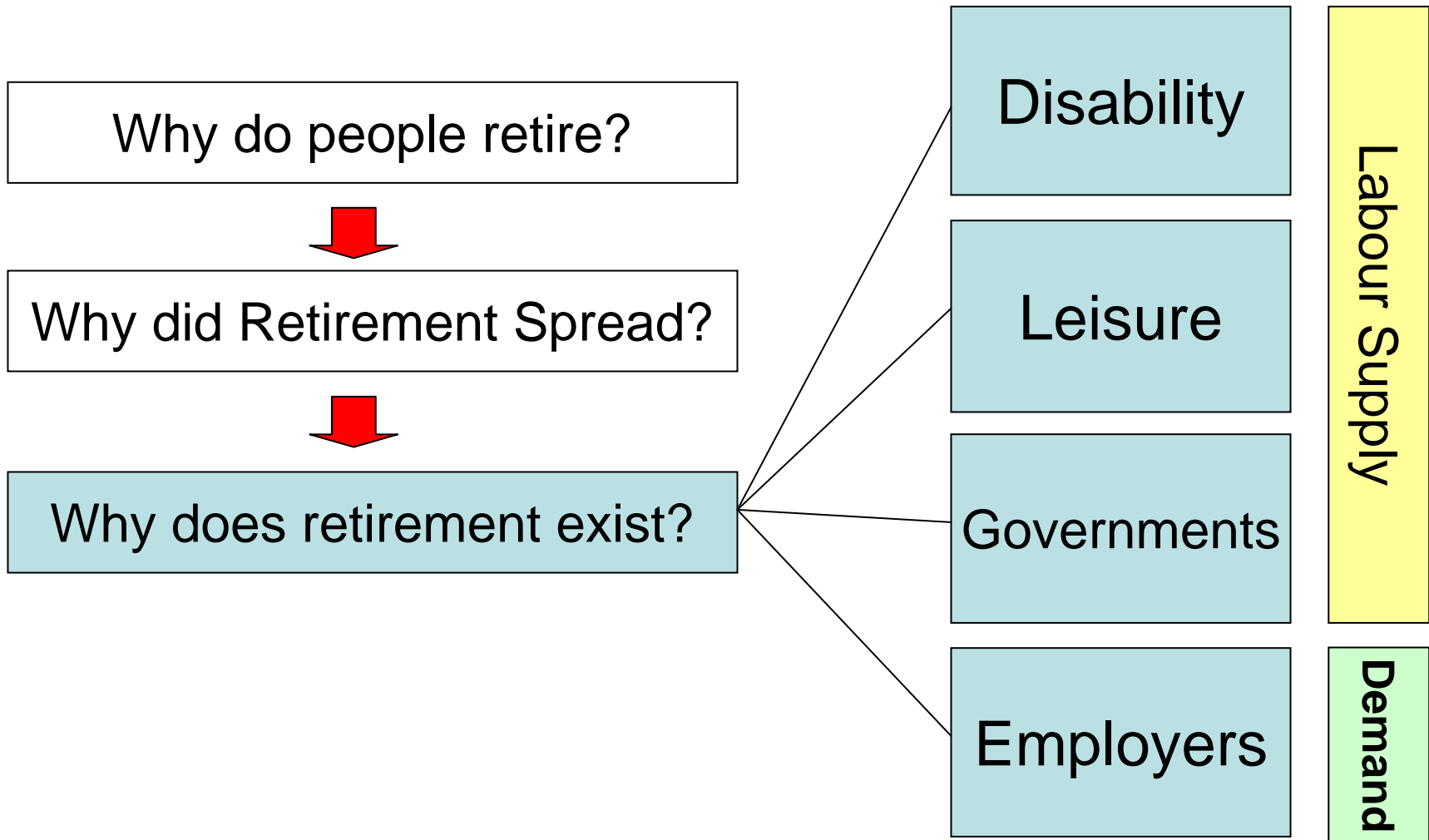
5. Changing Attitudes

2000 - ?

**Phased
Retirement /
End of
retirement**



6. Reasons Why Retirement Exists





6. Reasons Why Retirement Exists

Disability

- primary reason
- Wear and tear
- not explain spread

Leisure

Governments

Employers



6. Reasons Why Retirement Exists

Disability

- Leisure over work
- Reason for spread
- Now cheaper

Leisure

Governments

Employers



6. Reasons Why Retirement Exists

Disability

- Mixed Role
- Encouraged
- Discouraged

Leisure

Governments

Employers



6. Reasons Why Retirement Exists

Disability

Leisure

Governments

Employers

- Prefer younger workers
- Benevolent mechanism
- Sectors / restructuring

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Part 2

**Why retirement
should be
abolished**



Why Abolish Retirement?

Disability

Leisure

Governments

Employers

because the

Reasons

retirement exist

no longer

as valid*

* One exception



Why Abolish Retirement?

Disability

Leisure

Governments

Employers

1. Fixed Age Retirement does not make sense

- Thought experiment: $e_0 \Rightarrow 120$
- 67 is the new 65
- People don't fixed ages



Why Abolish Retirement?

2. People are healthier

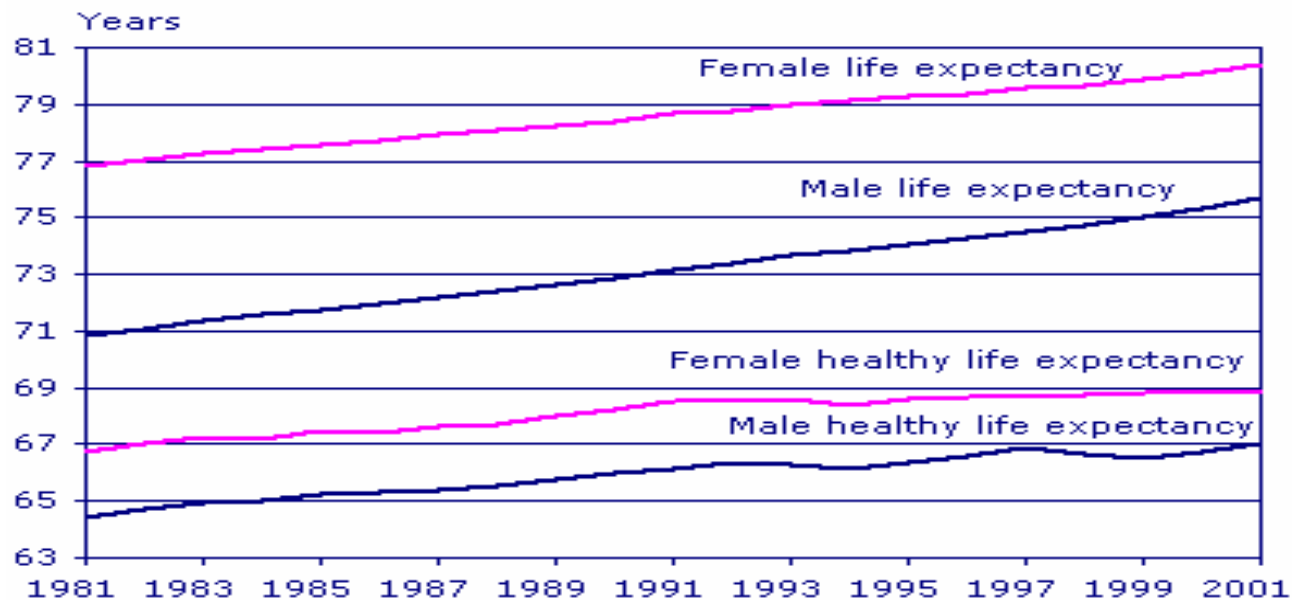
Disability

Leisure

Governments

Employers

- Why encourage exit?
- Healthy Life Expectancy





Why Abolish Retirement?

Disability

Leisure

Governments

Employers

3. Why defer leisure to 65? Spread it throughout life

- Uneven Distribution
- Diminishing Marginal utility





Why Abolish Retirement?

Disability

Leisure

Governments

Employers

4. Better for families

- Leisure for other life events
- Grandparents



Why Abolish Retirement?

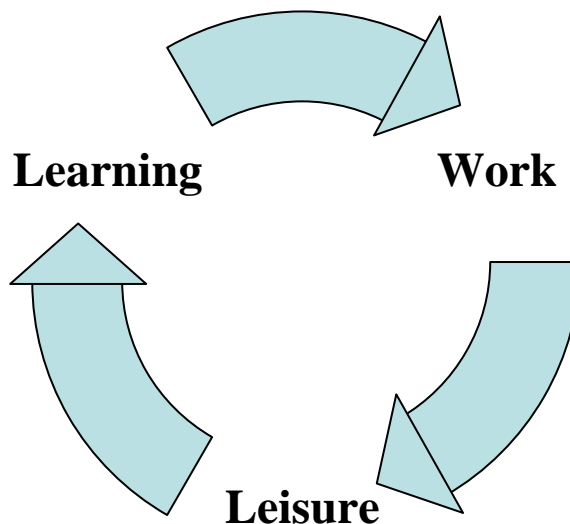
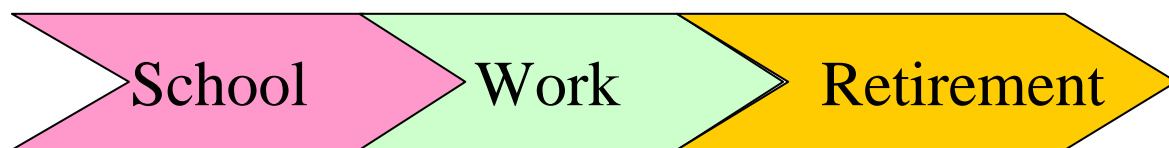
Disability

Leisure

Governments

Employers

5. Retirement does not suit new flexible world of work





Why Abolish Retirement?

Disability

Leisure

Governments

Employers

6. Retirement deprives people of meaning and social connection

- more than pay
- not all rosy



Why Abolish Retirement?

Disability

Leisure

Governments

Employers

7. People cannot afford lengthy retirement

- Income = 60% salary target requires \$600k
- Average retirement balance \$130k



Why Abolish Retirement?

Disability

Leisure

Governments

Employers

8. Governments should not subsidise leisure

- Age pension + super tax concession = \$44bn (07/08)
- Of this, \$20bn spent on people within healthy life expectancy



Why Abolish Retirement?

Disability

Leisure

Governments

Employers

9. Governments cannot afford retirement

- Health not Age Pensions
- lower growth due to ageing
- Workforce participation



Why Abolish Retirement?

Disability

Leisure

Governments

Employers

10. Employers need older workers

- Fewer kiddies – need oldies
- Productivity myth
- Perceptions changing



Why Abolish Retirement?

Disability

Leisure

Governments

Employers

11. Employers cannot afford retirement benefits

- Underfunded DB
- Australia – no worries!
- less adequate DC

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Part 3

Here's how to do it



Why Abolish Retirement?

Disability

Leisure

Governments

Employers

because the

Reasons

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* One exception



In a world without retirement.....

Disability



~~Leisure~~



~~Governments~~



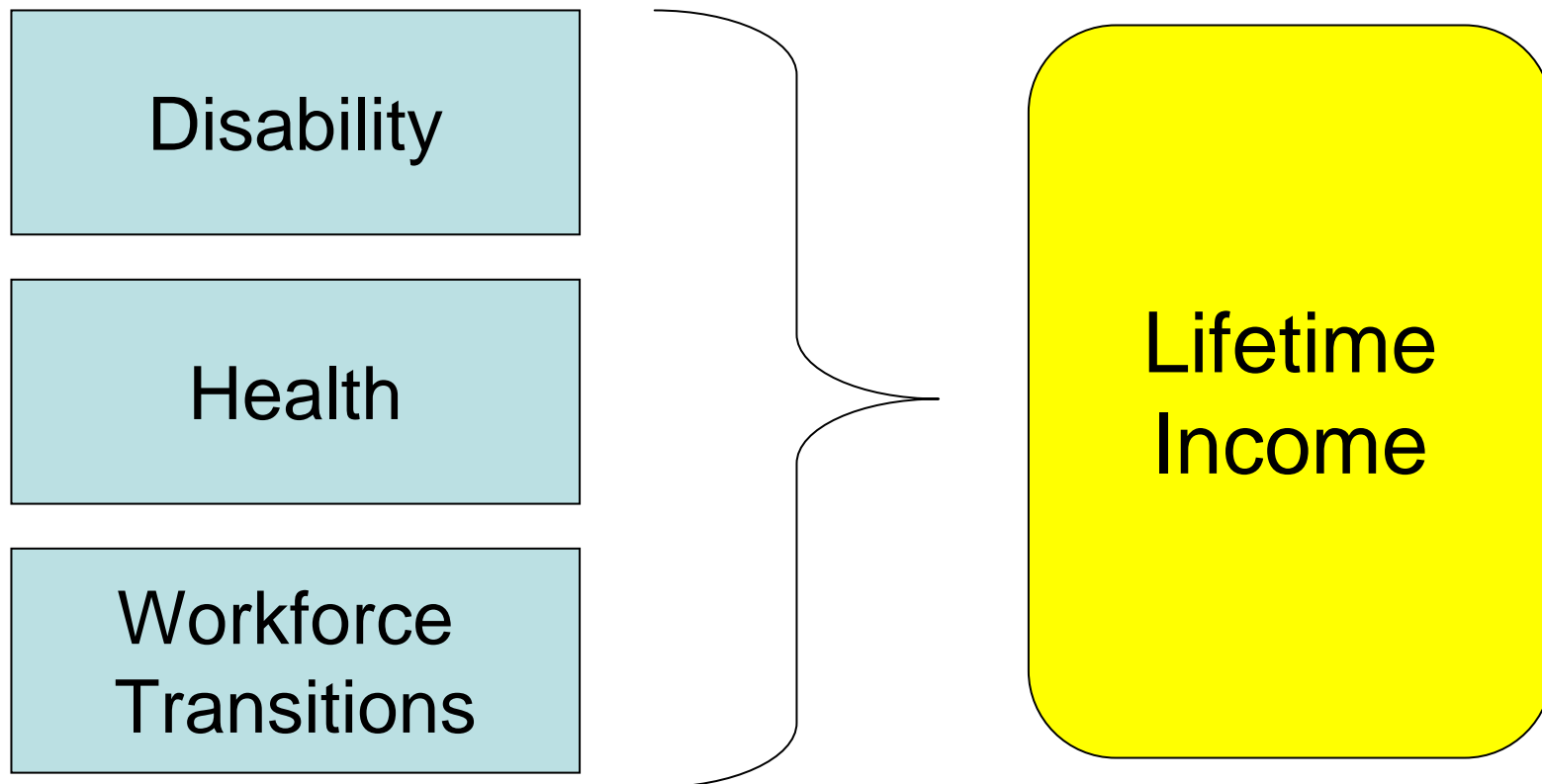
~~Employers~~



what is the role of
occupational super &
social security?



Role of Social Security & Super





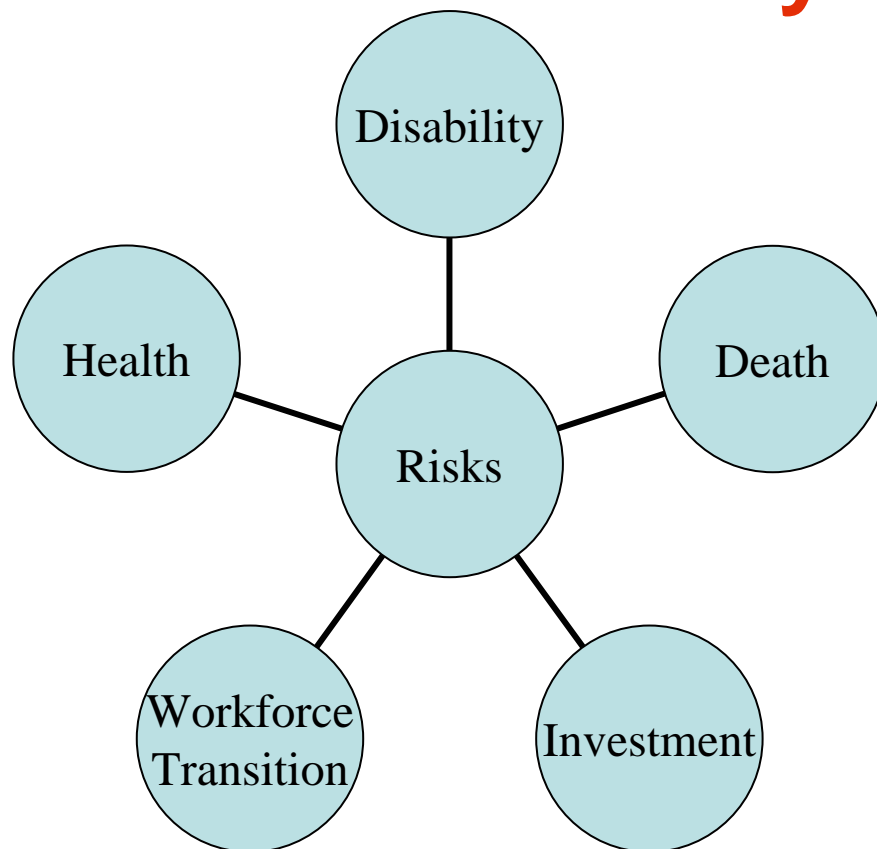
Goals of Lifetime Income Policy

- Modified World Bank “Pillars” framework
 - Adequate, affordable, sustainable & robust
 - Prevent poverty due to unemployment / disability
 - Smooth Lifetime income



Goals of Lifetime Income Policy

- Focus on risks
- Manage risks via:
 - Savings
 - Insurance / risk pooling
 - Govt income support
- Healthy longevity not a risk!





Lifetime Income - Social Security

Age Pension

Disability Pension

Unemployment Benefits

“Unable to work”
Pension

- No automatic fixed age eligibility, focus on disab.
- Flat rate – 25% AWE
- No means test
- pre funded through flat tax levy (eg medicare)

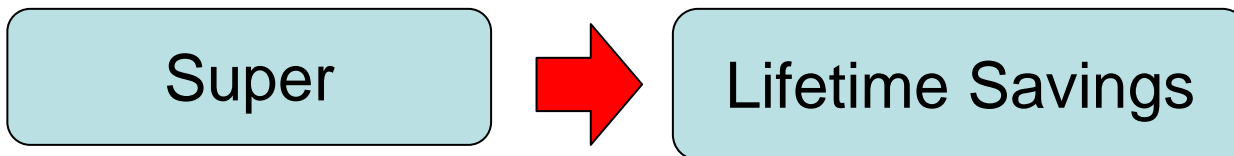


Social Security – further detail

- additional pension
- transition period



Lifetime Income – Occupational Savings



Tax concessions	retirement, disability, death	None for retirement Focus on disability, health
Personal contributions	Preserved till 55→60 Voluntary	Withdraw any time Soft compulsion
Employer contributions	Compulsory Preserved till 55→60	Compulsory Expense Withdrawal at any time for medical / education expenses Monthly Income withdrawal at any age based on certain limits



Lifetime Savings Vehicle – further detail

- Tax
 - Contributions tax
 - Rebates for premiums
 - Savings “quarantined” for disability
- Maximum Income Withdrawal of employer contributions; lower of
 - 75% of occupation income
 - or % of start of year balance



Lifetime Income Policy – other

- Investment risk – Government intervention
 - Purchasing additional pension
 - AWE linked bonds
 - growth investment
- Pillar 4 – Non Financial Support
 - Anti discrimination
 - Training
 - Employment incentive



Discussion Questions

- Why should society encourage the retirement of people of who are healthy and capable of work?
- Why should taxpayers subsidise leisure for the work capable?
- How should be determine the age at which people are eligible for the age pension?
- Why can we afford 30 years of leisure in retirement but not a 4 day working week?



Actuarial Pulse

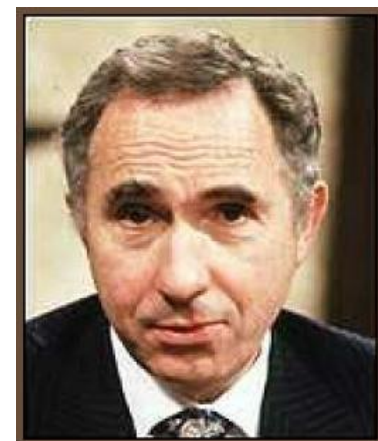
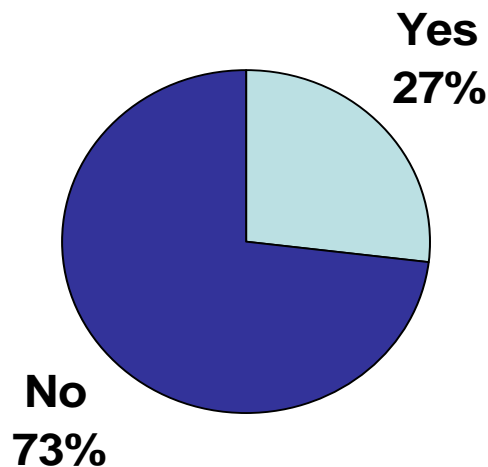


- 20% said work for as long as you can



Actuarial Pulse

Do you feel taxpayers should subsidise the leisure of healthy retired people capable of work?

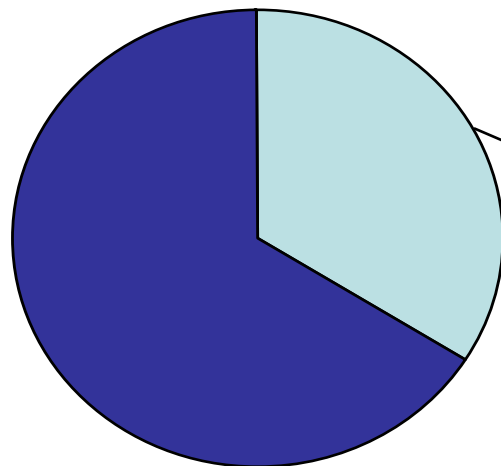




Actuarial Pulse

Spread the 20/30/40 years of leisure more evenly over your entire life and work flexibly for as long as you are capable (instead of retiring while healthy).

66%



Retire at a typical retirement age and have 20/30/40 years of continuous leisure after that
34%