Pension Age and Life Expectancy
by Keith Rankin, 5 June 2009

The *New Zealand Herald* editorial Time to face up to looming pension crisis (5 June 2009) is questionable on two counts.

The first problem is the suggestion that intergenerational equity will be affected by the decision in the 2009 Budget to suspend payments to the "Cullen Fund". The second relates to our projections of life expectancy.

It is unlikely that the Cullen Fund in itself will make any difference to the size of New Zealand's 'economic cake' (real gross domestic product) in the period from 2020-2050. The most coherent argument in favour of the Cullen Fund is that it might raise the economic growth rate. Yet the argument most advanced is that the Cullen Fund will ease the tax burden on future generations.

While the tax argument is literally true, any tax gains in the future must necessarily be offset by inflationary losses. The liquidation of the Cullen Fund will represent additional spending in the future, over and above the normal spending that will be generated by incomes earned in the future. It represents more money chasing the same amount of goods and services.

The Cullen Fund (along with other pension funds) is essentially disinflationary in the years it accumulates (such as the present), and inflationary in the years it is wound down. Indeed financial markets will find themselves under huge selling pressure in the years that the world's many private and public retirement income funds are being spent.

So long as New Zealand Superannuation is paid out in the 2030s on the same basis as it is today, persons aged under 65 will then receive the same share of real GDP, whatever the size of the Cullen Fund.

The argument that recent increases in life expectancy will continue is as fallacious as the view that prevailed a few years ago that the mid-2000s housing and sharemarket booms would continue forever.

One particular point to note is the life experiences of the so-called "Generation X". According to Richard Easterlin's hypothesis "The economic and social fortunes of a birth cohort tend to vary as a function of that cohort's relative size" (quote from the *New Palgrave Dictionary of Economics*).

The hypothesis says that small generations (such as that born in the 1930s, and that born in the early 1980s) will do well in all aspects of life because they face less competitive pressure from their peers.

A refinement of the hypothesis adds that generations at the tail-end of a baby boom (such as Generation-X, born from around 1964 to 1976), will do worst in all aspects of life. A very specific way of testing this hypothesis is to record age-specific death rates.

New Zealand is a particularly useful laboratory for the Easterlin hypothesis, because the variations in birth rates in the decades from the 1920s to the 1980s were more pronounced than in most other countries.

If we look at the generation born in the late 1960s and early 1970s, we see some disturbing mortality patterns. When Gen-Xers were in the 15-24 age bracket, death rates, especially of males, were higher than those of previous generations and of later generations. Youth suicide, for example was a bigger problem for that generation.

In the most recent death statistics, we find that persons born in the period 1963-73 (persons aged 35-45 in 2008) had death rates in 2007-08 almost the same (96%) as the baby boomers did when they were 35-45.

Baby boomer death rates in 2007-08, on the other hand, were 67% of their predecessors at the same age. Likewise, Gen-Y death rates today are running at 67% of the death rates of their Gen-X predecessors when they were in their 20s.

It is likely that persons aged between 30 and 60 today will not live longer, on average, than their parents. Just consider the outlook of increased economic uncertainty and resource constraints.

It seems especially likely that persons aged 35-45 today will live shorter lives than their parents. These are the people who bore the full brunt of the economic reforms and recessions of 1985-93. They are the people who have been the most affected by high interest rates and low wages. They are the people who had to pay the most for their tertiary education. They are the people who emigrated the most to find suitable employment. They are the people who received the least family assistance when raising young children.

Would it be fair to once again make persons born in the 1960s and early 1970s bear the brunt of changes to retirement income policy, by making them work longer as they die younger?

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