



THE FAMILY CENTRE

SOCIAL POLICY RESEARCH UNIT

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Review of Retirement Income Policy

Thank you for the invitation to contribute to the review. The background papers are very helpful. Alison O'Connell's paper sets out many of the key issues on affordability and eligibility very clearly. Andrew Coleman's paper raises very important matters about intergenerational transfers and a savings approach. We also appreciated Kay Saville-Smith's paper among others on the important linkages between housing and income.

This brief submission is prepared to highlight some important income issues that are not so prominent in the CFLRI outputs but are worthy of consideration alongside the significant matters that are prominent.

Older People on Low Incomes

There is a lot of valuable focus on the sustainability of NZ Superannuation and related to that the entry point of eligibility and the methods of accumulation pay-as-you-go, save-as-you-go or some of both. These are important matters but they can also distract us from the actual situation of low income older people in New Zealand today. Because of the important emphasis currently on child poverty, it is often assumed and quite often stated that the incomes of older people are adequate. This in fact is not the case for a considerable number of older citizens.

Our data, using national random sample of 3,317 older persons in 2010 and 3,015 retained in 2012 in the NZ Longitudinal Study of Ageing (NZLSA) show that around a fifth of older New Zealanders live below or close to at least one of the standard international poverty thresholds (OECD 50 percent equivalised disposable household income and the European Union 60 percent), and 16 percent live below the generally used poverty line in New Zealand (60 percent of the cumulative value threshold after housing costs) as table 1 shows.

The Ministry of Social Development record higher levels of low income older New Zealanders using the Household Economic Survey database for all those 65 years and over (Perry 2012). These figures occur despite New Zealand's universal superannuation. Those below the poverty thresholds are more likely to be single. Around 40 percent of older New Zealanders live on NZ Superannuation with virtually no other income.

Table 1: *Percentage of 50 to 84 year olds below different poverty threshold*

Equivalent, disposable, household income	Percent 2010	Percent 2012
50% of median	10.5	8.8
60% of median	20.5	22.0
60% of constant value threshold after housing costs estimated at 25% of income	16.0	16.0

Source: New Zealand Longitudinal Study of Ageing (NZLSA)

Our recent data analysis is revealing consistently significant associations between older people living below the poverty threshold and low wellbeing scores, low physical and mental health scores and high levels of depression. These results are consistent for Māori and non-Māori as well. The multiple regression analysis is showing even stronger significant relationships for those with low asset accumulation.

The point is, it is all very well to focus on the sustainability of NZ Superannuation but that may blind us to some of the income inadequacies and struggles people experience when they are recipients. NZS, while it has contributed substantially to the wellbeing of older people as a whole, is not effective in lifting all older people out of poverty and the negative consequences of it. Thus, in this submission we recommend the adequacy and effectiveness of NZS should be addressed alongside the work to ensure its sustainability.

Capital contributions to the NZ Superannuation Fund

Given the work that has been generated on sustainability, the announcement in the 16 May Budget this month that the contribution holiday is going to be extended by two years to 2020/21 can only be viewed as disappointing. As the number of older persons 65 years and over doubles during the next four decades and noting the poverty problems we are currently experiencing with NZS as it stands, the decision to continue the contribution holiday places its sustainability as an adequate provider of income for future cohorts of older citizens in serious risk. Despite the reasons being given that the assumptions of the expected rate of return on assets belonging to the fund have been changed to predict a higher rate, the Fund was never designed for a contribution holiday in the first place. Quite the contrary, it was the continuous predictable contribution to the Fund that was designed to smooth the fiscal burden over the coming decades. We think this issue of the negative impacts of a 12 year contribution holiday should be taken up strongly in the 2013 Review of Retirement income Policy.

The Linkage between housing and Income

The work of the NZ Poverty Measurement Project (NZPMP) demonstrated the critical contribution of home ownership to reducing poverty among older people in New Zealand (Stephens et al 1995, Waldegrave et al 2003). The combination of the universal NZ Superannuation payments and the high level of home ownership among the older population has been pivotal to preventing many of them from dipping below the poverty threshold (Perry

2012). The reducing level of home ownership as displayed in table 2 below and the small scale of social housing provision in New Zealand pose a serious threat to the wellbeing of new cohorts of older citizens. This threat is as menacing to elderly wellbeing as the worry that NZS may become unsustainable in its current form.

Table 2: *Private dwelling estimates by tenure (%)*

Period	Owner-occupied¹	Rented
30 June 1991	73.6	23.1
30 June 1996	70.5	25.6
30 June 2001	67.8	29.0
30 June 2006	66.9	28.9

Source: Statistics New Zealand: Census

The low levels of NZS work for most people because of their low housing costs. If however, home ownership continues to reduce as a tenure option because people in lower income deciles can't afford it and there is not a major investment in sustainable social housing for older people, then poverty among the old will increase substantially. Furthermore as table 3 shows older New Zealanders are not immuned from the increasing housing cost outgoings to income. Without good policy intervention, a substantial minority of older people could be left to survive on the vicissitudes of market rents and NZS will be quite inadequate to sustain them. Income provision simply cannot be decoupled from housing provision when addressing elderly wellbeing. Housing is the largest outgoing item in most household budgets.

Table 3: *Proportion (%) of the population in households with housing cost outgoings-to-income ratio greater than 30 percent, selected years, 1988–2009*

	1988	1993	1998	2001	2004	2007	2009
45-64 years	5	12	14	16	15	19	21
65 and over	3	4	7	7	6	9	8

Source: Derived from Statistics New Zealand's Household Economic Survey (1988–2009) by the Ministry of Social Development

KiwiSaver

Although research studies have yet to confirm early findings, KiwiSaver is showing the signs of breaking new ground. Older people in deciles that tended to accrue few assets are developing a KiwiSaver balance which over time is growing. For the first time we are beginning to see effective saving practice among low income people. This is an exciting development and very relevant to the retirement income policy. Early findings from our own research (as yet unpublished) show that asset accumulation in multiple regression analysis is the independent

¹ Includes dwellings owned by individuals or held in a family trust (from 2006)

variable that is most consistently linked to positive wellbeing and health outcomes suggesting that even within low income households it is significantly protective.

This raises another policy problem for the Review. As KiwiSaver matures significant benefits will come from it, but it will at the same time introduce gender inequities. Because it is contributory and employment based men can be expected to accrue more years in the labour market and the opportunities for higher incomes that will bring, despite the fact that they tend to have a shorter life span. We ask the Reviewers to give consideration to this issue and recommend ways to overcome this bias earlier rather than later. Scandinavian countries have developed ways of compensating women's investment in social insurance schemes when they are giving birth and raising young children.

Endnote

The primary focus of this submission has been to address the threats to lower income older New Zealanders. The tradition of a universal superannuation system clearly had the notions of adequacy and equity in mind. While there is an important focus on the sustainability of a universal provision, it is also essential that the adequacies of our current systems are assessed so that policies developed to sustain support and wellbeing are effective in the changing economic and social environment.

References

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