



**BUSINESS SCHOOL**

**Retirement Policy and Research Centre**

## **Session 4: Equity and Distribution**

Intergenerational and gender equity:

Dr M.Claire Dale

Low income populations and retirement

issues: Peter Cordtz

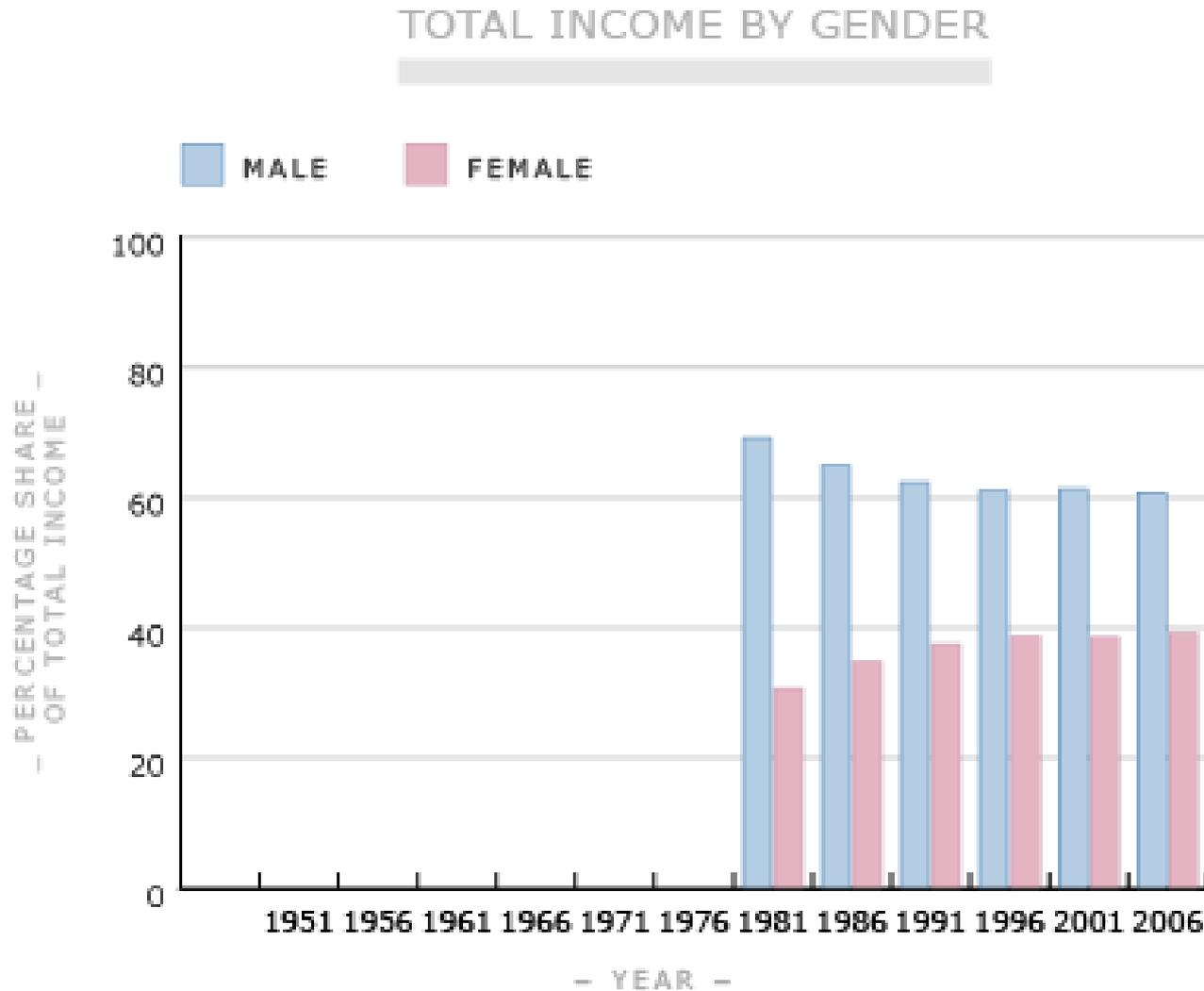
Older low income workers – retirement,

debt and housing: Alex McKenzie

## Definition of terms:

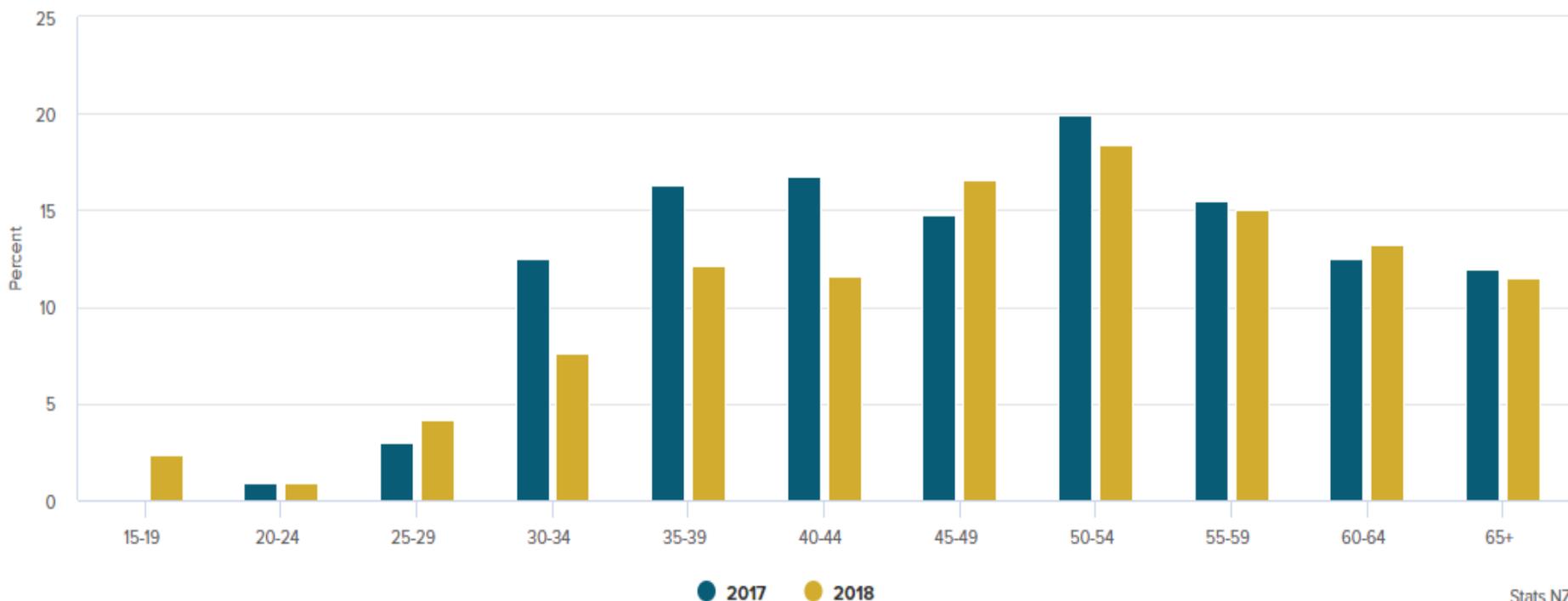
- **Equity** *recognises different people with different levels of advantage require different approaches and resources to get equitable outcomes*
- **vs Equality** *means same treatment for all irrespective of their inherited or systemic advantage or disadvantage*
- **Inequity means injustice, unfairness**

# Gender inequity



\* In 2018, the largest gender pay gap 18.4% was for people aged 50–54 years.  
\* Gender pay gap smaller for people aged under 30 years.

Gender pay gap by age group, June quarter 2017 and 2018

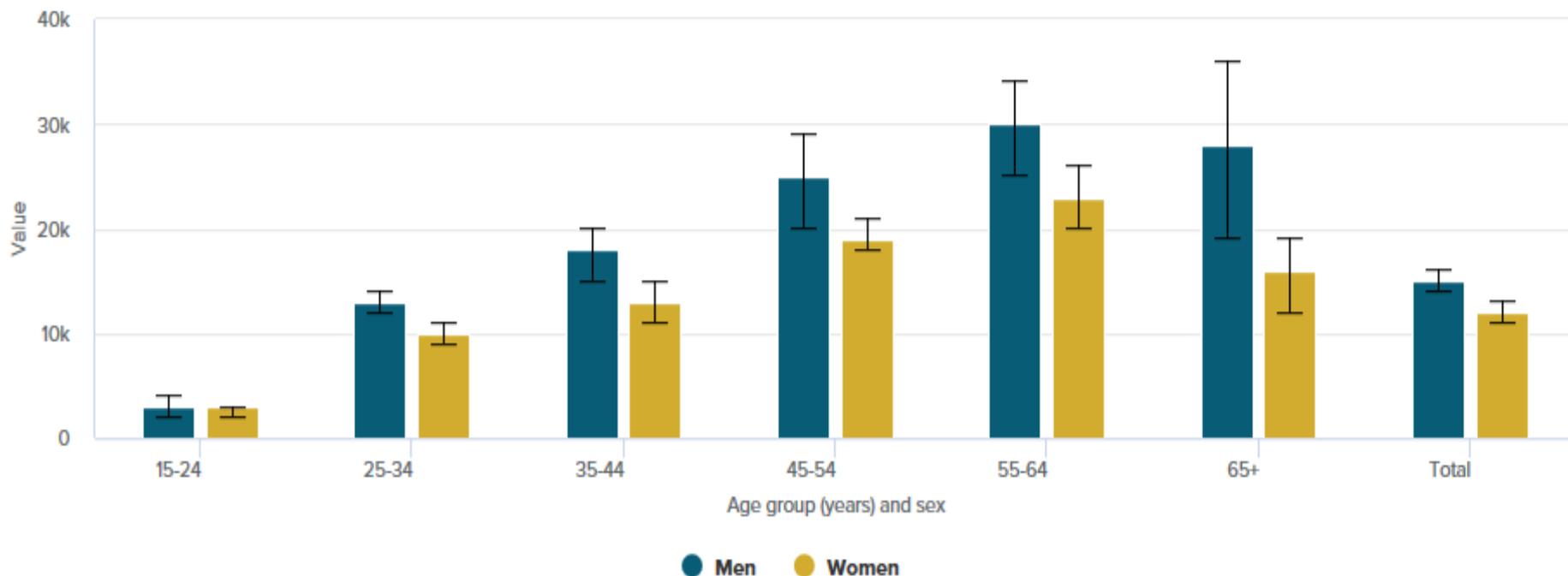




- **Good news for women:** [World Health Statistics 2019](#) confirm that women outlive men everywhere in the world
- **Bad news for women:** they can't afford to live so long

# Lower earnings mean women accumulate smaller KiwiSaver balances

Median value (\$) of KiwiSaver schemes, by age group and sex, year ended June 2018



NB Error bars show variability in the estimates <https://www.stats.govt.nz/news/kiwisaver-nest-eggs-grow-5000-in-three-years>

# Some gender equity possibilities

Policy changes to ensure:

- Equal pay for equal work eg 2017, [care worker Kristine Bartlett](#) won a [NZ\\$2 billion pay equity claim](#) for 55,000 low-paid workers.
- Workplace and governance design to promote inclusion  
<https://redshoemovement.com/solutions-to-promote-gender-equality/>
- Recognition of unpaid contributions of women, including care giving and childrearing as 'work'

# Overseas pensions and inequity

- Increasing numbers of those who qualify for New Zealand Superannuation (NZS) also have entitlement to an overseas state pension.
- The Direct Deduction Policy (DDP) allows for deduction of state pensions analogous to NZS from the NZS entitlement.
- When the overseas pension is accumulated through employer and employee contributions, such pensions are not analogous to NZS
- However, often, when such overseas pensions are greater than NZS, the spousal provision is applied and a deduction is made from the spouse's NZS entitlement
- Such deductions are an infringement of human rights

**Recommendation: Remove the spousal provision – it may require legislative change but is a relatively simple matter that could be actioned immediately.**

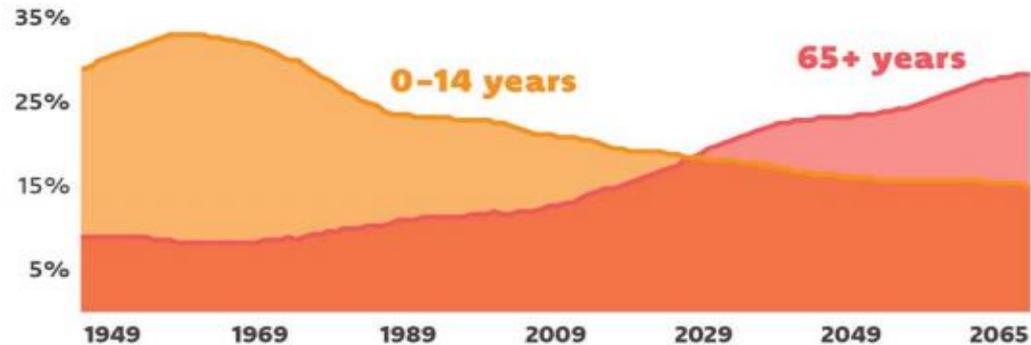
# Intergenerational inequity

Importantly, many researchers suggest that:

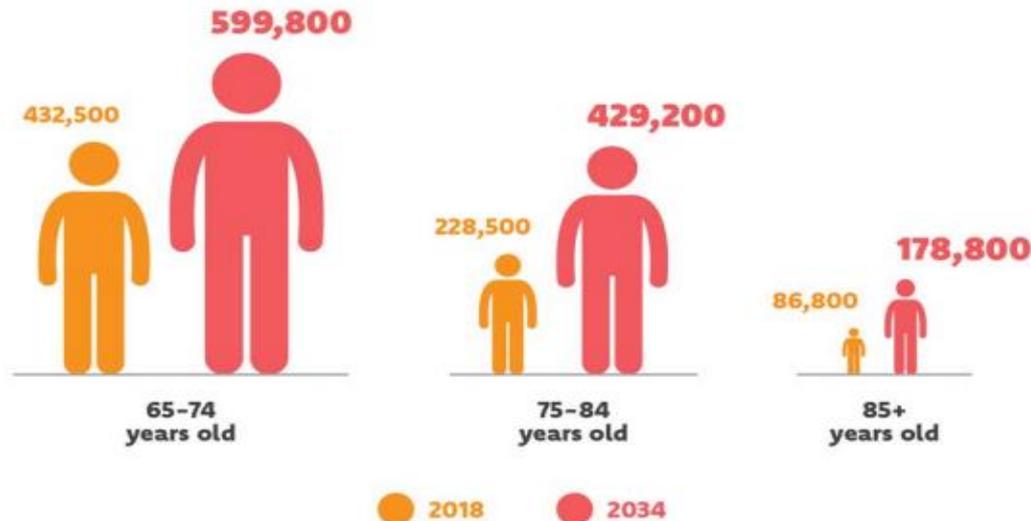
*Inequity and inequality within both the retired and non-retired groups is much greater than disparities between the two ([Portes, 2014, p. F6](#)).*

# Demographic change/ageing population

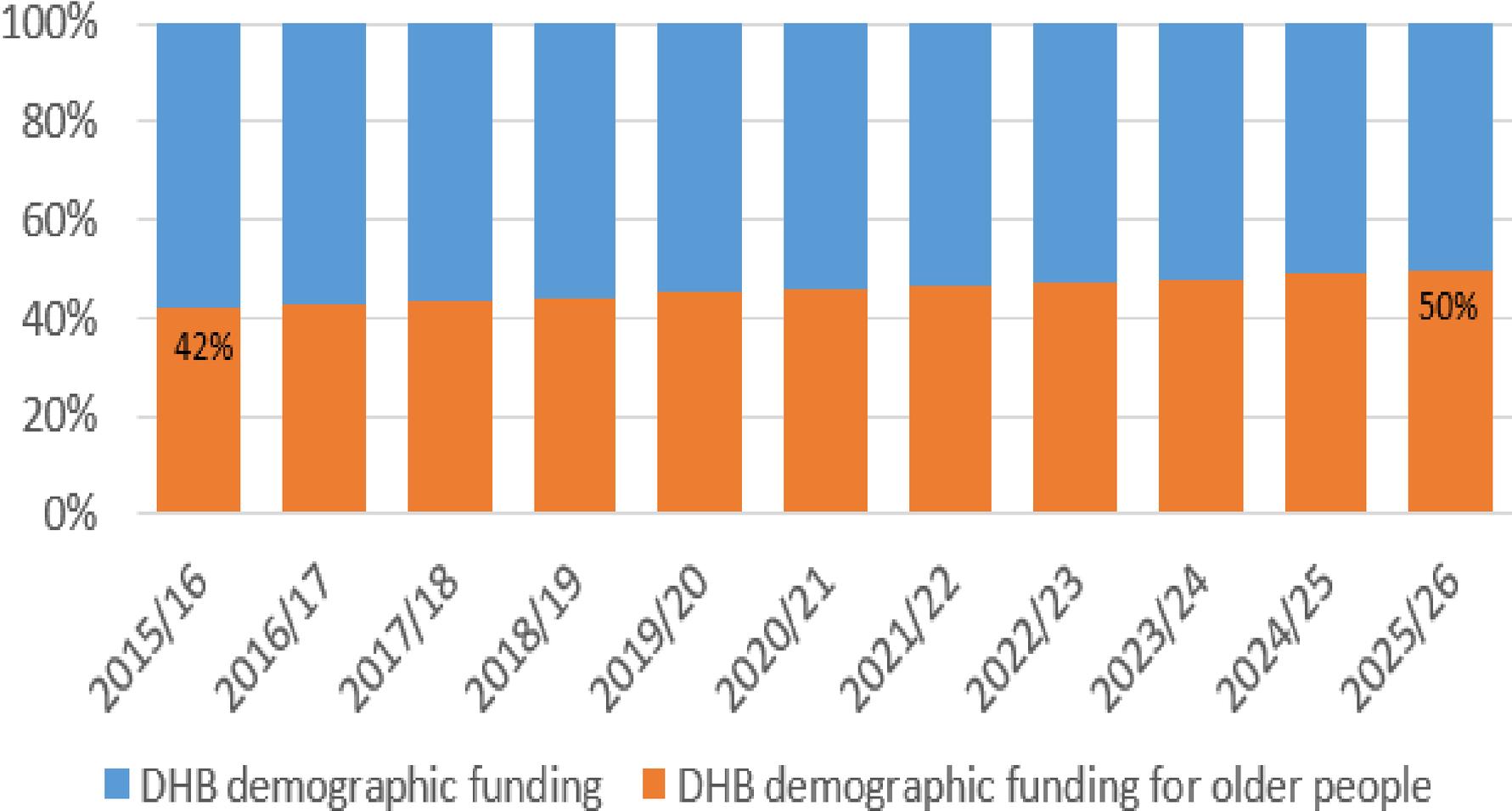
New Zealand's population is ageing.



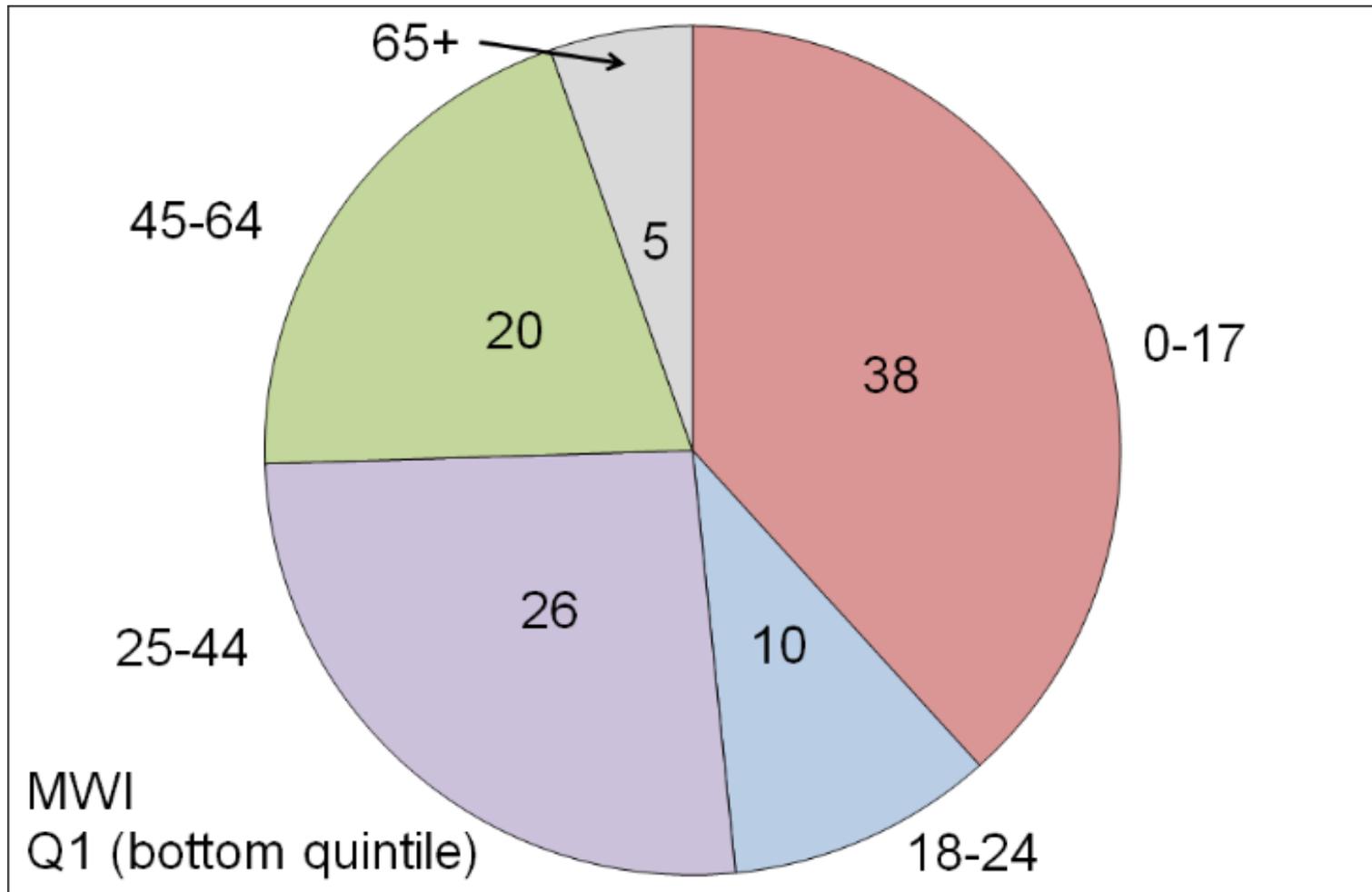
The make up of the 65+ population is also changing with more people living longer.



# Share of health services used by people aged 65+ ([Ministry of Health, 2016a](#))



# The make-up of the bottom quintile (20%) in NZ, by age groups, using material wellbeing index (Perry 2018)



- **You have to question the NZSuper Fund – already over \$41 billion.**
- **Contributions are \$1 billion annually from taxes paid by the generation who are also funding the current NZS.**
- **Are they paying twice?**
- **Is this the best use of those \$ when child poverty is at 20%?**

# Some solutions toward improved intergenerational equity

- **Well-being of Future Generations (Wales) Act 2015** establishes a Future Generations Commissioner for Wales to act as a guardian for the interests of future generations, and to support the public bodies listed in the Act to work towards achieving the well-being goal.
- **Minister for Loneliness, UK**, vs independent think-tank Resolution Foundation convening Intergenerational Commission
- **Japan** proposal to shift age-pension qualifying age to 75 years to solve pension funding & intergenerational equity problems
- **New Zealand** has Boston and Stuart (2015) research suggesting legislation; Ageing Well National Science Challenge; recently created Chair in Ageing Well; and some progress toward age-friendly cities; could establish a Parliamentary Commission for the Future
- **Intragenerational cost-sharing is an equitable option** – discussed in later sessions

# Low Income Populations and Retirement Issues

Peter Cordtz – CFFC GM Community

# INTRODUCTION / CONTEXT:

## Peter Cordtz GM Community (since September 2015)

- CFFC's work on building financial capability of financially vulnerable communities
- Key focus has been development of cross-sector partnerships (esp. Māori and Pasifika)
- Examples of scale up from NGO pilots to national partnerships;
  - Tamaki Regeneration, Pathways to Housing Independence >> Te Puni Kōkiri Māori Housing Network
  - Vaka Tautua >> Pasifika Futures (Commissioning Agency, Pacific Whānau Ora)
  - Raukura Hauora o Tainui >> MOH funded scale-up/evaluation to Problem Gambling providers
- Examples of new national partnerships under development;
  - Housing New Zealand, KiwiBuild, MHUD (Pacific homeownership), ITOs (trade training)
- My involvement in the 2016 RRIP, was primarily focused on “*vulnerable groups*”

**NB: I am neither a research nor policy specialist... so don't expect loads of data.**

# LOW INCOME POPULATIONS:

## What does that mean?

- 2015 report from OECD points to rising inequality in New Zealand, with statistics showing our inequality measures rising faster than most countries i.e. the rich get richer and the poor get poorer, while the gap over the last 30 years has widened.
- Difficult to simply put a number on what 'low income' means in NZ, but the impact of income adequacy relative to cost of living is increasingly obvious.
- I don't need to explain what's tough about not having enough... so I won't.
- My focus will be on the insights that inform our work in this area and challenges ahead as we consider RRIP 2019.

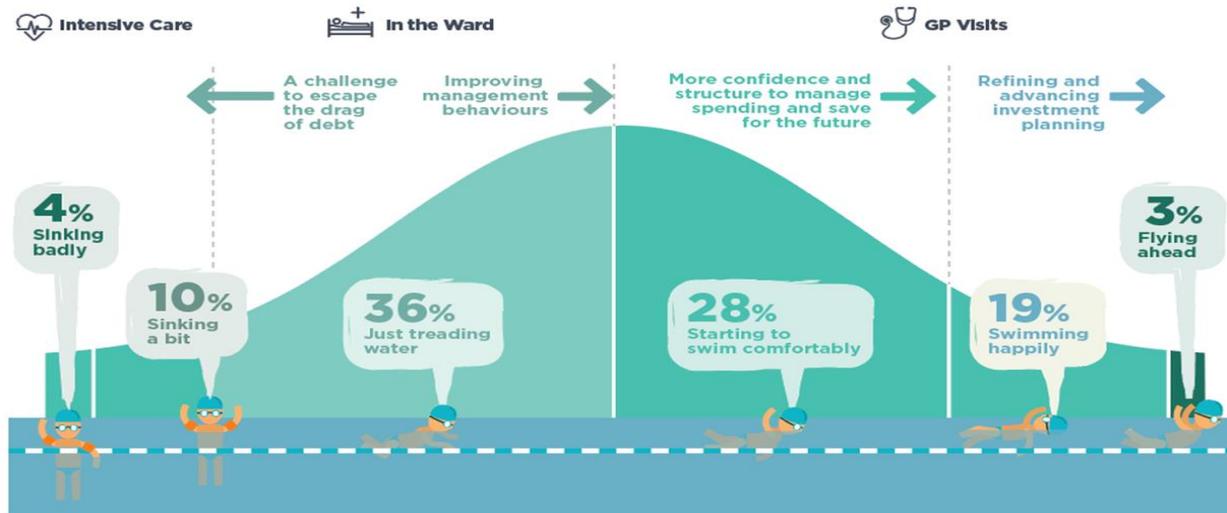
# 2016 Review of Retirement Income Policies:

## Reframing the discussion about financial vulnerability

- CFFC tasked with considering RIP effectiveness for **financially vulnerable groups**.
- These were identified as Māori, Pasifika, women, disabilities and renters (at retirement)
- The Retirement Commissioner chose to step back from labelling groups as vulnerable and focused instead on identifying **vulnerability factors**.
- The key factors identified as contributing to financial vulnerability at retirement were health expectancy, skills/employment, low savings and housing.
- Social isolation and caring for others were also identified as contributing factors.
- A key insight from this work was that financial vulnerability doesn't just occur at retirement nor can it be addressed, just by RIP settings.

# SEGMENTATION - TODAY<sup>6</sup>

New Zealanders' financial capability



■ These data are the cumulative average of the 2017 and 2018 barometer surveys, total respondents (n) = 17,069. The group responding "starting to swim comfortably" was previously classified in the 'In the Ward' segment, and is now classified in the 'GP visits' segment.

■ Based on a sample of 10,112 in the period Jul 2017 - Jun 2018.

# Segmentation / FC Barometer Stats

Factors linked to low incomes - savings and homeownership

|                               | ICU | OTW | GP  |
|-------------------------------|-----|-----|-----|
| Enrolled in KiwiSaver         | 65% | 65% | 69% |
| Not contributing to KiwiSaver | 31% | 21% | 14% |
| Rarely or never save money    | 63% | 29% | 5%  |
| Homeownership                 | 33% | 49% | 71% |

# Why should the plight of low income NZers matter to all of us?

- NZS currently costs today's taxpayers **\$30M per day**
- Our ageing population means that cost **DOUBLES in 10 years and TREBLES in 30 years**
- That ageing population will also see dependency ratios change across that period

## BUT WAIT THERE'S MORE!

- With Māori / Pasifika birthrates at 2.4 / 2.6 relative to Asian / Euro NZers of 1.4 / 1.9, these younger communities become an increasing proportion of the working population

Figure 2. Dependency Ratio 15-64 to 65+ (Karacaoglu, 2013, p. 55)



## Call to action?

### Peter Garrett...“Read About It”

*The rich get richer, the poor get the picture  
The bombs never hit you when you're down so low*

*The bosses need decisions, the workers need  
ambitions*

*There won't be no collisions when they move so slow*





# Older New Zealanders: Some Emerging Trends

**Alex McKenzie**  
*Ministry of Social Development*

**RPRC Summit: The 2019 Retirement Income Policy Review & You**

**26 April 2019**



# Outline

- **Current situation for older New Zealanders (65+)**
- **Some emerging trends**
- **A closer look at 50-64 year olds – the next group of superannuitants**
- **Concluding remarks**



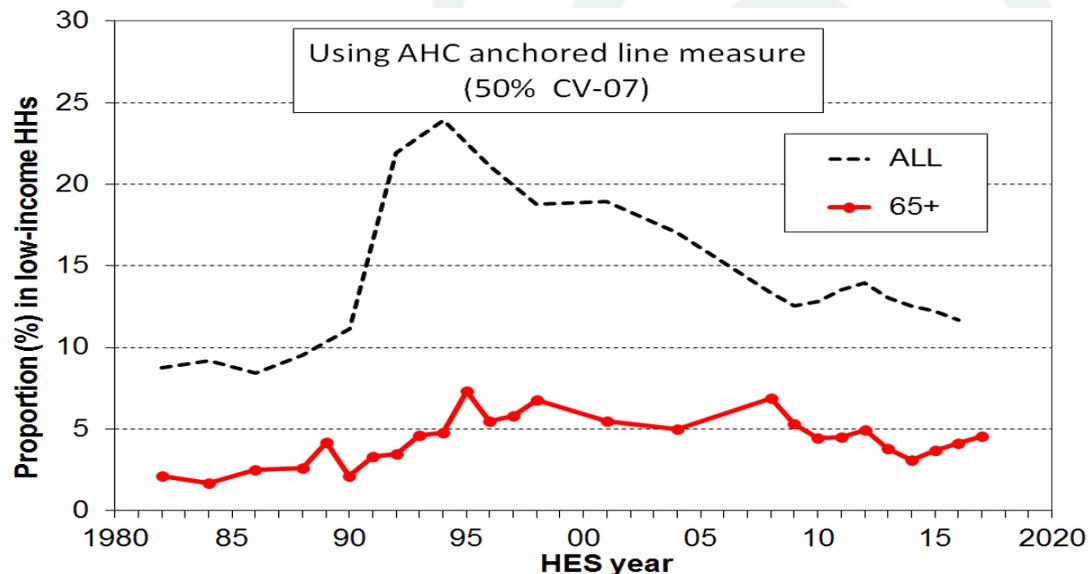
# Older New Zealanders are currently doing relatively well

- Low rates of income poverty and material hardship relative to other age groups
- High rates of home ownership
- Significant and growing economic contribution (as workers, volunteers, taxpayers, investors and consumers)
- Wealthiest group of New Zealanders



# Low rates of income poverty and material hardship

Low-income rates for older New Zealanders remain lower than those for other age groups when using After Housing Costs (AHC) income measures. Hardship rates using non-income measures show the same pattern.

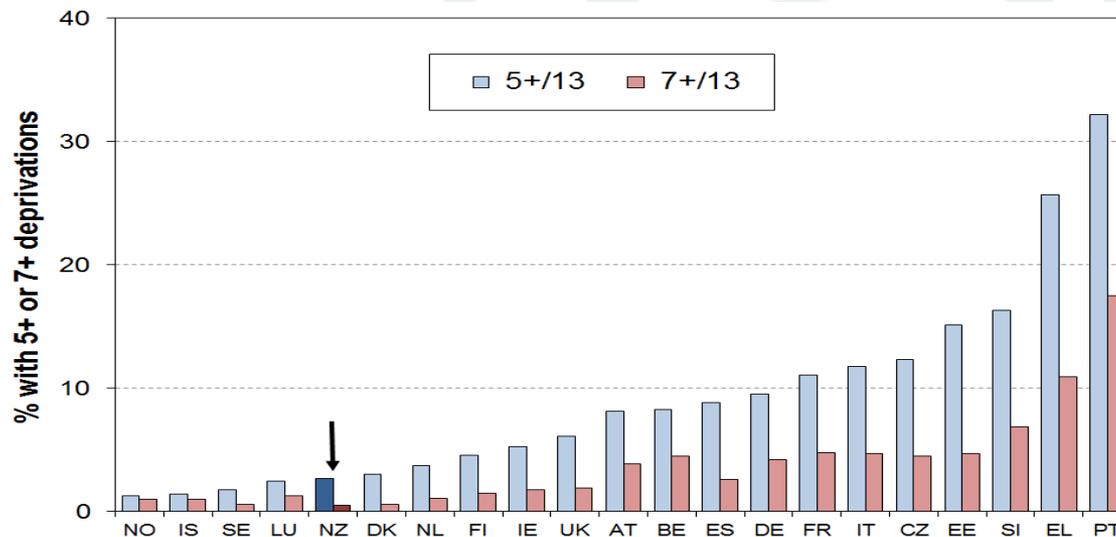


The lower AHC income poverty and low material hardship rates for older New Zealanders reflect the mix of universal public provision (mainly NZS) and the private provision built up by most of the current cohort over their lifetime. A key component of this private provision is mortgage-free home ownership



# An international comparison

Material deprivation rates (% with 5+ and 7+ enforced lacks), EU-13, those aged 65+ 20 European countries + NZ, ranked on % with 5+, (EU-SILC 2009, NZ LSS 2008)



Older New Zealanders have a much lower material deprivation rate (3%) than their counterparts in almost all European countries. New Zealand ranks alongside Norway, Sweden, Denmark and the Netherlands for having very low material deprivation rates for those aged 65+, using the 5+ threshold with the EU-13 index. Using the “severe deprivation” threshold of 7+/13, New Zealand ranks at the top of the chart (1%).



- NZ unique among developed countries with **universal payment to people aged 65 and over** as only form of public pension.
- In long term, as wage levels tend to increase faster than inflation, expect **rate will increase by about 1% more than inflation rate**.
- **NZS is administered as a social security benefit** under 2018 Social Security Act so many social security administrative rules also apply—including rates based on household composition (single vs married etc) and core family as unit of entitlement.
- **Direct deduction of an overseas government administered pension** ensures that people with both an overseas pension and a NZ benefit or pension do not receive a combined amount of government-provided retirement income more than the amount received by someone who lived in NZ at their life.
- Around 90,000 beneficiaries are impacted by the DDP resulting in revenue of around \$390 million. Around 500 are impacted by an overseas pension received by their spouse/partner.



# New Zealand Superannuation

- **Universal** - payable to everyone aged 65 and over regardless of current or previous workforce status
- **Residence** - ten years since the age of 20, of which five years must be since the age of 50
- **Public** - funded from general taxation
- **Pay-as-you-go** - partly pre-funded by Government
- **Flat-rate based on living circumstances** - not related to prior earnings
- **Adjusted** - each year by the inflation rate and linked to the average wage – married rate kept between 65% - 72.5% of the net average wage (Current government policy is at least 66%)



## Number of Pensions Paid

|                      | March 2012 | March 2019 | %<br>Change |
|----------------------|------------|------------|-------------|
| NZ<br>Superannuation | 592,470    | 774,651    | +30.7%      |
| Veteran's<br>Pension | 9,658      | 7,108      | -26.4 %     |
| Total                | 602,128    | 781,759    | +29.8%      |

Around 95% of people aged 65 or over receive NZS, VP or another main social security benefit.



# NZ Superannuation Rates as at 1 April 2019

|                            | Net weekly<br>rate     | Gross weekly<br>rate   | Gross annual<br>rate         |
|----------------------------|------------------------|------------------------|------------------------------|
| Married person<br>(couple) | \$316.27<br>(\$632.54) | \$360.42<br>(\$720.84) | \$18,741.84<br>(\$37,483.68) |
| Single sharing             | \$379.52               | \$437.14               | \$22,732.84                  |
| Single living<br>alone     | \$411.15               | \$475.42               | \$24,721.84                  |

Minimum Weekly Wage \$708 gross (\$593.11 net) for a 40 hour week.

Average Ordinary Time Weekly Wage \$1,200.82 gross (\$958.38 net)



# 3 core rates of NZ Super

Based on marital status & living arrangements & reflect different living costs faced by each group:

- **Married person rate** received by approx 62% of total on NZS.
- **Single sharing rate**, 60% of combined married couple net weekly rate, received by 13% of the total number on NZS.
- **Single living alone rate** [*introduced Sept 1990*], 65% of combined married couple net weekly rate, received by 25% on NZS.

## Replacement Rates (after tax) Average Wage

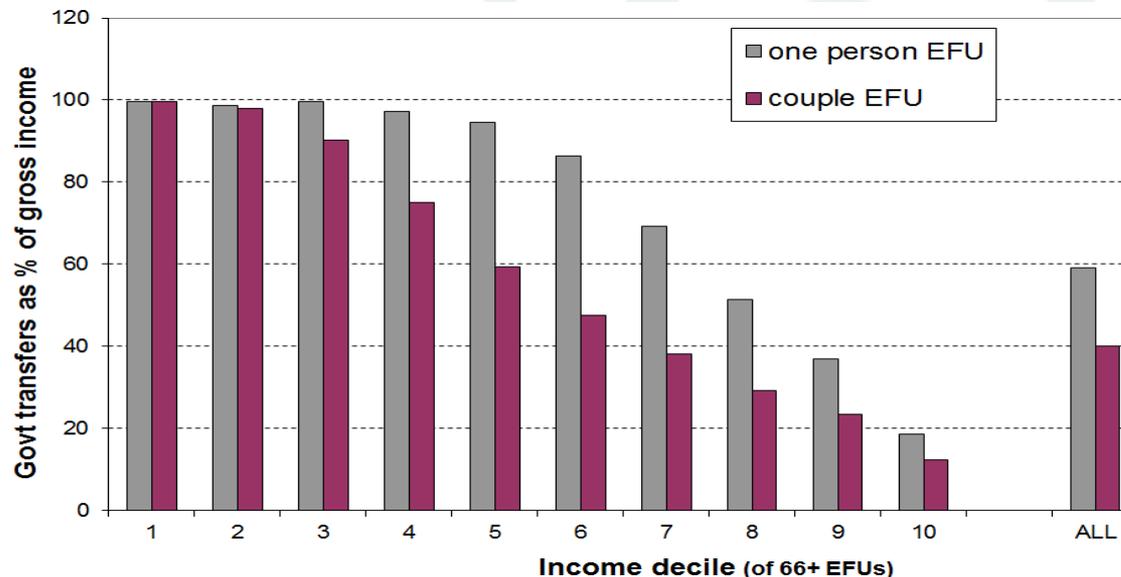
- Married person 33%
- Single sharing 40%
- Single living alone 43%

## Replacement Rates (after tax) Minimum Wage

- Married person 53%
- Single sharing 64%
- Single living alone 69%



# Older New Zealanders are heavily dependent on NZS as a source of income



The great majority of older New Zealanders are very dependent on NZS and other government transfers for their income

- 40% have less than \$100 pw from other sources, 40% of singles have no other income



# The Winter Energy Payment

- Introduced 2018, to assist with household heating costs during the winter period
- From 2019, paid from 1 May to 30 September
- Cash payment of \$450 for single people and \$700 for a couple or a sole parent
- Non-taxable, paid in fortnightly instalments with the pension
- People can opt-out if they do not wish to receive the payment. In 2018, 2,002 pensioners opted not to receive the Winter Energy Payment.



# 1. Declining rates of mortgage-free home ownership

- Fewer people reaching 65 without a mortgage-free home and facing higher weekly housing costs
- Declining home ownership amongst younger groups suggests that hardship amongst older people will rise in the future, unless this impact is mitigated by asset accumulation over the life-course by means other than home ownership (eg KiwiSaver and similar savings schemes)
- Increasing proportion of older New Zealanders in paid employment also has the potential to mitigate the impact of declining home ownership



# Home ownership rates are falling amongst younger cohorts

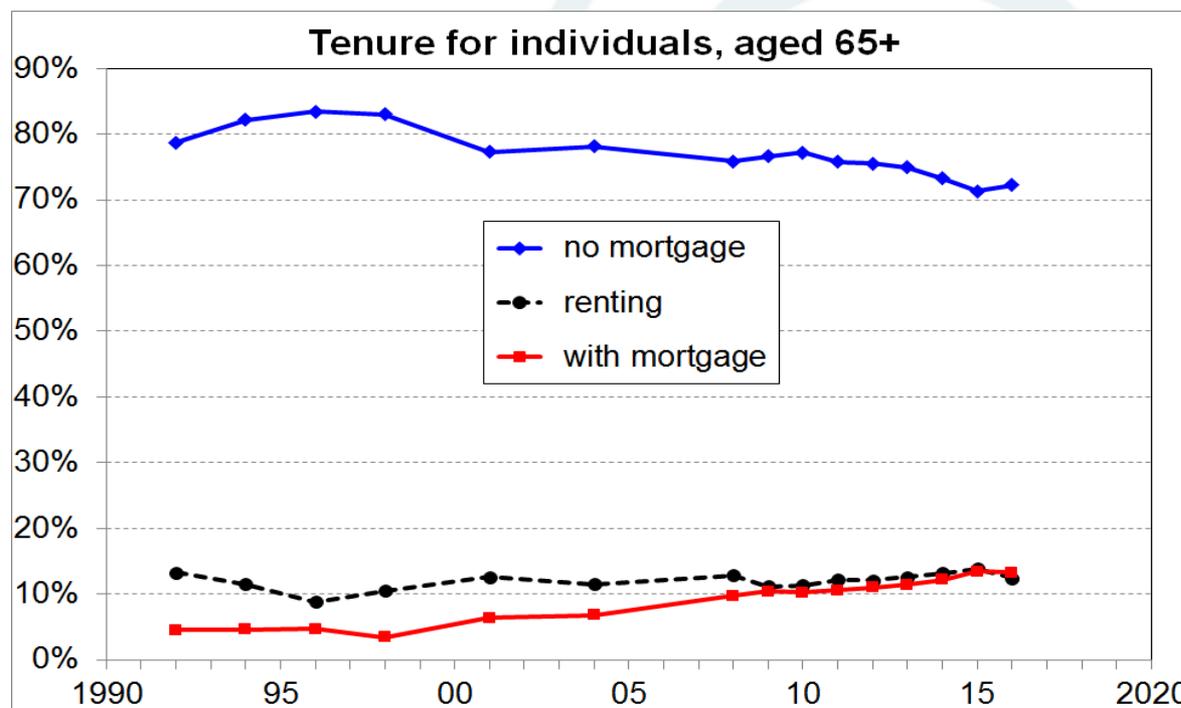
Home ownership in New Zealand by age group(%)

| Age Group | 2001 | 2006 | 2013 |
|-----------|------|------|------|
| 25-29     | 26.4 | 22.9 | 18.4 |
| 30-34     | 47.7 | 43.6 | 36.0 |
| 35-39     | 61.0 | 56.6 | 49.6 |
| 40-44     | 69.1 | 64.8 | 57.9 |
| 45-49     | 74.3 | 70.5 | 63.8 |
| 50-54     | 77.9 | 74.8 | 68.4 |
| 55-59     | 79.3 | 78.0 | 74.9 |
| 60-64     | 79.3 | 79.1 | 74.9 |
| 65-69     | 80.2 | 79.3 | 77.3 |
| 70-74     | 80.6 | 79.5 | 77.5 |
| 75-79     | 78.7 | 78.4 | 75.9 |
| 80-84     | 72.6 | 74.5 | 73.1 |
| 85+       | 55.4 | 59.0 | 60.4 |

Source: New Zealand Census of Population and Dwellings



# Housing Tenure of Older New Zealanders



Source: Household Economic Survey

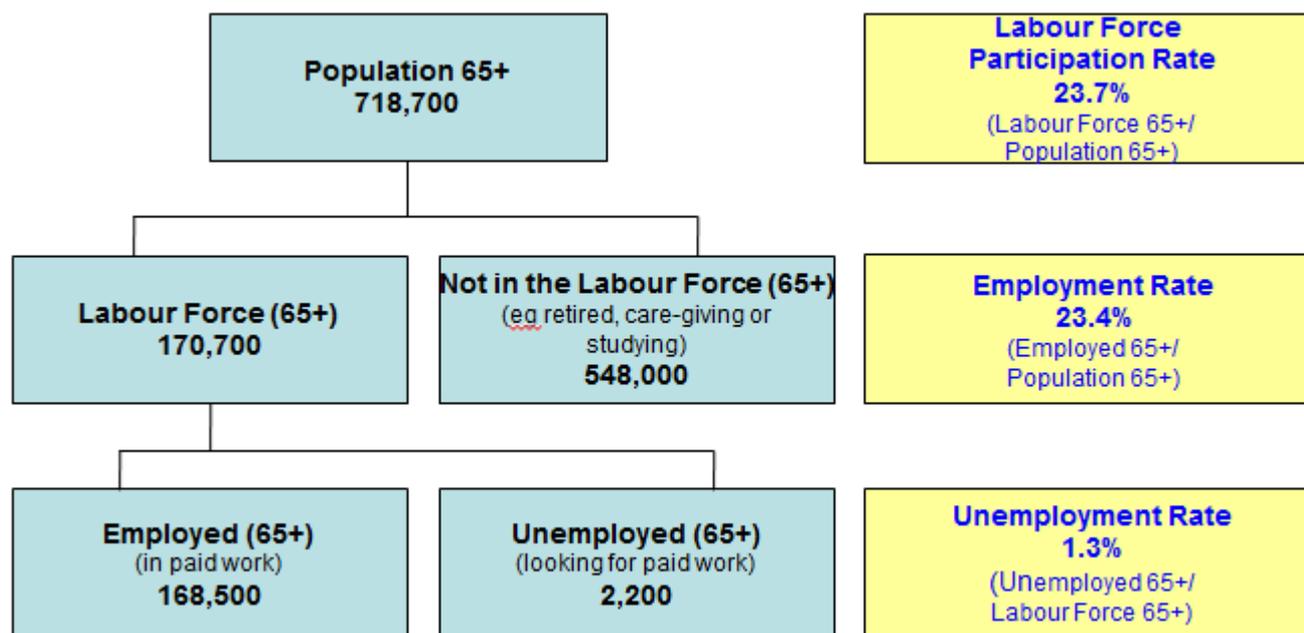


## 2. Changing labour force patterns

- Increasing number and proportion of people aged 65+ are remaining in paid work
- For people aged 65+ the labour force participation rate has increased from around 6% in 1991, to 12% in 2006 and to just under 24% now
- Choice or necessity?
- Scope to increase the labour force participation rate of those 65+, particularly women?



## The labour market for older New Zealanders (65+) December 2018



Seasonally unadjusted figures

Source: Household Labour Force Survey December 2018, Statistics New Zealand, Wellington, February 2019.



## 3. Increasing use of supplementary benefits

- Around 5.4% of superannuitants (just under 42,000 people) receive the Accommodation Supplement – up from 3.6% (17,000) 15 years ago
- An additional 14,241 people aged 65 or over are in public housing and receive the Income-Related Rent Subsidy
- The proportion of older people receiving the Disability Allowance is falling – from around 24% in 2004 to 16.6% in 2019
- There has been a significant increase in the number of older people receiving Temporary Additional Support, but still less than 1% of superannuitants
- The use of Hardship Grants is increasing



# Number of supplementary benefits paid to superannuitants (February 2019)

| Supplementary Benefit        | Number current | Average weekly rate |
|------------------------------|----------------|---------------------|
| Accommodation Supplement     | 41,976         | \$80                |
| Disability Allowance         | 129,375        | \$25                |
| Temporary Additional Support | 6,514          | \$61                |

A person/couple may receive one or more supplementary benefits



# The next group of Superannuitants: What do we know?

- Older working age people (45-64 years) living on their own have the second highest rate of income poverty after sole parents – doubled from 1988 to the early 2000s (from 10% to 23%) and currently 29%
- At the end of March 2019, there were 120,607 people aged 50 to 64 years receiving a main social security benefit. Of these, 71,822 were receiving a benefit due to a health condition or a disability with more than half (63%) being receipt of a benefit for five years or more.
- In addition, there were 14,130 people aged 50 to 64 years who were not receiving a main social security benefit (ie low income working people) but were receiving one or more weekly supplementary benefits



# The next group of Superannuitants: What do we know?

- At the end of the December 2018, there were 20,671 people aged 50-64 in public housing receiving an income-related rent subsidy, with a further 2,307 on the public housing register (waiting list)
- In addition to private debt, many people have debts to public agencies. For example, at the end of December 2018, over 56,000 current beneficiaries aged 50 to 64 years owed the Ministry of Social Development a total of \$182 million
- Older job seekers (in March 2019, 16,303 beneficiaries aged 50-64 were seeking work) face a number of barriers, including negative attitudes from some employers and others



# Some concluding remarks

- Trends point towards a future where the rate of income poverty and material hardship amongst older New Zealanders may be higher than they are now
- There is likely to be a growing number of vulnerable older people – poor health, financial hardship, poor or inappropriate housing and social isolation. People exhibiting these characteristics in their 50s and early 60s have poor prospects for their older years
- Housing will be a key driver – the older years will be difficult for those without a mortgage-free home who face an increased likelihood of having an inadequate income (after housing costs)
- More people may need to work beyond pension age, but many of those who need the income from work may not be able to work (health issues or no longer suitable for manual work) while others may face difficulty in finding/retaining work (negative attitudes towards older workers)



## Some concluding remarks

- KiwiSaver is an excellent mechanism for saving, but its impact on future retirement incomes is uncertain. Those that will really need it are probably less likely to be saving, or not saving a sufficient amount

Older New Zealanders are currently doing relatively well. There are, however, a number of emerging trends that point towards a future with an increasing number of vulnerable older people



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