KASPANZ MEMBERS NEWSHEET 33: 2024

Kiwi saver |Annuity Superannuation | Protection Association of NZ.

10 years established: the Consumer voice

QUOTES *we can roughly say that the cost of living for the average Kiwi household has risen by 21% since the end of 2019 just before the pandemic got under way. I like to reference this time because people talk misleading in terms of a cost of living "crisis." But, since the end of 2019 average wages in New Zealand have risen some 25%.* Jan 2024.Tony Alexander

In a matter of about 15 years New Zealand had to deal with the infrastructural impacts of an increase of a quarter in its population. How can something like this happen without clear advance signalling and debate in the policy community? If it was there, I missed it. Peter Davis , February 2024

EDITORIAL

Liz Kohn in a 2023 article said in recent years there has been a noticeable drop in advocacy for seniors, with the political focus on low-income families and young people. The Office for Seniors, is the primary advisor for the Government. Aged Care NZ are also there (currently without a CEO), and Consumer NZ has been a strident voice for a long time. Grey Power is a well-known group, currently realigning its focus , and Kaspanz while primarily an information service on retirement income issues, also plays a role . The Care Model for seniors requiring hospital care or Village based serviced apartment support has been badly neglected for decades, and the questions must be asked what are the advocates for seniors actually doing. Claire Dale and Susan St John have been academic voices in this space, worth listening to!!!

NZ SUPERANNUATION

Listened with concern to Phil O 'Reilly (ex-Business NZ) pontificate on Newstalk ZB with Heather Du-Plessis -Allan re NZ Superannuation.

He firmly said NZ Super should be both means tested and with an increased age of entitlement, but the most concerning issue, was he went on to say (bluster) that the Retirement Commissioner needed to be more careful with releasing her views, because obviously she had not obtained proper research on the topic.

The complete segment of his comments, was a bigoted rant stated with evangelical conviction., by someone who I expected to be more knowledgeable.

I e-mailed Phil O'Reilly

> *I listened to your comments yesterday, with concern on NZ Super, e.g. age of entitlement, means testing, relevant research! I thought they reflected a lack of knowledge on the topic, but spoken with dogmatic conviction.*
>
> *In my view NZ Super is superb public policy, efficient, effective, simple, recognized by most as very cost effective and well below other OECD pension schemes costs. Most off shore commentators praise NZ Super, many referring to it as "The smart country" with its twin Kiwi Saver/NZ Super retirement income schemes.*
>
> *No alternative approach has ever emerged that could possibly replace it, many suggestions having profound severe unintended consequences elsewhere. Means testing is discredited public policy, and the age of entitlement is probably about right.*
>
> *You should read Roger Hunards 2011 benchmark research, Michael Littlewoods research papers (plural) on the topic, The Retirement Commissioners Review of Retirement Income Policies 2022 (76 Page document easy to read) is equally sound.*
>
> *The recently released NZ actuaries review of retirement income 2024 is solid reading, https://investmentnews.co.nz/wp-content/uploads/2024/01/RIIGpen.pdf right on the button re NZ Super.*

WHO WILL PAY TO CARE FOR US WHEN WE GROW OLD, AND THEN EVEN OLDER?

The numbers of New Zealanders ageing and soon to need care are confronting, and someone needs to be planning now for how to pay for it

by **Dr Claire Dale**12/11/2023

By mid-century the numbers over 65 years are expected too nearly double

UNIVERSITY OF AUCKLAND Waipapa Taumata Rau

Expert opinion from University of Auckland - Waipapa Taumata Rau

None of us are getting any younger, and nor is our population, but readers may not be aware of how much older our population is becoming.

By 2030 the baby boom generation, those born between 1945 and 1965, will all be aged over 65 with the oldest baby-boomers beginning to swell the ranks of the 85+group.

By mid-century the numbers over 65 years are expected to nearly double (from 790,000 in 2020 to around 1.4 million). The baby-boomers will all be over 85 where the numbers roughly treble (from 88,000 in 2020 to around 300,000).

It is not just the sheer numbers of the baby-boom cohort, but the improved life expectancy at older ages. Sadly, not all the extra years of life gained over the past 25 years have been lived in good health. Who is going to care for our ageing selves, in the sickness or disability that so often accompanies our longer-lived lives?

As many of our grandparents have told us already, growing old is not for the faint-hearted. Long-term conditions such as diabetes, obesity, cardiovascular disease, chronic obstructive pulmonary disease, cancer, asthma and other respiratory conditions, arthritis and musculoskeletal diseases, stroke, chronic pain, dementia, and mental illness are all too common.

Chances are if you have one of these conditions, you probably have another. Multimorbidity (two or more of these conditions) affects one in four older adults in New Zealand.

In New Zealand as often in other parts of the world, females live longer than males on average, but they spend more of their life in poor health and in residential care. In the 2019/2020-year, 59 percent of those assessed for homecare, and 65 percent of those assessed for Aged Residential Care (ARC) were female.

Society is not prepared for the realities of the 21st century ageing population and their projected high costs of care and health. The doctors and nurses, caregivers and palliative care services require massive workforce planning. But even if the real resources needed are available, how will the costs be shared?

Ideally, planning for retirement starts early. But how can you plan when you do not know how long will you live, in what state of health, or the costs of long-term care if needed?

At March 31 2020, of a population of around 790,000 aged 65-plus at that time, about 4.4 per cent were in Aged Residential Care. That might sound a modest statistic, but it disguises the reality that half the older aged population is likely to use residential care at some point.

The average age of a person living in residential care is 85 years with a significant variation in the entry age, and length of stay ranges from a few days to over 10 years. Median length of stay in a rest home for someone receiving government funding is 1.7 years so it follows that 50 per cent use residential care for longer.

The current policy settings include a means-tested subsidy for basic old age care, but many older people are excluded from assistance by this test. Middle-income families may be severely impacted as the assets of their older-aged relatives are rapidly consumed by their later-life care costs.

Residential care costs paid by the older person range from about $73,000 for a very basic care package to $116,000 a year if extras like ensuites are included. For long-term hospital level care in a rest home the actual costs will be higher again but the contribution from the resident is capped. If you are 65 or older and do not have enough income to meet the costs, your assets will be needed. Assets must be reduced to a low level before you qualify for the government subsidy.

How much the government will help varies, depending on whether you have a partner or dependent child who lives with you, and if you own a home and a car. If you are single or a married couple, both in care, you may have to sell those assets. Other assets included in the means-test are savings, shares, investment properties, boats, caravans and campervans and some types of life insurance policies.

Personal belongings such as jewellery, clothes, household items (furniture, kitchenware) and any funds held in a recognised funeral plan are not counted.

It is complicated, but worth taking time to get your head around, and while you have the cognitive capacity to do so. Most of us cannot predict our healthcare needs, we have no idea of the size of that risk nor of how to budget for it in retirement.

Suppose at 65 you have a lump sum of $200,000. While there is some data that tells you how long you might live on average, there is a huge spread of the age at death around that average. There is a good chance you will outlive that lump sum.

Moreover, you do not know if you will need long-term care, nor whether such care will be for only a few weeks or more than 10 years. Nor do you know the level of that care (rest-home or hospital) you will need or the costs of extras like dental care, hearing aids and specialist care or a superior room.

With a looming tsunami of older baby boomers needing care, it is time we talked about not only how to ensure we have enough trained caregivers, but whether we can share the costs of care more fairly.

Middle-income people surely need some degree of insurance for the uncertainties they face: a better sharing of the costs between those who need care and those who do not. It will not happen without some kind of public policy to help protect them against the risks they face. This demands not only innovative forward-thinking around financial planning, but social planning too, to ensure we have enough people to care for us.

**Claire Dale and Susan St John are researchers in the Pensions and Intergenerational Equity Hub, Economic Policy Centre, Auckland University Business school*

The Pensions and Intergenerational Equity Hub, Economic Policy Centre, Auckland University Business school

https://www.auckland.ac.nz/en/business/our-research/research-institutes-centres/economic-policy-centre/research-hubs/pensions-and-intergenerational-equity/news-and-events/news.html

The above is where you can find newsletters relating to NZ retirement income.

HOUSING

The primary measure of housing affordability is the house prince-to income ratio. Rule of thumb over many yrs was a ratio 3 to 1 (average house price 3 times the average income) as affordable, above 5 to 1 is considered unaffordable.

In 2005 the ratio was 5.4 to one, but but by 2023 figurers the average house price costs 7.5 times the average household income. In Auckland the figure is 8.6, and in Tauranga 9.7.

What will happen under National led Govt 2024.. History says nothing but increasing unaffordability, and the 3 headed coalition offers little hope of a change, but the jury is out. What will todays Govt bring to the table that is different to the last 20 years? Watch this space

WORKING POST 65 YRS

The trend for increasing workforce participation post 65 years is undisputable (e.g. The 65-69 age group has seen a similarly large increase, of nearly 34 percentage points from only 14.5% of that age group active in the labour market in 1987 to 48.4% in 2023) but methodology camouflages the issues .

To be in the labour force someone only needs to regularly work <u>one hour a week</u>. This produces somewhat meaningless stats; it would be more useful to show one day a week rather than one hour as a minimum to qualify.

There is a lot of evidence to show that part time work (huge definition issue) is all that is offered. Further I would suggest often only educated people post 65 years (you are an example) have the opportunity for meaningful regular daily income, to supplement their NZ Super, Kiwi Savings. Deep seated and rampant age discrimination dominates the post 65 years work /seeking work group, and for most regular post-retirement income is merely a fantasy or a nightmare!

DID YOU MISS THE LAST NEWSLETTER

HERE IT IS

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POST ELECTION ISSUE: Those that do not vote, strike at the very heart  **of our democracy!**

Quote of the decade

Not everything that counts can be counted, and not everything that should count can be measured. Bruce Campbell .

Not far behind Peter Dunne (ex-MP talking about lobbyists)

> *"Most were professional whingers who ran with the hares and hunted with the hounds. They were very good at telling you what they did not like but woefully weak when asked to provide an alternative solution"*

EDITORIAL

Post election result. The country has spoken and we welcome in the new Government. Luxon comes into office, after a very early comment that he favoured evidence-based policy, contrasted, by the opposite approach adopted on retirement income policy . Watch and wait is the best I can offer, lets see if our media platforms critique the efforts of the Luxon and Willis leadership, to a similar level applied to the previous Government?

Retirement income is a key community issue, intertwined into many policy platforms. This newsletter focuses on tax and where will the aged live? It concludes with an updated version of my paper New Zealand Superannuation's is a National Treasure

The tax article is a mixture of notes and issues, written to help the layman understand some of the issues. The housing theme continues, as we continue to live in a country which continues to accept a broken home ownership mode, and home affordability camouflaged by self-interest parties .

Great comment

> *Tookery says it was relatively easy in 1975 to embark on a speculative building project, without requiring expensive consents, and that meant there was a steady supply of new housing*
>
> *The impact of the 1991 Resource Management Act, plus successive central abd local govt interventions has changed that he says*
>
> *Building has become more time consuming and costly and that has had an impact on housing supply. Speculative building has died because no-one can afford to build a house that is not occupied right away*

A change in house sizes, is notable too. Most houses built in the 1979"s were 2-3 bedroom and one bathroom. Now five -to six bedrooms and multiple bathrooms are common. The average size of a house has gone from 120-130 sq. metres to a couple of hundred sq. metres. They are more gizmos, more expensive materials, and bigger houses.

And people wonder why building affordability is more expensive

NEW ZEALAND SUPERANNUATION

Jane Wrightson Retirement Commissioner right on the button re suggesting **"***So, why cannot we see some broad political agreement that NZ Super is a taonga, a key contributor to elder poverty prevention?*

Why cannot we see a shared vision for Kiwi Saver as the second, equally crucial plank for NZ retirement income?

Aligned political leadership from across the House would be so invaluable to agree on a set of simple retirement policy framework, pensions, savings, education that might stretch across a decade?

What common sense! NZ Super is great public policy, affirm it in the manner suggested by Jane.

Tax

THE NEW ZEALAND TAX SYSTEM-NEW ZEALAND TAXES IN COMPARATIVE PERSPECTIVE ROB SALMOND 2011 (128 PAGES)

Professor Rob Salmond is an ex-pat New Zealander, who works out of the University of Michigan, where he is Assistant Professor of Political Science.

"The book offers an excellent overview of recent tax debates in NZ, and how they have led to current Policy settings. The book also includes a comparative analysis of the NZ Tax system against those of Aussie, Canada, and the United Kingdom."

The book draws several conclusions on tax in New Zealand including

- New Zealand is an unusually light taxer of both corporate dividends and capital gains

- Some have suggested that NZ top income tax rate was unusually and punishingly high under the Labour government. That is incorrect. It is the new top tax rate that is unusual for OECD countries. It is unusually low.

- If all the four countries tax systems compared, were to be examined as tax wedges rather than all in tax rates, New Zealand has the largest tax wedge of very low earners and the smallest for high earners.

- Most NZ taxes are paid by individuals in their role as earners (Income tax) or consumers (GST) those on average income rather than those on very low incomes, appear to pay the lowest overall tax.

- NZ tends to impose comparatively less tax burden on those in the highest income brackets and comparatively more tax burden on those in the lower brackets.

QUICK GUIDE TO TAX APPROACH

The primary determinant of how much tax revenue is collected is the requirement to fund government expenditure. The ratio of revenue to GDP has been relatively stable, increasing slightly in recent years, reflecting the New Zealand economy's recovery since the global financial crisis.

New Zealand collects an amount of tax revenue, relative to GDP, that is close to the average of other OECD countries   Tax is the foundation we build our country upon, our social support, schools, and hospitals. It funds infrastructure (big projects). It is how we collectively provide public services for 5 million people living in NZ.

New Zealand is unusual in taxing from the first dollar earned. Most OECD countries have a tax-free threshold, whereby no tax is paid until income exceeds a certain threshold. Instead, New Zealand targets low-income earners through the Working for Families package of tax credits.

NZ system is supposed to be progressive, more you earn, more you are taxed. However not all income is taxed equally, and most capital gains are not taxed at all

Fairness means different things, depending whether it is applied to us or to others NZ we comprehensively tax income, but we do not comprehensively tax wealth

ISSUE Tax Fairness. The problem is we often cannot agree on what fairness looks like**. How** do you construct a formula or fair tax structure

Tax everyone GST, Ability to pay. Tax income. NZ tax system has elements of both. Current ratesThere are five PAYE tax brackets for the 2021-2022 tax year: 10.50%, 17.50%, 30%, 33% and 39%. Your tax bracket depends on your total taxable income

New Zealand collects a large share of revenue from its three major tax bases: personal income, company income and GST.

51% of tax revenue in NZ is individual personal tax

Personal tax is different to Corporate and GST which have a flat rate. Personal tax payers pay more as they earn. Tax thresholds have not changed in past 12 years, apart from 39% tax rate. Inflation adding significantly to Govt tax take, people's income increase, move into new tax bracket

Shares and investment property asset sales not taxed?

The New Zealand Tax System: New Zealand Taxes in Comparative Perspective (Paperback)
By Salmond, Rob 2011
*The best NZ guide to NZ Tax system!

Perhaps the most prominent political debate in New Zealand is about tax. The book above provides a new perspective on this critical subject, examining what we know about our tax system, and showing how that falls short of what we should know. It details how tax works in the countries New Zealanders normally look to for policy comparison. It shows New Zealand has a tax system of extremes. We charge less tax than almost any comparable country on high incomes, dividends, and capital gains.

Our GST however, is bigger than most, both as a proportion of taxes and as a proportion of the economy as a whole. And our goal of aligning top personal and company tax rates is not one that other rich democracy seem to share. They say that in order to change tomorrow, first you must understand today. This book helps everyone, tax experts and interested laypeople alike, understand our tax system today.

Rich and poor Gap widened last 3 decades-French economist Thomas Piketty describes the current wealth study on NZ richest as depressing reading. Lance the boil by inheritance and wealth tax.

<u>Conclusion</u>

In NZ different income sources are treated differently. Why?

Outlier issues. **Tax collection**. 800 million not collected last yr. written off.

WHERE WILL YOU LIVE WHEN YOU ARE OLD? Extract from a recent "North South Magazine article

> Housing researcher Dr Bev James says there are indications that most people who rent in later life owned property at some point in their lives. She points to a 2020 study she co-authored for the *Housing Studies* journal, which found that 61 per cent of renters aged over 55 interviewed for the study were former home-owners.

"

> Why are they renting when they were home-owners at some stage?" James asks. "I can tell you; it is not about choice. It is because there are big shifts — often crises —

in their lives, which mean that they can no longer sustain home-ownership. That has huge ramifications for their security in so many ways."
Sixty per cent of single Superannuitants have little or no income other than their pension, which is currently $462.94 a week for someone living alone.

To be considered "affordable", at 30 per cent of net income, rent for someone living alone on super should be no higher than $139 per week. As at December last year, the average rent nationally was $518, and has been increasing (steadily and then sharply) for years.
Stephanie Clare, the chief executive of Age Concern, says seniors on a fixed income will often forego many of life's pleasures — and necessities — to make ends meet. "They stop eating, don't have internet because it costs money, don't have a device for connecting," she says. "They lose the joy of life." They also tend to have worse health outcomes, worse mental health, visit the GP and hospital more often, and have reduced life satisfaction compared to owner-occupiers, research shows. One reason for this may be the relatively poor state of the rental stock compared to owner-occupied properties, which can lead to health problems.

Claire Booth of Wesley Community Action says the situation seniors face now is the worst it has been in the seven years she has worked in the sector. "If you hit retirement age, and you don't own your own home, you're heading for trouble," she says. "The ultimate consequence is that people move in with their adult children, or move into unsuitable flats or unaffordable private rentals, and then have not got enough money left over to eat. It is a really big and growing problem."

NEW ZEALAND SUPERANNUATION: GENERATIONAL WELLBEING

Len Bayliss a well-respected New Zealand economist (1927-1918) said in 1996, *"Doomsday rhetoric characterizes NZ media handling of retirement income policy"*. Twenty-five years later his comment still retains validity.

I suggest some of the language about NZ Superannuation over the last two decades has moderated, and there is now a growing awareness that our superannuation scheme is excellent public policy, supported by the sound Kiwi Saver scheme. Q+A with Jack Tame, New Zealand Superannuation discussion (29th August2022), was an example of how commentator knowledge has improved over the last two decades.

Knee Jerk reactions do continue, pop up commentators with dubious credentials are everywhere. Talk back radio is one example; social media platforms another. Fascinated by their own one-line rhetoric, and often conservative political orientations, some talk back hosts run the risk of becoming on-air trolls . 

No issue here with voicing opinions, just be more transparent about your leanings. Those with the strongest bias are often the most strident in disguising their rigidity of conviction. The media continues to do a poor job in the transparency stakes about the faces and voices engaged in 2021 communications, and the bias they bring to the microphone.

Long term projections often appear in the Retirement income discussions. Time-frames around 2050-2080 projections are useless and can be disregarded. Why disregard? History shows such assumptions are so wide of the mark they lack value, and the projections cannot factor in society changes over time. Inevitability, commentary over states the extent of existing knowledge and its degree of certainty.

Those who are prepared to research NZ Retirement income policy should start with Roger Hurnard, previously a consultant on NZ retirement issues), with his 2011 paper *"Mixed messages :the future direction of NZ retirement income policy"*[1]. Then read the *2019 Retirement Commissioners Review paper to government*[2] It is a thoughtful and restrained discussion paper. Add in Michael Littlewood's various superannuation papers published throughout the two decades 2000-2020. [3]
Commentary by commentators Martin Hawes, Mary Holm, Rob Stock and analysis work by Susan St John and Dr Claire Dale further add substance to readers' knowledge . They all help provide the platform for useful contributions to the topic and the further development of sound public policy.

The myth *"burden of the ageing population"* continues to be aired, rarely understanding the fact that superannuation policy

[1] The assessment of retirement income system options A paper for the External Panel on the Treasury's Long-Term Fiscal Statement October 2012 Roger Hurnard
[2] CFFFC Review of Retirement Income Policies 2019

[3] **Michael Littlewood: Our pensions are affordable for future taxpayers 17 Aug, 2018**

is far more than a monetary formula. It is linked to issues of physical security, personal well-being, economic productivity, social health and the distribution of income and wealth.

New Zealand's superannuation scheme is a recognised world leader, with
a simple structure, low-cost administration, and with no exceptions. Be alert and wary to those suggesting means-testing or removing universality, as these are wonderful pub fare one liners, but are poison for the greater public good. Be sceptical of those saying *"throwing younger generation under the bus"*. Referencing such throw away lines usually means one is unable to sustain a coherent argument.

The dollar cost of NZ super as a proportion of GDP is also exaggerated. Unlike many other countries New Zealand does not pay a tax free
Superannuation pension. That needs to be factored into the numbers. The current after-tax figure is 4.5% of GDP, a low figure, and
future projections within a reasonable time frame (2030) show around
6%, also a sustainable figure.

Many of today's seniors are economically active, boosting the participation rate and paying tax. We should talk about "multipliers". More people working means increased output, stimulating the economy, and increasing productivity. Conversely rampant discrimination and the fact many of the elder generation have many quality-of-life health issues, means the vision of working seniors does not apply. Research strongly suggests that usually it's only the well-educated who can find regular income after 65 years of age. The next paragraph shows a paradigm shift in New Zealand's economic landscape .

Voluntary and unpaid work needs to be factored into all economic costings, with seniors involved in less crime, road accidents etc. Seniors are the backbone of New Zealand family child care arrangements. Seniors are also assisting with many housing deposits, and early inheritance lump sums, frequently at their own savings disadvantage. The input of the older generation in providing a place of abode for those who often don't leave their child hood home is now everyday living arrangements. Many children who have departed are also returning to their original 'nesting place' after the ravages of failed marriages and independent living arrangements All these issues are the new normal, and represent a significant community adjustment.

CONCLUSION

We are talking of a fundamental societal shift over recent years. Seniors are now the backbone of many of the family economic arrangements in New Zealand. New Zealand Superannuation has become a generational transfer entitlement wrapped around family, equity, and wellbeing principles.

MARCH 31, 2024

YOUR $10 FAMILY SUBSCRIPTION PAYMENT GOES TOWARDS OPERATING COSTS, SEMINARS AND CONFERENCES AND REPRESENTATIONS TO GOVERNMENT. SEND PAYMENT TO: KIWI BANK 38-9015-0111409-00—DIRECTS BANK TRANSFER, OVER THE COUNTER AT KIWI BANK (IDENTIFY WORD KASPANZ AND ACCOUNT NUMBER 38-9015-0111409-00).

REMEMBER ITS ONLY $10 AND PUT YOUR SURNAME WHEN YOU PAY, SO WE CAN IDENTIFY THE PAYMENT

Alec Waugh: Editor and Chair