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Submission on the 2025 Review of Retirement Income Policies

To the Retirement Commissioner,
Te Ara Ahunga Ora Retirement Commission
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From: **Vicky Mee MNZM, Financial Mentor, Mai Lighthouse**

My interest in this review stems from my work at Mai Lighthouse as part of the Financial Capability team. We regularly deal with superannuitants who are in financial hardship and those coming up to age 65 who need to withdraw KiwiSaver funds because of hardship.

The majority of older people who are struggling are in private rentals and government cash asset thresholds for supplementary assistance have stripped them of any savings. They are now reliant on food banks to help them meet their expenses as NZ Superannuation plus available benefits are not sufficient to live on.

A. RESPONSE TO THE 10 FOCUS AREAS:

GENERAL:

1. **Commentary on the purpose of retirement income policies, the performance of those policies and emerging trends since the 2022 review.**

Retirement income policies should aim to provide all individuals with a dignified standard of living—covering essentials like food, housing, and healthcare. They should act as a safeguard, ensuring no one falls into poverty due to ageing or circumstances beyond their control.

There are five major emerging trends which impact retirement income policies:

a) An increase in the number of renters in the 65 and over age group. In New Zealand, approximately 13% of people aged 65 and over still have a mortgage, while another 20% are renting. In 2023 the Retirement Commission's director of policy and research, Dr Suzy Morrissey, stated that she expected the number of people over 65 renting to jump to 40 percent, or 600,000 people, by 2048. In the 2023 Census, 48.7% of the population of New Zealand did not own a home or hold one in a family trust.
b) A lack of social housing suited for low income older people. Many people (mainly Māori and Pacifica women) are unable to save for retirement because of their housing situation and yet they have sat on the Kainga Ora waiting list with a "need score" of A16, A17 or A18 for several years.

c) Hardship prior to the age of 65. There has been a growing number of withdrawals from KiwiSaver funds under hardship and financial mentors report that it is mainly women with under $20,000 in total balances who are using their KiwiSaver funds to sustain current living costs and support whanau. This leaves them with no to minimal KiwiSaver funds at retirement.
d) Pay equity issues. They flow from a global reduction of women's rights in the workplace, and we have seen specific legal action in New Zealand stopping ongoing pay equity cases.
e) Rise in "silver splitting" or late life divorce or separation. (https://www.nzherald.co.nz/lifestyle/silver-separation-why-more-kiwi-couples-are-divorcing-in-their-50s-60s-and-beyond/NQ2436X7HBBVPB4OXPHZNUOZGY/)

All these trends impact the most vulnerable senior citizens. There is a growing distance between those who do well in retirement and the most vulnerable group, who are on their own, renting, have no savings and whose well-being is severely impacted by the intersection of current KiwiSaver policy settings, suitable housing availability and Work and Income threshold settings.

Not owning a freehold home at retirement is becoming increasingly common and is one of the most important factors in predicting whether a person or couple will do well in their retirement years. The New Zealand Superannuation amount has for some years been based on an individual or couple having a mortgage free house, something that was reasonably high until the 2010s. This allowed many with mortgage free houses to move into a Retirement Village and as they got older, less mobile and more frail benefit from having people who can assist and a community that is both supportive and designed for old age.

2. <u>How these trends could play out in New Zealand over the next 25 years and their distributional and fiscal implications</u>

These trends will impact more heavily over the next 25 years as the proportion of older people renting will grow and this will lead to more superannuitants living in poverty.

3. <u>Evidence on retirement income policy innovation in other developed countries and lessons for New Zealand.</u>

No comment.

4. <u>Diverse savings outcomes and experiences of women in retirement given they are the majority population of over 65s, and that there is a 25% gap in average in KiwiSaver balances between men and women.</u>

At the outset, we acknowledge that not all women are disadvantaged and not all men are advantaged. But on average, women are less wealthy than men at retirement and live longer, poorer lives.

The gender pensions gap reflects the compounding effect of the gender pay gap, the fewer hours worked per week, the lower hourly rate paid, the fewer weeks worked per year, conscious and unconscious bias, silver splitting, and the way that KiwiSaver has been designed.

Older women are disproportionately dependent on welfare benefits pre-retirement. The problem here is that the benefits themselves in New Zealand are below a minimal level of adequacy forcing many to have to apply for supplementary second tier assistance (Accommodation Supplement and Disability) and third tier hardship and food grants. The possibility of saving for retirement is very limited for these women.

Dr Claire Dale, research fellow at the Pensions and Intergenerational Equity Hub in the Department of Economics at the University of Auckland Business School, notes that the use of conventional welfare benefits with stringent income and asset tests are particularly harsh for those over 50 who spend sustained times unemployed, care-giving or incapacitated. They are likely to exhaust their private retirement resources before reaching the age of eligibility for NZ Superannuation (NS). (https://www.thepost.co.nz/nz-news/360619731/urgent-reforms-needed-keep-older-people-affordable-homes)

For those who do manage to save the outcome is not good. An example is a woman on a Supported Living Benefit who, while boarding with a relative, managed to put $20 per week aside into her KiwiSaver scheme and thus obtain the maximum government subsidy for those years. Later she ended up renting and was making ends meet with her Supported Living Benefit, the Accommodation Supplement and some Temporary Additional Support. On turning 65 her income dropped! This was because she had managed to save $19,000 in her KiwiSaver fund and Work and Income rigidly applied the cash asset test on the basis that her funds were now available for her to use. This precluded her from receiving Accommodation Supplement until her cash assets dropped to $8,100 and she could not receive Temporary Additional Support (which was also needed to pay her Auckland rent) unless her cash assets dropped to $1,095! This effectively ensured a retirement life of poverty and poor well-being.

Increasing longevity requires that their limited amount of funds needs to last longer. The $8,100 limit would not cover many extra expenses, and once it is depleted, it is difficult if not impossible to accumulate a new emergency buffer. An additional barrier to accumulating or maintaining an emergency buffer is the annual before-tax income limit of $67,756 for a single person living in Auckland and receiving NZ Superannuation (NZS). Means and asset testing disqualifies couples from the supplement if they have cash assets exceeding $16,200 (for singles, the limit is $8,100). This was last adjusted in 1993!

Many senior renters, particularly those with no close whanau support, are increasingly going to food banks to ask for food whenever an “emergency” crops up. Their food money is the only discretionary income they can use if unexpected costs arise such as their car breaking down or a family member needing care. They also face high health costs, including dental costs. An indictment on our retirement income policies!

Increasingly renters are becoming aware that there is no point saving in Kiwisaver! As a financial mentor I cannot, in good conscience, encourage a renter already on a benefit to voluntarily put savings into Kiwisaver Account as a way of building a more secure retirement fund. At 65 Work and Income will ensure that their funds are run down until the threshold caps are reached before Accommodation Supplement and Temporary Additional Support is granted. The Accommodation Supplement threshold has not been changed for 30 years! (*Data from the Ministry of Social Development shows there were 48,789 people receiving NZ Super and an accommodation supplement in December 2024, up from 34,279 in December 2019.)*

This threshold for Accommodation Supplement is particularly draconian when considering that the threshold for tenancy in a Kainga Ora home is $42,700! An elderly person in a Kainga Ora subsidised rental home with sustainable tenancy has major advantages compared to someone in a private rental who has been stripped of all savings and is at the mercy of rental increases. The actual Accommodation Supplement payment amount has stayed the same for 13 years and is not inflation adjusted. The poor are being screwed down tighter and tighter.

We note that the Retirement Commissioner in the 2022 review on Retirement Income Policies recommended to Government that the cash asset test for the Accommodation Supplement be increased to at least $42,700 per person and that consideration should be given as to whether annual inflation adjustments were appropriate. This recommendation has not been acted upon.

KIWISAVER AND OTHER PRIVATE SAVINGS:

5. **The performance of the KiwiSaver scheme, with a focus on default settings, opportunities to improve contribution rates, use of different KiwiSaver fund types, participation by the self-employed, and whether KiwiSaver has been effective in increasing the net national savings rate.**

As explained in Section 4 the ability to save is very much lower for women particularly low income women who will be the most vulnerable group in their retirement years. As knowledge of the disadvantage to renters through Work and Income's non-adjusted cash asset thresholds grows it is likely that more renters will consider decreasing their KiwiSaver savings by not voluntarily saving (as some beneficiaries and self-employed do now), lowering the percentage they save, requesting a savings holiday and/or by pulling money out of KiwiSaver under hardship and spending it before reaching 65.
The net savings rate for those in the bottom quadrant of KiwiSaver balances is likely to decrease not increase.

6. Government contributions to KiwiSaver, particularly the costs and benefits of government contributions, and which groups benefit most from receiving these contributions.

The 2025 budget set lower government contributions going forward and this will weaken any incentive for low income people, including those on benefits and those self-employed, to save. Currently a number of beneficiaries restrain their spending and budget carefully to put $20 per week aside voluntarily to receive the $520 contribution. The decrease in the government contribution will likely decrease the incentive to save for those with the smallest KiwiSaver balances.

7. Whether any market distortions arise from the KiwiSaver model.

No comment.

8. The role of (Non KiwiSaver) private savings in providing retirement income.

No comment.

9. Opportunities for innovation and improvement of provider and industry guidance/products supporting the decumulation/drawdown of retirement savings and other assets.

Susan St John and Claire Dale, in 2019 (Intergenerational Impacts: the sustainability of New Zealand Superannuation) noted a critical gap in KiwiSaver policies is a decumulation mechanism that would allow for the KiwiSaver lumpsum at age 65 to help provide an ongoing supplementary income. Given that many seniors in retirement are on their own and given the prevalence of dementia, an annuity option may improve simplicity and certainty. But for there to be such an annuity, state intervention in the decumulation phase will be required. Protection for long-term care expenses may also be desirable and might be incorporated in an annuity option.

Universal superannuation for a couple amounts to $1656.68 per fortnight. If this is their sole source of income a fortnightly average Auckland rent of $1266 consumes 76% of that superannuation. Affordable housing is defined as a payment not exceeding 30% of income (Canstar). The average rent for universal superannuitants is manifestly unaffordable.

GOVERNANCE:

10. Opportunities to enhance retirement income policy-making processes in New Zealand. This should include advice on the frequency and scope of the reviews of retirement income policy undertaken by the Retirement Commission and how to ensure retirement income policies encourage ongoing trust in the system.

A key requirement for retirement income policy-making processes in New Zealand are collaboration with Kainga Ora on housing needs for the elderly and vitally with Work and Income on the setting of cash asset thresholds that allow for overall well-being and their annual adjustment.
Current non-adjusted cash asset thresholds that are used to determine eligibility for Accommodation Supplement and Temporary Additional Support assistance strip the majority of senior renters of their nest eggs and deprive them of a small amount of discretionary income. This

means that the ability to connect socially, to visit family, to have regular medical checkups is reduced and this leads to poor health outcomes and an increasing national health burden caring for seniors whose self-determination has been undermined.

I am struck by the different amount of cash assets the government allows seniors to keep before subsidising different forms of accommodation:
a) for rest home/nursing/hospital care it is $155,873 (the Residential Care Subsidy which is adjusted annually)
b) for those in Kainga Ora homes it is $42,700 (not sure when this was set but not adjusted annually)
c) for single people in private rentals and needing accommodation supplement it is $8,100 (set in 1993 and not adjusted annually) and if (as most Auckland rentals are) the rent is higher and Temporary Additional Support is needed then the cash asset threshold is $1,095! (not sure when this was set but not adjusted annually)

This is inequitable as those who are the most vulnerable lose the most and we are ending up with an increasing number of financially stressed superannuitants relying on foodbanks to survive.

B. RECOMMENDATIONS

1. Increase the cash asset test for the Accommodation Supplement to at least $46,240 per person and annually adjust this. (Note that $42,700 in 2022 is equivalent to approximately $46,240 today. To calculate this the New Zealand CPI data was used. The CPI for December 2022 was 1219.8, and the CPI for December 2024 (the most recent data available) is 1299.0.)
2. Increase the cash asset test for Temporary Additional Support to at least $10,000 per person and annually adjust this.
3. Increase the amount of the maximum Accommodation Supplement weekly payment and annually adjust it to provide relief for seniors in rental accommodation.
4. As poverty is strongly accommodation-related, an expanded programme of state housing for older people is needed.

C. CONCLUSION

Thank you for this opportunity to provide my views on New Zealand's Retirement Income Policies and the need for change to prevent an increasing percentage of New Zealanders from living in poverty in retirement.

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