Commission for Financial Literacy and Retirement Income

Wellbeing in retirement

Introduction

This position paper is about how retirement income policy can help ensure the *wellbeing* of older people, by broadening the scope of policy beyond simply the provision of a basic income in retirement (while acknowledging that income is an important contributor to wellbeing). The emphasis of the paper is on broader living standards (New Zealand Treasury, 2011) and full participation in society, as set out in the New Zealand Positive Ageing Strategy (Office for Senior Citizens, 2010). Active ageing involves opportunities for paid work and voluntary service, lifelong education, maintaining family, whānau and community networks, a safe and healthy living environment and access to a range of other services which contribute to overall social and economic wellbeing.

Promoting wellbeing requires a holistic approach, incorporating, for example, policies and programmes in health, housing, transport and other sectors. Government, private and not-for-profit agencies all have a part to play. It also depends on better integration of services across departmental silos, between central and local government, and among private sector enterprises and not-for-profit organisations. There are a number of forms of social and financial support available for older New Zealanders depending on their circumstances, for example, in ensuring personal safety, providing housing or health-related assistance or addressing special needs[1]. The SuperGold Card gives eligible seniors discounts and offers from a wide range of businesses and access to government entitlements and local council services and concessions[2]. All of these services effectively augment the retirement income of those who use them, and reduce pressure on New Zealand Superannuation (NZS). However, for older people to take full advantage requires them to know their entitlements and to be financially literate enough to manage access within the context of their overall retirement income – whether that be solely from NZS or includes other sources.

History

Before 1898, elderly New Zealanders were expected to either provide for themselves or be supported by their families or whānau. "New Zealand was seen as a land of opportunity … without poverty, and thus a land that did not need public income support for anyone" (Preston, 2008). However by the late 19th century there was a growing problem of poor elderly and a vigorous debate on how to respond. Ultimately, the Old Age Pension was introduced for those who could demonstrate "good character" and with a requirement to apply in a public court session. This pension structure lasted for four decades and also shaped the Age Benefit that emerged from the Social Security Act 1938. The focus remained on poverty alleviation and income support until, following the 1999 International Year of Older Persons, the Government produced its Positive Ageing Strategy in 2001. This strategy aimed to improve

[1] See http://www.msd.govt.nz/what-we-can-do/seniorcitizens/care-and-support/index.html

[2] See www.supergold.govt.nz

opportunities for older people to participate in the community in the ways they choose. Thus, since the early days of social security the goal of *subsistence* – simply maintaining life and health – has been subsumed by the goal of *belonging and participating* in the life of the community (Crossan, 2010).

Health

Being healthy obviously contributes greatly to wellbeing, but as people age they are more likely to experience health problems and consequent reductions in quality of life. Retirees may require access to increasingly expensive health care, with impacts on the amount of income that they have left to spend on food, leisure, housing etc. To some extent they will be able to compensate by reducing their consumption but this strategy may be overwhelmed by rapidly growing out-of-pocket medical expenses (Skinner, 2007).

Across the whole population, needs for health care will not be spread evenly and public policy will have to grapple with the extent to which costs are shared and assistance targeted – or not (UK Secretary of State for Health, 2009). However it's not just ageing that is driving up health costs (Bryant & Sonerson, 2006) and there is an argument for investing in the wellbeing of younger adults to make sure they are healthy – and reduce costs – in later life (Crossan, 2010). Indeed, the combination of better (average) health, longer life spans and increased health costs may be encouraging later retirement (Fronstin, Salisbury et al., 2008). Or causation may work in the opposite direction. A New Zealand survey found that many 65 year olds had started taking better care of their health so as to make it easier for them to go on working. On the other hand, for many older workers, getting help at an earlier stage with their health problems or disability may have enabled them to continue in full-time work. Health and employment are closely connected and the economic costs of ill-health, e.g. though lost production, are much greater than the costs of health care *per se* (Centre for Social Research and Evaluation, 2009). A key challenge is to ensure that services are integrated (Ministry of Health, 2002) and that the particular health needs of older people are addressed through specific initiatives (e.g. New Zealand Dental Association, 2010).

Employment

From a wellbeing perspective, it is a good thing if people stay in the workforce longer. The employment of older workers provides benefits for the workers themselves, for society in general and for government revenue (the taxes they pay help meet the cost of NZS). Work at older ages is likely to lead to higher retirement incomes and standards of living, improved physical and mental health, social connectedness and interaction, social status and respect, possibilities for lifelong learning and development, and the ability to stay active (Centre for Social Research and Evaluation, 2009). There is a view held by some that older workers take the jobs of the young, but this is highly unlikely as the two groups have different skill sets, which cannot generally be substituted for each other.

If they wish to do so, employers can make it easier for over 65-year olds to stay in employment, by for example providing more flexible working hours, unpaid leave, and less

physically demanding work. Older people who care for children, and the main caregivers for sick, disabled or aged people, are less likely to be in work than 65-year olds who do not provide care. A 2009 survey found that one-third of non-working 65-year-old carers would like to have had a job, and that some older carers may benefit from help and support with their caring responsibilities and/or their own health, and in finding employment that suits them (ibid). These findings show how employment, health and retirement income policies can often intersect.

Housing

Just as health and employment are interconnected for older New Zealanders, so are health and housing. "Poorly performing homes and the burden of maintenance and repairs have been identified as major factors in prompting older people to disengage from their communities and shift into higher dependency residential environments … older people are prone to under-investing in their repairs and maintenance … the significant increase in the number of older people, combined with older people's vulnerability to cold, damp and falls means that the costs of poorly maintained homes is likely to increase rapidly in the future" (Saville-Smith, James, et al., 2008).

House ownership has a direct effect on poverty rates among people aged 65 and over. Using incomes after deducting housing costs, only 3% of individuals who own their own home without a mortgage are in low-income households, compared to 20% for those still having a mortgage and 47% for renters (Perry, 2010). Unfortunately, housing affordability and rates of home ownership have both decreased over recent years (New Zealand Productivity Commission, 2012) and this trend may drive higher rates of old-age poverty in the future.

Accommodation issues become particularly acute for the very old, and it has been calculated that the number of places in retirement villages and rest homes required to meet increased demand and replace ageing facilities will need to increase by up to 110% by 2026. Recent increases in use of home support services will not be able to absorb all of the future demand for aged care services. These developments raise questions as to which model(s) of delivery will be used, and how expansion will be financed (Grant Thornton, 2010).

Transport

(Largely extracted from NZ Transport Agency 2012.)

According to the New Zealand Transport Agency most older New Zealanders rely on their car to get around – to go shopping, attend appointments or visit friends and family. The ability to own and maintain a safe car is therefore a key component of wellbeing for many retired people.

Driving is a complicated task that requires continuous concentration and good health and ability, not age, determines whether someone is a safe driver. Older drivers as a group are very safe and responsible drivers. However, the ageing process can affect a range of skills essential to driving, including eyesight, memory, decision-making and reaction times. If they crash, older

drivers are more likely to be killed or injured, due to increasing physical fragility. Older drivers need to regularly and honestly assess their own driving capabilities and to respond accordingly in order to keep themselves and others safe. For example it may be necessary to begin using public transport or other modes, e.g. walking, instead of driving oneself and so the availability of public transport and wider transport policy and provision – at national, regional and local levels, assumes greater importance for many older people[3].

Conclusions

Wellbeing in retirement for most people (as at other times in life) is at least partly related to having access to a range of goods and services which need to be paid for. Whether retirement income is derived from New Zealand Superannuation alone or topped up from other sources, it may not cover all the costs of a desired lifestyle. The gap may be closed through discount schemes or bridged by the public funding of amenities such as public transport or health care, or benefits such as an accommodation subsidy. These types of direct and indirect support are overseen by different arms of central and local government. There is a risk that they will become 'silos' and the overview of wellbeing will be lost. The positive ageing strategy is an attempt at a more integrated approach (Office for Senior Citizens, 2010).

The focus of the Commission for Financial Literacy and Retirement Income is specifically on retirement income, but the Commission cannot ignore the interconnectedness and financial implications of all elements which contribute to wellbeing. Poor health for example may impact on ability to keep working, or erode personal savings when the public system does not meet the costs of timely treatment. To this extent, health policy impinges on retirement income policy and vice-versa. Individuals' early life choices may also affect health status and so a lifecycle perspective adds further complexity to considerations of wellbeing in older age. Similarly, the amount of income available to purchase wellbeing will depend on financial decisions made throughout life. Financially literate people are more likely to enjoy good outcomes in retirement, and financial education at all ages is an indispensable component of future-focused retirement income policies.

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[3] See Davey, J. (2004).

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