THE RETIREMENT VILLAGES ASSOCIATION OF NEW ZEALAND INC.
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Diane Maxwell
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Commission for Financial Literacy
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Dear Diane

RVA COMMENTS ON THE *FOCUSING ON THE FUTURE* DOCUMENT

Firstly, on behalf of the Association's Executive Committee and members, congratulations on the production of the Commission's discussion document *Focusing on the Future*. There are many excellent recommendations and we look forward to seeing them implemented. We appreciate that the paper is the accumulation of a year's hard work and is a significant policy guide for future generations' retirement income.

The RVA represents the interests of the owners, developers and managers of around 300 registered retirement villages throughout New Zealand. Our members operate around 21,670 villas, apartments and serviced apartments which are home to around 25,000 older New Zealanders. This figure is approximately 93% of the country's registered retirement village units, and the membership can be divided as follows :

Sector	Percentage by unit number	Percentage by village number
Corporate	66%	54%
Independent	18%	23%
Not for profit	16%	23%

We have restricted our comments to the section dealing with housing on pages 76 – 79.

We note that there has been a decline in home ownership over the last 30 or so years, and that finding suitable affordable accommodation for older people is a challenge facing the Government, housing agencies and the older people themselves. We accept that the decline will affect peoples' housing choices as they age.

The paper notes that one solution is “trading down” to a smaller and therefore less expensive unit and implies that this is less desirable because the quality of the house may be compromised (e.g. a licence to occupy in a retirement village, to a tenancy situation, boarding with adult children, or moving to a lower-quality dwelling).

Retirement villages are specifically mentioned, but also in a way that implies they are an unsatisfactory option – there could be “unforeseen gaps, such as in insurance cover”, residents are unable to access government assistance via the Accommodation Supplement, retirement village documents are “difficult to understand”, or that natural disasters could present issues with tenure security. Villages are also inconsistently referred to as “retirement homes”, thus confusing them with rest homes, or “retirement villages”, which is correct.

Overall, the general tone of the section focuses on perceived disadvantages of retirement villages without recognising the many advantages villages offer. We believe this presents an unbalanced view, and these comments are to encourage you to correct the perceived disadvantages and include the many advantages of retirement village living.

It is important to understand the industry’s business and compliance model, which can be summarised thus :

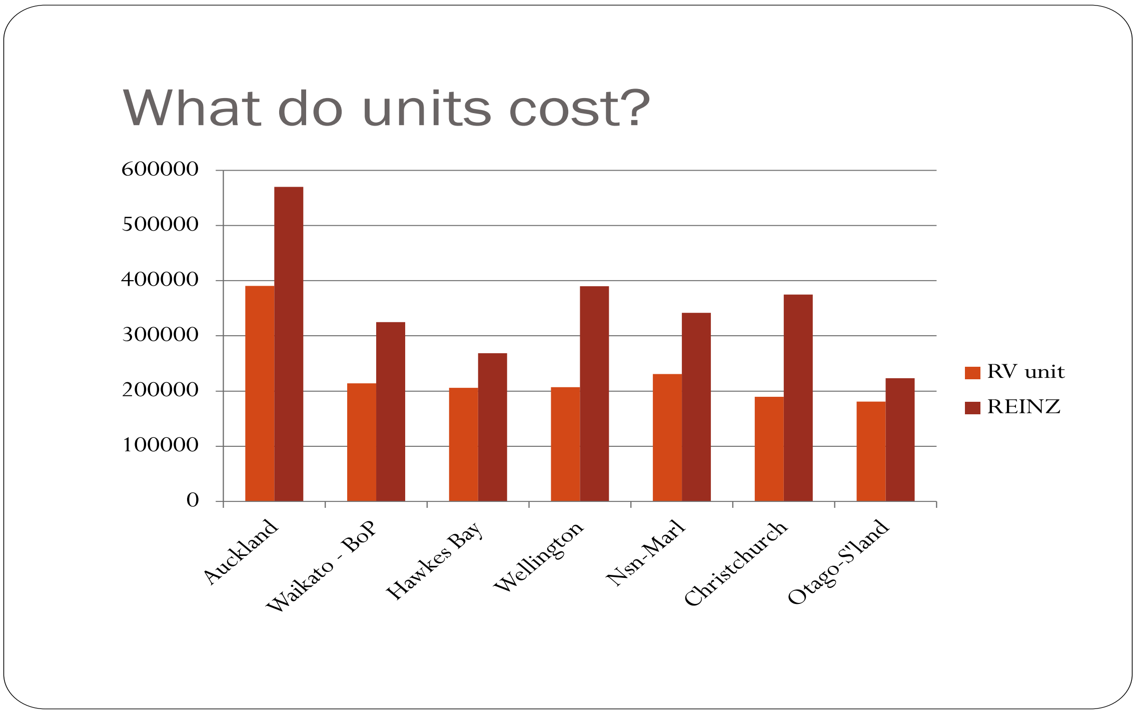
- The Retirement Villages Act and related legislation provides an extensive consumer protection regime. As a result, an intending resident makes an informed decision in choosing a retirement as the operator must provide extensive information about the village.
- A statutory supervisor must be appointed to oversee and report to the Registrar of Retirement Villages and the Financial Markets Authority on the village’s financial health. The Act provides the supervisor with extensive powers to step into manage the residents’ interests if the need arises.
- A lawyer must sign a covenant to say that s/he has explained the relevant occupation right agreement (ORA) and the resident understands what they are entering into.
- The ORA sets out clearly how much it costs to move into the village, what the charges are and how much the resident gets back when they exit the village.
- The portion the operator retains varies between 20% and 30% and the resident gets back between 70% and 80% of their original capital sum.
- The portion retained by the operator is used to refurbish the unit and bring it back to as-new so it can be re-sold, as well as contributing towards the upkeep of the village and access to the community facilities.
- Purchasing an ORA is not an “investment” in property in the traditional sense; it is an investment a resident’s future well-being and lifestyle.

Research undertaken by the Retirement Commissioner in 2006[1] found that 61% of our residents have only their national superannuation to live on, 55% state their income as $25,000 or less, 58% state their total assets, including their Occupation Right to the unit, are $400,000 or less. Just 7% state their current asset value is greater than $600,000.

[1] Retirement Commission, Retirement Villages Survey 2006, p. 31

Releasing the capital

Because the resident doesn't have title to their unit they are not responsible for its maintenance, insurance and replacement (other than through a contribution via the weekly fee). As a result the initial capital cost of moving into a village is usually less than the capital realised from the sale of their family home. The following graph compares the difference in the average cost of purchasing an ORA in a retirement village with the median house price for September 2013 as produced by the Real Estate Institute.



Or to put it another way :

Region	Ave RV unit cost based on Trade Me Property advertisements - $	Median residential house price (Sept '13) $	Difference - $
Auckland	390,790	570,000	179,210
Waikato – Bay of Plenty	213,750	235,000	111,250
Hawkes Bay	206,100	268,750	62,650
Wellington	206,820	390,000	183,180
Nelson – Marlborough	230,690	342,000	111,310
Canterbury	189,450	375,000	185,550
Otago – Southland	180,670	223,500	42,830

As can be seen, moving to a retirement village allows a resident to release the equity tied up in their own home. That home is then released back into the general market for a new family to move to and relieve the housing shortage.

The retirement village industry is growing rapidly, accounting for 6% of all residential consents throughout New Zealand and the number of units is growing at a rate of up to 10% annually. While there has been a 3.7% rise in stock of age care beds since 2008, there has been a 30.3% increase in retirement village stock over the same period.

Retirement village units are purpose-designed for older people; they are warm, accessible, comfortable, secure and affordable, and compare very favourably with an isolated home in the suburbs. I have attached a paper written recently by the RVA's President Margaret Owens for the Property Council that outlines the design parameters for retirement village units which makes this point well.

Fees and insurance costs

The paper claims that retirement village fees and the requirement "to fund various types of insurance" is a "challenge".

The RVA recently researched the average weekly fee paid by retirement village residents by local authority area across New Zealand, and the following table sets out the findings :

TLA	Average weekly fee $	TLA	Average weekly fee $	TLA	Average weekly fee $
Auckland Council	139.95	Marlborough	101.99	Upper Hutt	115.34
Christchurch	105.74	Masterton	120.69	Waikato	80.67
Dunedin	110.56	Napier	79.92	Waipa	109.21
Gisborne	86.09	Nelson	97.67	Wellington	103.32
Hamilton	117.34	New Plymouth	100.38	Whangarei	97.76
Hastings	110.97	Palmerston North	110.21	Whanganui	109.15
Horowhenua	97.82	Rotorua	116.44	Rest of NZ	100.41
Invercargill	106.73	Tauranga	128.33		
Kapiti	130.21	Thames-Coromandel	130.66	All NZ	119.77

The table shows that weekly fees range from $80 in the Waikato and Napier to almost $140 in Auckland. The fees include ongoing costs such as rates, water, communal area power, replacement insurance, staff salaries, compliance costs, emergency call monitoring, certain communal activities, and the village van. An analysis of similar costs in their own freehold home faced by a new Hamilton village resident came to around $170 per week. Moving to a retirement village saved them $53 per week, or $2,800 annually.

The Retirement Villages Code of Practice requires operators to have "full replacement insurance" and this is what is divided up among residents. Other insurance costs such as temporary accommodation, business interruption, and third party liability are usually met by the operator. The resident should have contents cover that will include temporary accommodation, and the special insurance offered via the Association to residents does not have an excess should a claim be made.

Insurance cover for a retirement village resident is considerably simpler and cheaper than the new changes to household insurance they would have faced had they stayed in their own home.

The Canterbury earthquakes were a unique event. The industry accepted that some residents' contracts could have been fairer and encouraged Government to amend the Code of Practice so that the unfairness was corrected. From 13 October 2013 all ORAs must be amended so that in the event of a unit or village being destroyed and not replaced, the resident must get back 100% of their original capital purchase, without deductions.

It's worth noting that two villages we are aware of recently undertook multi-million dollar repairs to leaky buildings in the village at no cost to the residents, thereby avoiding the stress, legal fees and costs of replacement themselves.

Consumer protection

The Retirement Villages Act, regulations and Code of Practice provide a comprehensive suite of consumer-centric protection when moving to a registered retirement village.

We accept that it can be difficult for older people to understand the retirement village business model, which is why they are required to get proper legal advice. The various provisions means that informed decisions are made about the village, and we note that despite the difficulties of the recent GFC, not one retirement village resident lost their home due to a village's financial failure.

Issues identified with downsizing

The paper notes a variety of issues that could arise when an older person decides to downsize their home. While we accept that while some of these can arise, we believe the tone is unnecessarily alarmist, and, so far as retirement villages are concerned, are just wrong.

Continued tenure in a retirement village depends on whether a resident can live independently. There are strict provisions around how independence is assessed and their tenure is certainly more secure than a rental unit. If eligible, residents can access free home-based support services from their DHB.

The cost of rest home care is met by the state if the resident's assets are less than $213,000. Claiming that rest home care is somehow a negative if someone needs it is misguided.

We note the concern that downsizing to a smaller house can bring issues with accessibility and modifications to meet the needs of less-mobile people. Retirement village units are designed for people to age in place, as the attachment indicates.

We agree that eligible retirement village residents ought to be able to access the Government's rates rebate scheme, and note that some Councils have amended their own policies so that residents can receive a rates remission. The Commission's assistance to persuade the Government to amend the Rates Rebate Act 1973 would be very welcome.

Retirement village operators are aware that there is a demand for social housing and are exploring ways to provide this. Options include adding rental units to the village, modifying the ORA formula so a lower capital payment is required, and so forth.

People move into a village for many reasons, but the most popular quoted is companionship, security and peace of mind, or lifestyle benefits around activities and not having to maintain the family home anymore. [2] It is worth noting that Age Concern has found that 8% of people aged 65 or older are “severely or chronically lonely” [3]. Age Concern goes on to note that loneliness is as big a health risk as smoking or drinking, and a significant risk factor for physical and mental health problems. Retirement villages directly address these health issues and are part of the solution for these older New Zealanders

Retirement villages are designed to foster social connectivity and reduce isolation that occurs in the conventional housing estate. Residents often say “we should have done this years ago”. Australian research[4] shows that residents live longer, healthier and happier lives in a retirement village than the same cohort on the outside.

In 2006 the Retirement Commissioner [5] found that 99% of retirement village residents were “satisfied or very satisfied” with their decision to move to a retirement village. This level of satisfaction correlates with operators’ own satisfaction surveys which show that their residents are very satisfied (68%) or satisfied (32%). This level of satisfaction is attributed to the quality of the village staff and the village’s friendly or family atmosphere.

Summary

Retirement village operators are proud of their story and want to present the industry as being part of the solution, not part of the problem. We are disappointed that the *Focusing on the Future* document portrays villages in a less than optimal manner and we trust these comments will assist in rebalancing the picture.

Rather than listing rather nebulous and unsubstantiated criticisms of retirement villages, we strongly believe the next iteration of the paper should present villages as a genuine and positive option for people to release the equity in their home, move to a village with clear and defined costs and benefits, and enjoy the advantageous lifestyle the village offers.

We are happy to discuss our comments with you or your staff and look forward to doing so.

Kind regards

John Collyns
Executive Director

[2] Retirement Commission, op cit, p. 4
[3] See Age Concern North Shore’s *Age Matters* October 2013 newsletter, but other references on the Age Concern website also can be found
[4] See, for example, the resident welfare research undertaken by the Wollongong-based Illawarra Trust.
[5] Retirement Commission, op cit, p. 4