

Submission of the **Human Rights Commission Te Kāhui Tika Tangata** on the **Retirement Commissioner's 2013 Review of Retirement Income Policy**.

Introduction

Thank you for the opportunity to contribute to the review of retirement income policy. This submission is focussed on the human rights implications of retirement income policy, in particular the impact of retirement income policies on vulnerable groups.

Summary

The Human Rights Commission urges the review of retirement income policy to place human rights standards at the heart of decision making on policy recommendations.

The Human Rights Commission (the Commission) notes that currently the universal provision of state funded retirement income (New Zealand Superannuation) is lauded internationally because, relative to other countries a lower proportion of older people in New Zealand live in poverty.

This is particularly notable because of the effect on women, a group who internationally are often impoverished in old age as a result of income based retirement schemes. The Commission supports the inclusion of "women's future retirement income prospects" in the terms of reference.

It should be noted that there are a number of other groups in the community who because of lower lifelong incomes, have had limited resources to save for retirement and limited resources to build an asset base including home ownership.

There is also a disparity within groups in the community in life expectancy. The trend towards older people working longer is also tempered by health status and the demands of their jobs.

Therefore the Commission urges the Retirement Commissioner to include consideration of equality of outcome and protection from discrimination of vulnerable groups in the community.

Human Rights Standards

The right to an adequate standard of living is enshrined in the Universal Declaration of Human Rights at Article 25 and explicitly makes reference to security in old age.

Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.

This principle is repeated in the International Covenant on Economic, Social and Cultural Rights, (at Article 11).

Another fundamental principle of human rights is non-discrimination. The first article of the Universal Declaration states: **All** human beings are born free and **equal** in dignity and rights... and the language of the declaration repeats in article after article, “everyone”, “all”, “equal”, “without discrimination”, and in negative instances “no-one”. The preamble to the Covenant on Economic and Social Rights states:

*Recognising that in accordance with the Universal Declaration of Human Rights, the ideal of free human beings enjoying freedom from fear and want can only be achieved if conditions are created whereby **everyone** may enjoy his economic social and cultural rights, as well as his civil and political rights.* (HRC emphasis)

Applying the principles of universality and non-discrimination requires an analysis of what the outcomes to various policy options are likely to be for different groups, in addition to establishing that everyone should enjoy freedom from want.

Income based retirement savings schemes

Currently, income from New Zealand Superannuation (NZS) is supplemented by savings and from assets, for many older New Zealanders, the main asset is home ownership. Savings from income, whether it is from Kiwisaver or from other savings plans, rely on an adequate income across the life-span. There are significant income disparities between groups.

The median weekly income from all sources for men \$707.00 and for women is \$450.00, a weekly income gap of 36.4%.¹ Women are more likely than men to be employed at or near the minimum wage, are more likely to have periods in their working age life of being in unpaid work and are more likely to have periods of working part-time. In other words women work fewer hours in paid work during their working life and are paid less for those hours than men. Over a lifetime this accumulates into a substantial income gap. Schemes which are based on saving a percentage of income disadvantage women.

Income disparities also occur between people of different ethnicities. The median weekly income for Pākeha New Zealanders is \$597.00; for Māori it is \$475; Pacific peoples \$401; Asian \$446; Middle Eastern, Latin American and African \$465 and other ethnic groups are \$486.00. The income gap between Pākeha and Māori is 20.4% and the income gap between Pākeha and Pacific peoples is 32.8%.

People with disabilities are more likely to be unemployed than their non-disabled counterparts. In all disability surveys, which are undertaken in conjunction with the national census, disabled people of working age (15-64) were more than twice as likely to not be in the labour force and disabled people of working age were considerably less likely to be employed. Regular employment data gathered more frequently such as the Household Labour Force Survey (quarterly) the Income Survey (annual) and the State Services Commission Human Resources Capability Survey (annual) do not provide data for disabled people. “Whether employed or unemployed, disabled adults have, on average, a

¹ Calculated from Stats New Zealand New Zealand Income Survey 2012

very low level of annual personal income.”² Many of the disabled people on very low incomes are living on benefits but not all. Of the disabled people on an income below \$15,000 approximately 72% receive a benefit. The rest, presumably, are on very low wages.³

These gaps demonstrate the discriminatory effect income based retirement schemes have. Increasing financial literacy may persuade people to save but the quantum of savings is dependent on income. For many vulnerable groups in the community, their income is barely sufficient to meet the cost of daily life. Saving for the future is not a priority.

For those older New Zealanders who are able to save for retirement, strong and trustworthy capital markets are critical to adequacy of retirement income. The Government has spent over \$1 billion on the bail out of finance company depositors many of whom had put all their retirement eggs in one basket. Arguably, these bail outs have an intergenerational impact. The Capital Markets Taskforce recommended that retail investors must have available a range of quality financial products, with a simple and comprehensive regulatory regime around them that is vigorously enforced.⁴

Home ownership

Current analysis of the adequacy of NZS in limiting the number of older New Zealanders living in poverty includes the effect of high levels of home ownership among this age cohort. Housing costs are lower for people who have paid off a mortgage. Based on 2006 census data, over three quarters of people over 65 own their own home and most have paid off the mortgage or reduced it to low levels.

People on low incomes are much more likely to maintain an adequate standard of living if they own their own home. Older people who struggle on low incomes are those paying rent or paying off a mortgage.⁵ Home ownership confers three significant benefits to owners. Firstly, housing assets can be liquidated to supplement income; owner-occupied dwellings are typically more attractive, comfortable, offer greater security of tenure, be better connected and in better condition and thirdly mortgage free ownership is cheaper both in utilities expenditure and housing cost.⁶

The home ownership rate for men is 4.7% higher than for women. The ethnic patterns of home ownership however are far more striking. Almost 80% of Pākeha over the age of 65 own their own home, while just over 60% of older Māori do. Only 38.2% of Pacific people own their own home at the age of 65 or over.

² Wicks, W. (2007) *Disabled People and Provision for Retirement* Background paper 2007 Review of Retirement Income

³ Ibid

⁴ Capital Market Development Taskforce (2009) *Capital Markets Matter* Ministry of Economic Development

⁵ Saville-Smith, K. (2013) *Housing Assets* paper prepared for this review

⁶ Ibid

The rate of home ownership for disabled people is less than that for non-disabled people in all age groups.⁷ The pattern of home ownership varies according to whether or not the disability has been present since birth, or whether the disability is age related. For the former group, only 27% own or partially own their own home.

New Zealand houses are “severely unaffordable”⁸ and rents are rising. The effect is likely to be fewer older people retiring with a mortgage free home. This will increase the levels of poverty of older New Zealanders. Home ownership statistics also reflect different patterns of household income. Vulnerable groups within the community are less likely to own their own homes than others, which increases their likelihood of living in hardship as they age.

Alleviation of poverty at any age

The Commission notes that by international standards, New Zealand has low rates of poverty among older people but higher rates of poverty for children. Material deprivation rates which reflect day to day living conditions show that 3-5% of older New Zealanders are poor, which puts older people in this country very near the top of absence of deprivation across the world.⁹ OECD data, using a different poverty measure puts the number of older New Zealanders living in poverty at 2% and puts New Zealand in the top three.¹⁰ The Ministry of Social Development (MSD) estimates that between 4 and 9% of older New Zealanders have “very restricted” living standards and note that the hardship rate for older New Zealanders is lower than for any other group.¹¹

It is notable that New Zealand is only one of three countries (Iceland and Luxembourg are the others) in OECD countries where older women do not have poverty rates higher than men.¹² New Zealand is also in the top three, with the Czech Republic and the Netherlands as having the fewest poor elderly.¹³

The provision of NZS to all New Zealanders over 65 with few exceptions in conjunction with a high rate of home ownership among older New Zealanders assures a reasonable level of material well-being among most of the older population.

Discourse about the intergenerational impact of retirement income policy should be predicated on the principle that all New Zealanders have a right to an adequate standard of living. Human rights are indivisible. An adequate standard

⁷ Ibid

⁸ New Zealand Council of Christian Social Sciences (2013) Vulnerability Report Issue 15 Easter 2013 citing the 9th Annual Demographia International Affordability Survey.

⁹ Boston, J. (2013) *The Challenge of Securing Durable Reductions in Child Poverty in New Zealand* pp3-11 Policy Quarterly Volume 9 Issue 2 May 2013

¹⁰ OECD (2012) *Old Age Income Poverty in Pensions at a Glance 2011: Retirement-incomes Systems in ECD and G20 Countries* OECD Publishing

¹¹ Ministry of Social Development (2013) *Description of New Zealand's current retirement policies* Background paper prepared for this review.

¹² OECD (2012) *Old Age Income Poverty in Pensions at a Glance 2011: Retirement-incomes Systems in ECD and G20 Countries* OECD Publishing

¹³ Ibid

of living is assured by both sufficient income and access to other resources such as housing and health.

Considerations of intergenerational impacts also need to factor in the economic contribution of New Zealanders over the age of 65. MSD states the tax contribution of older New Zealanders in paid employment at about \$200 million in 2011 and estimates the tax take of this group to rise to \$1.8 billion by 2051. The value of unpaid and voluntary work is estimated \$5-\$6 billion in 2011 rising to over \$22 billion by 2051. In its National Conversation About Work¹⁴ in which the Commission talked to New Zealanders all over the country about work, the unpaid work of the so-called retired was a theme in meetings in various parts of the country. Some participants said that there was often a cost to voluntary work, such as petrol costs which limited the amount of voluntary work undertaken for some. The characterisation of older people as a burden is far from the truth.

Raising the age of eligibility

Calls for increasing the age of eligibility for NZS frequently refer to the increased number of years people can expect to live now. The number of years spent in retirement has increased at the population level, but the years spent in receipt of NZS vary considerably between people of different ethnicities, between men and women and for people with disabilities.

Māori men have a life expectancy 7.4 years less than non-Māori men. Māori women have a life expectancy 7.2 years less than non-Māori women. In other words, Māori men will have 7.8 years in receipt of NZS, Māori women will have 11.5 years, while non-Māori men will have 15.2 years and non-Māori women will have 18.7 years. Life expectancy for Pacific peoples is about four years less than for the overall population which shortens the length of time in receipt of NZS.

For both Māori and non-Māori, women have approximately 3.5 years more years in receipt of NZS than men.

The report on Health Indicators for New Zealanders with Intellectual Disabilities states that the life expectancy of men with intellectual/learning disability is 18 years less than other New Zealand males and for women the life expectancy gap is 23 years. These statistics suggest that few men and women with intellectual/learning disability are likely to receive NZS at the current age of eligibility, and even less would receive it should the age of eligibility rise. Information about the life expectancy of people with other disabilities has not been found, but it is predicted that it is likely to be lower than that of the general population.

Increasing the age of eligibility will have a disproportionate effect on Māori, Pacific people and those with disabilities and to a lesser extent, on men. The

¹⁴ Human Rights Commission 2010 *What Next? National Conversation about Work* Human Rights Commission

Commission agrees with the observation of Alison O'Connell¹⁵ that variations in lifespan can be taken into account in setting eligibility age.

The ten goals of the New Zealand Positive Ageing Strategy are:

- **Income** - secure and adequate income for older people
- **Health** - equitable, timely, affordable and accessible health services for older people
- **Housing** - affordable and appropriate housing options for older people
- **Transport** - affordable and accessible transport options for older people
- **Ageing in the Community** - older people feel safe and secure and can age in the community
- **Cultural Diversity** - a range of culturally appropriate services allows choices for older people
- **Rural Services** - older people living in rural communities are not disadvantaged when accessing services
- **Positive Attitudes** - people of all ages have positive attitudes to ageing and older people
- **Employment Opportunities** - elimination of ageism and the promotion of flexible work options
- **Opportunities for Personal Growth and Participation** - increasing opportunities for personal growth and community participation.

The strategy provides a framework for the development of policies and practices for older people. Retirement Income policy should be congruent with the Positive Ageing Strategy and with human rights standards.

Conclusion

At present New Zealand has a proud record of minimising poverty in old age through universal New Zealand Superannuation. But this provision is successful in conjunction with high levels of home ownership, which are predicted to decline in the future and which are at varying levels in different sectors of the community. Income inequality impacts on both home ownership and the ability to accumulate assets and savings for a comfortable old age. Any changes to retirement income policy must be fair and ensure an adequate standard of living.

The Human Rights Commission urges that the current review of retirement income policy considers and commits to an equitable and adequate standard of living for all older (and younger) New Zealanders.

¹⁵ O'Connell, A. (2013) *Longevity trends and their implications for the age of eligibility for New Zealand Superannuation* paper prepared for this review