

31 May 2013

Commission for Financial Literacy and Retirement Income
P O Box 12-148
Thorndon
WELLINGTON 6144

By email: 2013review@cflri.org.nz

**SUBMISSION on
2013 Review of Retirement Income Policy Terms of Reference**

Thank you for the opportunity to make a submission. This submission is from Consumer NZ, New Zealand's leading consumer organisation. It has an acknowledged and respected reputation for independence and fairness as a provider of impartial, and comprehensive consumer information and advice.

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1. General comments on the topics for the 2013 review

1.1 We note that the terms of reference for the review cover six topics:

- An update of and commentary on the developments and emerging trends in retirement income provision since the 2010 review.
- The intergenerational impacts of New Zealand's retirement income policy.
- An assessment of the role of private savings for retirement.
- The contributions made by other policies and programmes, such as housing and health, to maintaining New Zealanders' retirement income.
- Women's future retirement income prospects.
- The role of financial education and financial literacy in retirement income policy.

The main comments we wish to make are relevant to the fourth bullet point and concern housing and associated costs, primarily electricity.

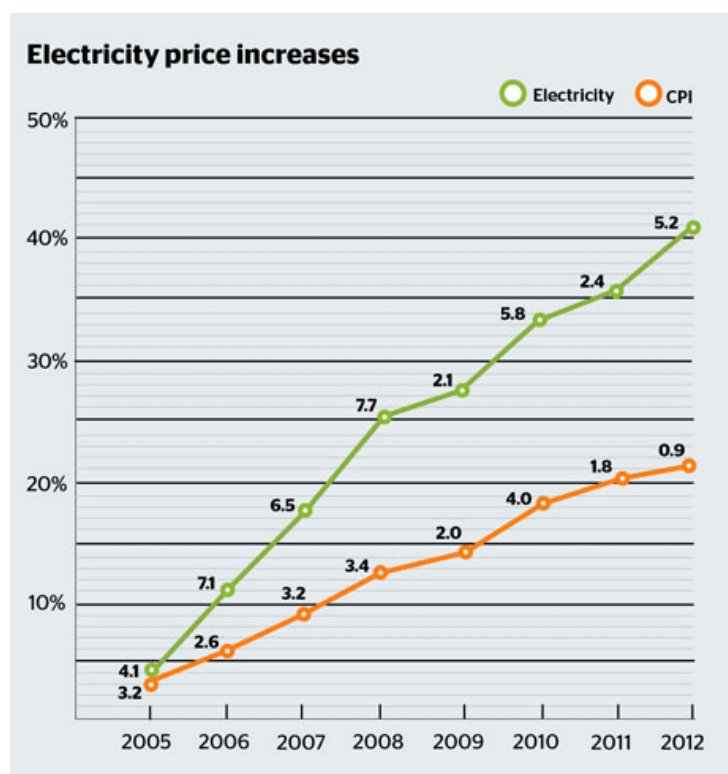
2. Rising housing costs

2.1 New Zealand's retirement income policy has relied heavily on the fact that the majority of retirees own their own home mortgage-free. As research commissioned by CFLRI has confirmed, those who own their own homes are significantly better off in retirement.

2.2 However, home ownership rates have been falling and this trend is forecast to continue. The fall in home ownership has major implications for future retirees as a significant proportion are likely to be living in private rental accommodation and paying market rates for accommodation.

2.3 Retirees who are forced to rent are already much more likely to experience financial hardship than those who own their own home. With market rents rising and home ownership rates falling, rates of poverty among the 65+ demographic are therefore likely to increase.

2.4 In addition to rising market rents, other household costs such as electricity have also been increasing. Statistics NZ data show that domestic electricity prices have risen by an average of 5.1 percent a year since 2005, almost double the rate of general inflation (see graph).



Source: Data are from Statistics NZ's Consumer Price Index for years to December.

2.5 Rising electricity costs have had a much bigger impact on low-income households and are a major factor in fuel poverty. According to research by the Housing and Health Research Programme, around 25 percent of households were estimated to be living in fuel poverty in 2008.

2.6 There is limited additional support available to retirees to meet rising power costs. Unlike Australia, we have no legal requirement for electricity companies to have a

hardship policy. Electricity rebates or concessions for superannuitants are also uncommon.

2.7 Those struggling with rising power costs may find they are effectively forced to switch to a pre-pay meter. While these meters may assist with budgeting, rates for pre-pay are more expensive than those for standard plans. Our 2012 comparison of 10 regions found homes with prepay meters can pay hundreds of dollars more for their power (see table).

PREPAY VS STANDARD ELECTRICITY PLANS			
COMPANIES	ANNUAL COSTS (\$)		
	CHEAPEST PREPAY PLAN	CHEAPEST STANDARD PLAN	DIFFERENCE
Contact Energy (northern Northland)	3245	2625	620
Mercury Energy (Auckland)	2634	2481	153
Genesis Energy (Hamilton)	3120	2719	401
Genesis Energy (northern Taranaki)	2778	2475	303
Genesis Energy (Gisborne)	2814	2733	81
Genesis Energy (Manawatu)	3120	2794	326
Genesis Energy (Wellington)	2897	2668	229
Meridian Energy (Christchurch) ^A	2618	2462	156
Contact Energy (Dunedin)	3423	2567	856
Contact Energy (Invercargill)	4011	2912	1099

Guide to the table: Annual costs are based on April 2012 prices from Powerswitch. ^AMeridian Energy ended its Christchurch prepay plan in September 2012.

2.8 Increasing electricity prices (coupled with the quality of our housing stock) also mean it is difficult to heat homes to the minimum 18°C recommended by the World Health Organization. Cold, damp housing is associated with respiratory and other adverse health conditions, and has significant implications for the health of older people.

3. Summary

3.1 We are pleased to see that housing will be a focus of this review. As noted in the "Housing Assets" background paper authored by Kay Saville-Smith, older people's housing and retirement incomes cannot be effectively dealt with in isolation from each other.

3.2 On current trends, those relying solely on New Zealand Superannuation will increasingly find their income is insufficient to meet rising housing costs. The impact will be felt most acutely by retirees who have been excluded from home ownership and are paying market rents for private accommodation.

Yours sincerely



Sue Chetwin
Chief Executive