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RPRC Update

Retirement Policy and Research Centre

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Financing of long-term care and long-term care insurance for the aged: A literature-based comparison of seven OECD countries

Working Paper 2012-2 by M.Claire Dale, Susan St John & Judith Hanna.

Globally, population ageing is unprecedented, pervasive, and profound. This demographic change will endure as a result of falling birth rates and increasing longevity. The share of the population aged over 80 years in the Organisation for Economic Co-operation and Development (OECD) member countries increased from less than 1% in 1950 to around 4% in 2010, and is expected to reach nearly 10% by 2050.

The speed of change is expected to accelerate dramatically over the next 20 years as the babyboomer generation moves into and through retirement. For example, New Zealand's 65+ population is expected to increase from 605,000 (2012) to 1,100,000 before 2030. Compounding the problem, during the global financial crisis and the following recession, many private pension funds were severely diminished, compromising potential private contributions to aged care. At the same time, female labour-market participation is increasing and there are fewer traditional family arrangements that may in the past have provided care for the aged.

In addition to the enlarged burden of pension costs, a further consequence of increasing longevity and medical and technological advances is that total healthcare expenditure in OECD countries has climbed faster than GDP, at an average annual rate of 2% over the past 50 years. Some estimates suggest that by 2040 total expenditure could grow by another 50-100%.

One consequence of the combination of demographic and financial pressure is that pension policies and health systems are under increasing scrutiny for their sustainability in most OECD countries. Rapid growth in the demand for in-home and residential long-term care (LTC) for frail and disabled seniors is accelerating changes in policy and provision in many countries; and this growth and change is in turn stimulating interest in a range of markets, including annuities and long-term care insurance (LTCI).

To identify the critical issues and develop workable policies for LTC, and a framework for the development of LTCI, it is necessary to understand a country's total 'aged environment', including the public age-pension and retirement income policies, current private pension policies, LTC policy, and the market for decumulation products, including LTCI and annuities, and their interplay.

The paper summarises the methods for financing LTC and LTCI provision in seven countries: New Zealand, Australia, France, Germany, Japan, England, and the United States of America (US). As long as New Zealand has no compulsion to annuitise, limited tax incentives in the accumulation phase (KiwiSaver), and no Government interest or encouragement, the market for annuities will remain thin and the market for LTCI will remain non-existent. The Working Paper is available here.

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PensionBriefing 2013-1

Updating NZSF investment performance numbers to 2012

New Zealand Superannuation (NZS) is a universal, taxable pension, funded largely on a 'pay-as-you-go' (PAYG) basis from general taxation. The New Zealand Superannuation Fund (NZSF) was established in 2001 to partially pre-fund future payments of NZS and received its first contributions in the 2003/04 financial year. The government temporarily suspended contributions in 2009 and said it intends to resume those from 2019.

This *PensionBriefing* updates estimates of the NZSF's impact on the government's balance sheet to 30 June 2012, based on the NZSF's audited accounts for the 2011/12 financial year. In the nine years to 30 June 2012, the Guardians have made a very modest accumulated contribution to the government's balance sheet. However, for the reasons described in this *PensionBriefing*, the Guardians have not come close to compensating taxpayers on a risk-adjusted basis for the 100% leveraged strategy. If the government's accounts were examined in a 'total accounting context', every dollar in the NZSF is effectively borrowed. On that measure, taxpayers are $2.8 billion worse-off over nine years. (here)

PensionBriefing 2013-2

New evidence on household wealth from the Reserve Bank

At the end of each year, the RBNZ publishes a snapshot of the assets and liabilities of all New Zealanders, in theory counting all debt, all housing, and all financial assets. Gaps in this information have always been acknowledged. Now, a 2012 paper from Phil Briggs, an RBNZ staff member, has added estimates of the value of businesses and some other assets.

It appears that previous estimates have 'missed' about one fifth of the total. Net housing assets that previously appeared to be 69.6% of total net assets in 2011 now appear to be about 54% of the total. There are still some data gaps to fill so even these new numbers are conservative estimates of the likely actual position at 31 December 2011. New assets will probably be added directly to net worth. (here)

PensionBriefing 2013-3

Oral health, general health, and residential aged-care

Dental problems can be the source of general health issues, chronic illnesses, and diminished quality of life, yet oral health in older people is not seen as part of overall health by central government funders. Dental care is specifically excluded from the Ministry of Health's Age Related Residential Care contract between district health boards and rest homes and hospitals.

Care facilities for dependent elderly residents are not required to have oral care policies or provide oral care plans, and unless the resident or their family is able to both afford and access treatment, dental problems are often neglected. Yet poor oral health is associated with a poor nutritional status, and international evidence is growing about links between periodontal disease and cardiovascular disease, diabetes and other chronic illnesses. The number of people aged 65+ was more than 600,000 in 2012. The number is likely to double again by 2036, and increasing numbers of these people have their own teeth. More oral-health related general health problems are likely unless the Ministry of Health introduces good oral health as a priority goal for the aged in the public health system. (here)

2013 Review of Retirement Income Policy

The Commission for Financial Literacy and Retirement Income's (CFLRI) **2013 Review of retirement income policy** involves consultation, submissions, commissioned research and analysis, and culminates in a comprehensive report.

The RPRC has provided material for the Review, input to workshops and will also make a Submission. **Submissions** are open in April and May 2013.

The review will consider eight 'superannuation' objectives:

- Income support: alleviate old age poverty and hardship
- Wellbeing in retirement: positive and active ageing
- Encouraging personal responsibility, individual choice and control: voluntary saving for retirement
- Longevity risk pooling: share protection against the risk of outliving savings, i.e. longevity risk
- The citizenship dividend: build and maintain social cohesion and national identity
- Lifetime consumption smoothing: maintain accustomed living standards
- Intergenerational equity (cohort self-funding): ensure equity or fairness between generations
- Fiscal restraint and investment: promote economic growth and efficiency.

Other CFLRI news

The RPRC welcomes interim Retirement Commissioner Diane Maxwell (seconded from the Financial Markets Authority).

The Commission's *Financial Literacy Summit 14 June 2013*, and the pre-summit *What works? Research and evaluation in financial literacy* workshop 13 June 2013 are at the Langham Hotel, Auckland. Find the latest summit updates and programme information on the Summit 2013 webpage or by subscribing to the Commission's email newsletters.

RPRC Submission to Ministry of Business, Innovation and Employment: *Financial markets conduct regulations*

New Zealand's regulatory treatment of pooled funds has been inconsistent. We therefore welcome the Financial Markets Conduct Bill and the Discussion Paper that propose consistent regulatory treatment across similar financial services. However, the proposals in *Discussion Paper Chapter 4, Governance* seriously misunderstand and misrepresent the position of 'superannuation schemes' both here and overseas.

The proposed rules impose restrictions on non-KiwiSaver superannuation schemes: "legitimate retirement savings schemes". But New Zealand's superannuation schemes have always given early access to benefits, even when they enjoyed significant tax benefits. Superannuation schemes are currently on the same tax and benefit footing as bank accounts. The government would not attempt to make savings accounts inaccessible until retirement age, yet the Discussion Document proposes locking the benefits in superannuation accounts until retirement. We strongly oppose that regulatory intervention. (here)

RPRC Submission to Ministry of Health, Health of Older People Policy Business Unit: *Premium-only aged residential care facilities and stand-down provisions for mixed facilities*

We oppose a change to the current regime that would allow the establishment of state-subsidised 'premium-only' aged care facilities. Such facilities would exclude residents unable to pay the extra 'premium' charges, yet would still receive subsidies via District Health Boards (DHBs) from the Health budget. Around 31,000 people are in long-term residential aged care in rest homes and hospital facilities. DHBs currently pay around $910 million annually in subsidies, and the residents pay a further $730 million as a result of income and asset testing.

The proposed change could undermine both access to and adequate provision of standard care; it would divide the sector and create a segmented market. It would put huge pressure on facilities that are ***not*** premium-only, and put the standard level of provision at risk. It would also increase the risk of a shortage of beds in some regions where larger numbers of poorer elderly reside. (here)

RPRC in the media and public presentations and contributions

25 January *Dominion Post*, Eloise Gibson quotes Michael Littlewood in *KiwiSaver option drawcard for young,* here.
31 January *NZ Herald*, Tamsyn Parker quotes Susan St John in *Women lag in retirement savings* here.
7 February *Stuff.co.nz*, James Weir quotes Michael Littlewood in *NZ Super Fund returns 'fail to justify debt cost'* here.
7 February *KiwiBlog*, David Farrar quotes Michael Littlewood in *NZ Super Fund returns*, here.
7 February *Journal of Ageing & Society*, Susan St John reviews manuscript for 2013 publication.
8 February *World TV*, Michael Littlewood suggests *Superfund Returns 'Not Good Enough'* here.
11 February *Morning Report*, Michael Littlewood interviewed on *New Zealanders able to shift pension across Tasman* here.
13 February *World TV*, Winnie Zhang interviews Susan St John on *Impacts of workers' redundancy on their children*.
19 February *interest.co.nz*, Gareth Vaughn writes *New Zealand households don't have quite so many of their asset eggs in the housing basket as we thought, says Michael Littlewood* here.
19 February *New Zealand Property Investors Federation News* quotes Michael Littlewood in *"Property love affair" may be not so strong* here.
19 February *Landlords Property News* quotes Michael Littlewood in *"Property love affair" may be not so strong* here*.*
8 March *Unitec International Women's Day Breakfast*, Susan St John keynote speaker: *Should we be celebrating?*
11 March *Long-Term fiscal Projections, Treasury, Victoria University of Wellington*, Susan St John, External panel contributor.
12 March *Waiheke Cinema*, Susan St John Panelist for discussion for *Inside New Zealand: Child Poverty* documentary.
13 March *St Mary's Cathedral, Parnell*, Susan St John, Panelist for *Recovering the Common good.*
17 March *Herald on Sunday*, Susan Edmunds quotes Michael Littlewood in *Retirement means isolation and frailty, study says – so live now* here.
21 March *Stuff.co.nz*, Eloise Gibson quotes Michael Littlewood in *NZ Super Fund annual return nearly 18 pc* here.
21 March *NZ Herald, Opinion*, *Susan St John: Let's have policies for all children*, here.
21 March *Institute of Judicial Studies, Auckland Conference**: Trends in New Zealand Society- Poverty,* Susan St John Keynote Speaker on *Poverty and Inequality*.
22 March *Institute of Judicial Studies, Auckland Conference**: Trends in New Zealand Society- Poverty,* Susan St John Guest Presenter on *Child Poverty and the Justice System*.

pensionreforms

PensionReforms is currently 'off-line' because of a change in internet service-provider (ISP). PensionReforms technology is not compatible with the new ISP. As a consequence, the underlying code for PensionReforms has had to be rewritten.

We are hoping for normal service to be resumed by mid-April.

Other Publications:

A new approach to funding the costs of New Zealand's ageing population, in ***New Zealand Population Review* 38**, by Susan St John, M.Claire Dale & Toni Ashton (2012)

Rapid demographic change raises important questions about how the costs of ageing can be shared in ways that are both equitable and sustainable. Concern about intergenerational equity is likely to become an increasingly important issue in New Zealand as the population profile begins to change rapidly in the next decade.

Population ageing has major implications for the design of programmes to fund the support of older people. Social security and means-tested social assistance programmes for long-term care (LTC) protect the living standards of the poorest. However, middle income groups face under-appreciated risks, such as outliving their capital or needing expensive LTC.

This paper proposes a social insurance approach to cover these risks which combines a life-time annuity with LTC insurance. This funding approach encourages intra-generational cost sharing and thus may lessen potential intergenerational conflict. By encouraging the older age group to fund more of their LTC needs themselves, more resources may be freed to meet the increased demands of an ageing population.

Such intra-generational risk sharing can improve both the perceptions and the reality of intergenerational equity. New Zealand may be in a unique position to design new policies and products of this type which better share the costs of an ageing population.

This issue of the ***New Zealand Population Review*** will be available online, free, in April here.

Population Association of New Zealand
Te Roopu Whaka Waihanga Iwi O Aotearoa

Retirement Policy and Research Centre: ww.rprc.auckland.ac.nz

In 2012, the RPRC website enjoyed 6,155 pageviews, among the highest for research centres and institutes in The University of Auckland Business School. This is a great result for the smallest research centre. The result does not include the traffic to the *PensionReforms* site.

Mark your diary:

Forum: *Overseas Pensions: time for a fair policy*

Thursday 6 June, 3pm to 6pm, at the University of Auckland

Since 2009, the RPRC has lobbied for an end to the unfair deduction of overseas pension savings under section 70 of the Social Security Act 1964:

Working Paper 2009-1: Literature review: New Zealand Superannuation and overseas pensions
Working Paper 2009-2: NZS and overseas pensions: Issues and principles for reform
Working Paper 2010-3: Option 1. Reforming NZS for a mobile trans-Tasman population
Working Paper 2010-4: Reform Option 2: New Zealand Superannuation and Overseas Pensions
Working Paper 2011-1: Overseas pension: The next steps
Working paper 2012-1: NZS and Overseas Pensions: Reform Option 2
Dale & St John, (2012) New Zealand's Overseas Pensions Policy: Enduring Anomalies and Inequities, *Policy Quarterly,* Vol 8, Issue 2.

It is time for a new, fair policy for the treatment of overseas-based retirement savings.

To pre-register, email m.dale@auckland.ac.nz with **'Overseas Pensions'** in the subject line.