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A commentary from the Retirement Policy and Research Centre

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A Looming Crisis for Retirees

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The RPRC is pleased to publish this PensionCommentary[1] first published on 30 March on *The Conversation* as "*The coming storm for New Zealand's future retirees: still renting and not enough savings to avoid poverty.*"

A large number of New Zealanders are facing a perfect storm at retirement, with minimal savings and no house, raising the risk that thousands will enter old age in poverty.

According to the latest retirement expenditure guidelines from Massey University, a two-person retiree household living an urban "choices" lifestyle, which includes some luxuries, would need to have saved NZ$809,000. In the provinces, a couple would need to have saved $511,000. If renting, illustrative examples from the 2020 guidelines suggest additional savings required to cover the higher cost of renting relative to home ownership range from $199,000 to $340,000.

New Zealanders have traditionally relied on owning a home to support themselves during their retirement years. But many of the New Zealanders now aged between 50 and 65 – a cohort of almost half a million people – will go into retirement as renters after skyrocketing house prices over the last three decades put home ownership out of reach.

At the same time, this generation were already working adults when the Labour government introduced KiwiSaver in 2007, and are less likely to have a significant savings cushion.

Then Prime Minister Helen Clark introduced KiwiSaver in 2007 as a way to address New Zealand's low rate of savings.

[1] PensionCommentaries are opinion pieces published as contributions to public debate, and do not necessarily reflect the view of the RPRC.

Last year, Treasury raised concerns that this mixed group of baby boomers and generation X will not be able to financially manage retirement on their own.

Declining home ownership

Home ownership in New Zealand has fallen to the lowest rate in 70 years, with just 65% of people living in houses they own, down from the peak of 74% in the 1990s.

According to the 2018 Census, around one in four people between 50 and 65 don't own the home they live in.

Research by Kay Saville-Smith from the Centre for Research Evaluation and Social Assessment suggests that by 2053 almost half of over-65s would be renting. That would mean 640,000 over-65s renting, including 326,000 renters aged over 85.

This issue of declining home ownership disproportionately affects those who have remained on low incomes throughout their working life. This, in turn, has stark consequences for Māori and Pacific people in New Zealand. Between 1986 and 2013 the proportion of Māori and Pacific peoples living in owner occupied housing fell at a faster rate than the overall population (down 20% and 34.8%, respectively).

Skyrocketing rents

Also, in the last five years nationwide rents have risen 28% across all property types and regions. The rapidly increasing rental costs have also reduced the ability of people to save for their own home.

For increasing numbers of people, housing – whether through ownership or renting – has become unaffordable.

KiwiSaver came too late

In 2007, when KiwiSaver was set up to help New Zealanders save for their retirement and to lift New Zealand's low national savings rate, New Zealanders aged 50 to 64 were already adults and mid-career. In our low-wage economy, they are likely to have contributed only 3% of wages, in addition to the employer's 3%.

While some will have used their KiwiSaver account plus the government subsidy to put a deposit on a home purchase, few will have saved a significant nest egg for retirement. The 2021 Financial Markets Authority KiwiSaver Report showed average balances of only $26,410.

Squeaking by on superannuation

There is some support for retirees. When a person reaches the qualifying age of 65 years, they receive New Zealand Superannuation, currently $437 per week after tax for a single person.

But NZS is predicated on owning your home rather than renting. Home ownership means effectively living rent free, with only rates and maintenance as regular necessary expenses in addition to food, power and phone.

Those people renting are currently confronted by a median weekly rental for a small house or apartment of $390 per week. While they may also be able to access the accommodation supplement and temporary additional support to assist with costs, a new threat has emerged in the form of inflation.

Consumer price index inflation peaked at close to 6.35% in early 2022, its highest level in three decades.

As well as steady increases in the price of electricity, petrol prices increased by 10% over the past year, and annual food prices rose 6.85% in February year-on-year. Fruit and vegetables are the largest contributors to the price rise. Car use can be contained with less recreational outings, but electricity, fruit and vegetables are needed for health.

None of this is going unnoticed. Treasury has raised the alarm about the increase of old age poverty. Many in the 50-65 age group share those concerns, and are approaching retirement with rational trepidation.