BUSINESS SCHOOL

Economic Policy Centre

Pensions and Intergenerational Equity

# Addressing Financial Hardship

**Susan St John**

***PIE Commentary 2024-4*[1]**
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On the 31st April/1st May, Brightstar held a conference: **Delivering Equity for Older People in New Zealand** at the Auckland Millenium hotel. PIE's Research Fellow Claire Dale contributed the closing presentation: Building connected communities for older people, and Susan St John contributed to the panel: **Addressing financial hardship for older people**, chaired by Professor Ngaire Kerse, Joyce Cook Chair in Ageing Well, also a PIE Research Associate.

The first panellist, Len Cook, former Families Commissioner, Government Statistician of New Zealand, and PIE Research Associate outlined how the demographic shifts of increased longevity and declining fertility will impact on the problem of older people living in poverty, alongside the accelerating per capita health costs by age. Workforce challenges for future care provision alone imply a need for over 40,000 extra beds in care homes and some 12,000 carers. But where will they come from? We also need to plan for the housing needs of increasing numbers of older people who will not own their own homes.

The second panellist, Brian Easton, economist and historian, social statistician, policy analyst and PIE Research Associate, covered prior research around financial hardship; the differences between being over 65 and being old, and how things have changed. He asked:

"*What does all this mean for policy? First, it says nothing about the current policy of increasing New Zealand Superannuation in line with general prosperity. But it suggests a very strong case for targeting extra spending on accommodation, healthcare, disability and social support*."

Both Brian (Do We Need a Population Census?) and Len (Can We Have the Population Statistics We Need Without a Regular Census?) commented on the need for more rigorous funded research and data including from the Census which is in danger of being downplayed in favour of administrative data.

This commentary expands on the contribution from the third panellist Susan St John (PIE hub leader) who offered some practical suggestions on ways we may address the immediate problem of increasing hardship among older people.

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[1] PIE Commentaries are opinion pieces published as contributions to public debate, and do not necessarily reflect the view of the Pensions and Intergenerational Equity Hub.

**Nga mihi o te ata. Greetings to all.**

Thankyou Brian and Len for setting out the dramatic future picture for us and the woeful nature of our preparedness.

As the name indicates, the Pensions and Intergenerational Equity hub (PIE) focuses on issues of pension design and intergenerational equity. We are concerned about 'equity' or fairness both between the generations and within the older and younger populations.

Equity demands attention to hardship, but unfairness in policy design itself is often the cause of hardship. Hardship is often more than a lack of money, with causes both complex and multidimensional,[2] but in this session we focus on financial hardship: the insufficiency in income to meet basic needs.

It was evidence of real hardship among older people in the early 1970s that then Prime Minister Muldoon addressed with universal National Superannuation.[3] Introduced for all aged over 60 years at 80% of the average wage for a couple, based on the individual not the joint family unit, it was simple and effective in largely eliminating hardship among older people. It reflected the intention of ensuring sufficient income not to merely subsist, but to allow 'belonging and participation in society'. But it was *extremely* expensive.

The Labour Government tried to reign in the cost by introducing a surcharge in 1985 and lowering the universal pension rate in relation to wages. In 1991 in an unprecedented move, the newly elected reformist National Government tried to make it a jointly income-tested welfare type of benefit. It was the worst thing I have ever seen in my 40 years+ of studying superannuation policy. Fortunately, even though it was passed into law on Budget night, public outrage overturned it before it could be implemented.

We might remind ourselves of this attack as another austerity budget looms. While I don't think the current Coalition Government will dare to attack New Zealand Superannuation (NZS) in this budget, we need to understand how it sticks out like a fiscal sore thumb, along with the expensive universal Winter Energy Payment (WEP) and generous Gold Card transport concessions.

Hopefully Winston Peters will protect us from knee jerk reactions from National and Act. To prevent hardship getting far worse and more inequitable, we must resist at all costs the first two options for reform of NZS: raising the age or reducing the level by unhooking to wages.

While NZS is cheap to administer because it is so simple, the most important thing to ask is whether we are achieving the desired outcomes: at very least, are we actually preventing hardship? In other PIE work we show how NZS could be redesigned to redirect money from the wealthiest superannuitants (who would not even notice the loss) to help those who need it most. But today there are three issues I will touch on that are fruitful grounds for improving the immediate outcomes for those older citizens currently in hardship.

**The Winter Energy Payment**

It is administratively very easy to pay all superannuitants an automatic Winter Energy Payment whether they need it or not, at an annual cost of around $300m. It is not taxable, thus it is more valuable to higher income superannuitants than if it was treated as a supplement to their gross taxable NZS. It is based on the unfair married/single distinction (Singles, $450, Married person $350 dripfed over 5 months of winter) and while in theory individuals can opt out, anecdotal evidence suggests this is far from easy and very small numbers actually do.

[2] For a full discussion of this issue see Older people experiencing vulnerability and multiple disadvantage in New Zealand | Social Wellbeing Agency (swa.govt.nz).

[3] National Superannuation became called New Zealand Superannuation (NZS) in 1991.

Making it an 'opt in' rather than an 'opt out' arrangement would introduce a little more complexity but deliver useful savings that might allow, for example, the rules for the Accommodation Supplement for older people to be greatly improved.

### Accommodation Supplement (AS)

While we know the number of older people reaching age 65 with fewer assets and in more hardship is increasing, only a minority of those in costly rental or owner-occupied housing can access the Accommodation Supplement (AS).[4] To qualify, they must have less than $8,100 in the bank.

Many low-income persons have accumulated a small nest egg to last for what might be a retirement of 30 or more years in length. The $8,100 cash asset test is a sudden, cliff-edge policy: one dollar over the limit and ALL the AS is lost. That can be up to a maximum of $165 for a single person per week. That loss of AS can easily tip an older renter into homelessness. Thus the 50,000 older persons currently on the AS is an inadequate indicator of numbers in housing-related hardship.[5]

Astonishingly this low cash threshold was last set 36 years ago, in 1988, for the predecessor to the AS. It has been unadjusted since, despite inflation, escalation in rents and rapid societal and demographic change. Increased longevity, for example, means the period in which assets must be eked out over has lengthened. The cash asset threshold is harmful and inappropriate.

Older people who are trying to work part time while they can, to supplement their low incomes, can also face a sudden death income test. We need to take a long view and accept the necessity to ease up here too.

### Relationship rules

Right throughout the welfare system, issues emerge around the definition of relationship in the nature of marriage because marital status affects the nature of the assistance that can be accessed. In the 21st century both the young and older New Zealanders have much more fluid and changing relationships than was traditional a century ago.

**Figure 1. Rates of NZS and selected core benefits before and after tax as at 1 April 2024, derived from MSD website.**

| Category | % Net average wage | Annual rate Gross | Annual rate primary tax | Annual rate 33% tax |
|---|---|---|---|---|
| **NZS** Single, living alone | 42.90% | $31,547 | $27,012 | $21,136 |
| **NZS** Single, sharing | 39.60% | $29,032 | $24,935 | $19,452 |
| **NZS** Married person or partner in civil union or de facto relationship (each) | 33% | $23,993 | $20,774 | $16,076 |
| **Jobseeker** Single, 25+ years | 29.00% | $21,091 | $18,380 | |
| **Jobseeker** Married, civil union or de facto couple (without children, each) | 24.80% | $17,767 | $15,638 | |
| **Supported living payment** single 18+ | 33.20% | $24,203 | $20,948 | |
| **Supported living payment** (married couple each) | 28.30% | $20,383 | $17,796 | |

Why do we have three rates of NZS? Two singles sharing, if deemed to be 'a couple' lose around $8,000 of their combined NZS annually. This is excruciating for low income 'couples', especially if they also miss out on the AS because their meagre joint cash assets exceed $16,200.

Many are confused and worried about whether they are on the "right" rate given the fluidity of relationships in later life. There are many grey areas: eg two people who both

[4] Some will qualify for income related rents in social housing.
[5] There are also around 6,000 people over 55 on the Housing Register in severe housing need. Housing Register - Ministry of Social Development (msd.govt.nz)

live alone, and both get living alone rate could be in some kind of 'relationship'. If some anonymous official deemed them to be "defacto married" their combined annual NZS would drop by $12,452.

And the rules are so complex and obscure, MP Winston Peters was tripped up on what rate he should have been on.

In principle, we should load tax on things we want less of. Good relationships promote vital physical and mental wellbeing especially in older age and yet we penalise them?

Recent modelling shows that couples on benefits suffer the biggest gaps between their basic expenses and benefit income compared to other types of family grouping. While older couples, on average, do better in income and assets than older singles, this cannot be used to justify paying markedly less to the worst-off married couples than if they were single sharing. Fixing this inequity requires aligning married and single sharing rates.[6]

Why should a couple getting a total of $700 in winter energy payment, while two singles sharing get 29% more at $900? Does it reflect 1950s reasoning that assumes couples save power by cuddling in one bed?

PIE has previously described how there are similar problems with the means test for residential care.

**But there is hope!**

It took a long, long time to get some sense into superannuation policy for those with state overseas pensions. While not all the problems have been addressed, finally, after 15 years of conferences, petitions seminars and PIE's relentless political advocacy, the Labour Government decided in November 2020 that an individual would not have their NZS reduced dollar for dollar for the excess overseas state pension of their spouse. Many, mainly women, now feel they are actually people in their own right regardless of their choice of partner in later life.

This shows positive and equitable changes can be made! But it requires much hard work and persistence and vigilance so that gains are not eroded.

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Comments welcome to s.stjohn@auckland.ac.nz

[6] A least cost way would increase the annual adjustment to the married rate to reach parity with the frozen singles rate over time.