

RETIRING WITH DIGNITY

With pension funding set to treble in cost, calls to restrict eligibility are growing. Though many are willing and able – or financially forced – to work past 65, what happens when we want to stop? **by SARAH CATHERALL**



When the equivalent of today's New Zealand superannuation scheme was introduced back in 1898, it was a world first. There were limits, though: our first pension was means-tested, and our first pensioners had to be of good moral character. They also had to show they had lived in New Zealand for more than 25 years, which ruled out many Māori whose births weren't registered.

Around 120 years ago, the pension was designed to protect elderly citizens aged 65 or older, even though only half the population lived long enough to get it.

Whereas retirement often lasted only a year or two in the scheme's early days, today it can stretch to decades. Today, 756,100 New Zealanders receive the pension, costing taxpayers \$30 million a day. As we survive diseases that once killed us, the cost

“Health science is giving us an amazing opportunity to live longer lives. The question is, how dignified will that be? You need money beyond NZ Super.”

of pensions is projected to treble to \$98 million a day in 20 years.

The very idea of what is deemed “elderly” has changed over generations. The reality, though, is that research shows current retirees and those heading for retirement are ill-prepared for living an average of 16 years out of the workforce. Meanwhile, there are growing calls for New Zealand to restructure the pension to cope with our greying population – by 2065, the number of over-65s is projected to rise to 1.7 million.

A recent member's bill by New Zealand First MP Mark Patterson proposes to increase the minimum residency requirement for NZ Super from the current 10 years to 20 years. At the same time, a growing number of pensioners are struggling to

Poor relation

Retirees in the Netherlands receive more than 100% of the average working wage. New Zealand pensioners receive just 43%, the sixth-worst in the OECD.



Retirement Commissioner Diane Maxwell advocates raising the pension eligibility age to 67. “Work has meaning and gives people a sense of purpose,” she says.

live on NZ Super alone: hardship grants paid to over-65s have more than doubled in five years, a trend that is expected to worsen as more retirees leave work without owning their own home and need to pay rent from a pension not intended to cover it.

Retirement Commissioner Diane Maxwell puts it bluntly: with retirement now lasting up to two decades and more, the pension eligibility age needs to be raised by two years. She recommended this to the previous National Government in 2016.

Maxwell told the *Listener*: “It’s wonderful that we are living longer and that diseases that used to kill us no longer do. But the big question is, how will we pay for those extra years?”

INTERNATIONAL DILEMMA

Demographer Paul Spoonley warns the baby boomers will double the over-65 population during the next decade or so, from 600,000 in 2013 to 1.2 million. “They will make up a quarter or more of many regional

populations. We will have some areas, such as Kāpiti, Thames-Coromandel or Central Otago, where almost 30% of the population will be over 65.”

It’s a dilemma around the world. Australia, Israel, Iceland, the US and Croatia are hiking the pension eligibility age to 67, and the UK and Ireland are raising it to 68. In Denmark, retirees may have to wait until they are 74 to get the pension. Russia is raising the pension age for its men to 65, even though their life expectancy is just 67.

Working longer

A quarter of New Zealanders aged 65-plus are still getting out of bed to go to work each day. Four in 10 in their mid- to late-60s are still in the workforce, one of the highest rates in the OECD.

An OECD report last year, *Pensions at a Glance*, talked about the worldwide trend to curb rising pension costs by lifting the eligibility age, although it observed this was a political hot potato – the Czech Republic has reversed its plans.

Countries such as Japan, Korea, Iceland and Portugal offer incentives for older people to stay in the workforce, with the lure of higher pensions when they finally retire.

Here, a quarter of New Zealanders aged 65-plus are still getting out of bed to go to work each day – four times the proportion of older workers who did in 1986. The bulk

“The message we’re getting loud and clear is that people in their mid-60s don’t feel old, and they want to keep working.”

of older employees are in their mid to late 60s, with four in 10 still in the workforce – a number that has been steadily growing and one of the highest rates in the OECD.

It has been estimated that boosting the age of eligibility to 67 by 2034 would cut the pension bill by 10% (\$3.56 billion) a year. “Around the world, countries are saying that 65 is an outdated number,” Maxwell says. “The idea that everything stays the same is just not true.”

The previous National Government pledged to raise the age to 67 by 2037, meaning that today’s 49-year-olds would have had to wait two extra years to qualify for the pension.

However, the Labour-led Government ditched the idea. According to the Minister of Social Development, Carmel Sepuloni, the Labour caucus is considering its position on the member’s bill. She says a superannuation reform programme is under way, which includes considering the residence requirement for a pension.

“The Government is committed to keeping the New Zealand Superannuation eligibility age at 65. We resumed contributions to the Superannuation Fund in December 2017, and the commitment in Budget 2018 for ongoing contributions will ensure that an eligibility age of 65 remains affordable.”

Maxwell recently met 45 OECD representatives at the organisation’s International



Bunnings employee John Thwaites, aged 69, hopes to keep working full-time for another three years but concedes those who work in physical jobs may be ready to stop at 65.

Network of Financial Educators in Russia, where one of the topics was funding pensions. By 2050, more than a fifth of the population of 111 countries – including New Zealand – will be aged over 60.

PREPARE YOURSELF

Maxwell says there has been a huge shift in global thinking in just five years. “Governments have identified that there is a gap in the future between what they will provide and what people will need in retirement. They are working on financial literacy and capability initiatives as a way of building personal savings, financial resilience and financial well-being – and so preparing a population for a longer period of old age.”

As she calls for a review, not all agree. Pension researcher Michael Littlewood argues that New Zealand’s Super scheme is among the best in the world. While there needs to be rigorous analysis and public debate about its future look, he argues it is sustainable. The cost of NZ Super today is 4% of GDP.

“That’s a lot, but it’s among the lowest total public-pension spends in the developed world,” says Littlewood, former co-director of the University of Auckland’s retirement policy and research centre.

According to research, retirement often doesn’t come at the time, or turn out the way, we planned. A survey of 17,000

“[Age Concern] would be mortified if 65-year-olds who have been in very physical jobs were not allowed to retire.”

pre-retirees found most intended to retire between 68 and 72. But Claire Matthews, a retirement expert at Massey University’s business school, says people typically don’t retire when they expect to. Her advice is to be more conservative and envisage retiring



earlier to plan the savings you will need.

“Someone 65 today is not elderly in the way that someone at 65 was a generation or two ago. There are exceptions, though, and some people would struggle because their work is very physical.

“You have to be quite conservative in terms of when you say you are going to retire. It’s better to think that, if you do end up retiring later, you’ll be better off than you expect.”

Matthews is the author of the university’s annual *Retirement Expenditure Guidelines* report, which showed the gap between NZ Super and pensioners’ spending has widened significantly in just a year. Rising transport and health costs have widened the

HAGEN HOPKINS



Maureen Goodwin believes workplaces could do more to cater for older employees. Below, taking in Washington on a post-retirement trip; at home in Lower Hutt.

Search for post-work purpose

It's hard to generalise about retirement age, retiree says.

In many ways, Maureen Goodwin is a typical retiree. Like 70% of New Zealand pensioners, the Lower Hutt widow is mortgage-free. Two years ago, she retired, aged 67, after working as a secretary for more than 50 years. She copes financially on her \$23,000 NZ Super, topped up by savings and money from the Government Superannuation Scheme she joined in 1990. Hers is a “no frills” retirement – she is neither wealthy nor struggling.

The grandmother of two has friends who are worse off than her, and some

who are doing okay. However, she thinks our rising pension bill is unsustainable, particularly as we are living longer.

She has mixed feelings about whether the age should be hiked or the pension restricted. “The age of 65 is such a mixed bag. Some people can seem quite old at that



HAGEN HOPKINS

age, while others can be running businesses or doing all sorts of things, so it's very hard to generalise."

However, she does believe the New Zealand work culture should do more to support older employees. In her last role, as an executive assistant at a government department, she looked after 12 different managers over eight years. She started to feel out of place – some of the general managers were the same age as her sons. In March 2016, Goodwin says, "I thought, 'I don't know if I can do this'. I set such high standards for myself."

For her, though, a job gave her a sense of purpose, and also extra income she could save for retirement. Younger

"The stereotype of being a senior is a challenge. I don't know where I belong."

colleagues seemed envious that she was about to retire. "While they thought that, I felt so thankful to be still in a job as long as I was," she says.

On the brink of her 70th birthday, Goodwin feels like she doesn't fit in anywhere. When she visits retirement villages and attends events for older New Zealanders, she often feels out of place. "The stereotype of being retired or a senior is a challenge. I don't know where I belong."



gap: the report shows that a single person living in Auckland, Wellington or Christchurch spends \$200 more a week than the net Super rate. A couple living a "no frills" life in a major city spent \$272 more than the \$600.30 paid to them by the Government.

The OECD report says New Zealand has one of the least generous pensions in relation to the average working wage. The report found that retirees in the Netherlands received more than 100% of their country's working wage, while New Zealand pen-

"The cost of NZ Super [4% of GDP] is among the lowest total public-pension spends in the developed world."

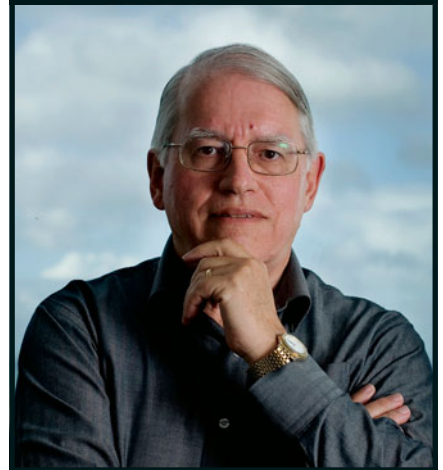
sioners receive 43%, the sixth-worst in the OECD, equal with Australia.

In New Zealand, only half of today's retirees are coping financially without work. The Commission for Financial Capability surveyed 17,000 retirees last year and found about half were financially healthy (51%). However, 35% were not in great shape, and a further 13% were struggling.

We have yet to see the effect of KiwiSaver, the government-backed voluntary retirement saving scheme. Matthews, who supports raising the pension age and tightening eligibility, thinks retirement saving should be compulsory. She has made submissions to the Government's KiwiSaver review, urging that it be made mandatory for school leavers entering the workforce. At present, 75% of workers belong to KiwiSaver. Members can opt to contribute 3%, 4% or 8% of their salary. Internationally, New Zealand's minimum contribution rate of just 3% is the lowest in the OECD. It could mean the difference between a "no frills" or a "choices" retirement, she says. "If we

Income deficit

A single person living in Auckland, Wellington or Christchurch spends \$200 more a week than the net Super rate. A couple living a "no frills" life in a major city spend \$272 more than the \$600.30 paid by the Government.



From top: New Zealand First MP Mark Patterson; Social Development Minister Carmel Sepuloni; researcher Michael Littlewood.

get more people saving through KiwiSaver, they'll go into retirement more comfortable about it."

A DIRTY WORD

Age Concern head Stephanie Clare travels the country meeting senior New Zealanders; she describes them as a diverse bunch. The pension is not enough to cover basic living

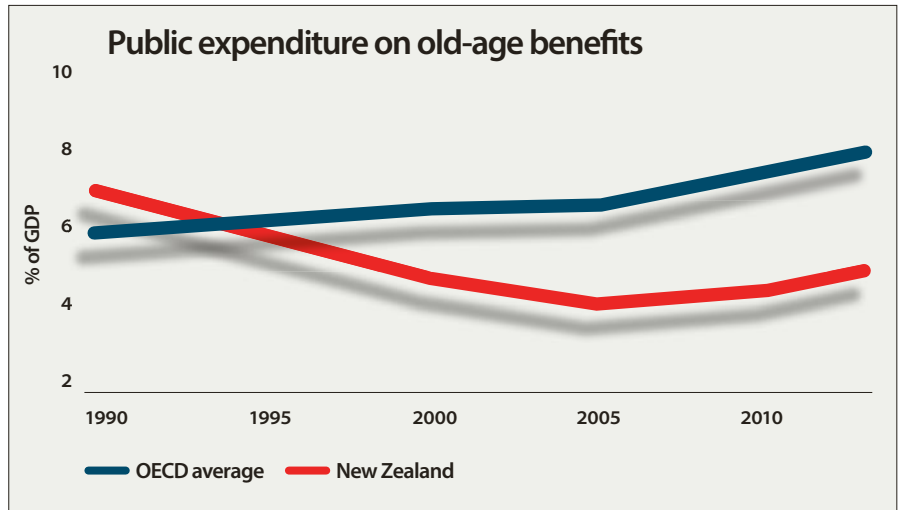
DAVID WHITE



From top: AMP's Blair Vernon; Age Concern's Stephanie Clare; Claire Matthews of Massey University.

costs, she says. "It's not enough when you think it has to last 30 to 40 years in some instances.

"People in flats on a fixed income are really struggling. They've got rising costs, and all you need is the landlord to come along and hike the rent and they're in more difficulty." Although she is open to



reviewing the pension, any change must be vigorously researched and discussed, Clare says. "We would be mortified if there were any changes for those who are currently receiving the pension. We would be mortified if 65-year-olds who have been in very physical jobs were not allowed to retire."

Clare adds that "retirement is a dirty word ... Historically, there has been a view in the population that the pension is something that you get for nothing. But a two-year-old has a parent to look after them. An 82-year-

"Our 40-year-olds don't have the savings of their parents, who were often in compulsory retirement schemes. That younger group is not saving enough in KiwiSaver."

old has only their pension to keep them alive, and no one else to look after them."

AMP's managing director, Blair Vernon, says many New Zealanders are ill-prepared for years out of work. "It's very expensive to have a dignified retirement."

Vernon doesn't think raising the pension age or tightening its eligibility criteria is the answer. Instead, he wants to see people preparing and saving for a quality retirement through vehicles such as KiwiSaver. He thinks the conversation needs to shift there.

"The key to bridging the gap between a bare-basics retirement and the one we dream of is planning and preparation, and the critical thing is to start now. It's actually never too late."

Vernon thinks today's retirees are doing

okay. The group he worries about are pre-retirees in their 40s to early-60s who are still in the workforce. Often termed "the pendulum swing generation", this cohort is hit by costs at both ends: dependent children and ageing parents who often require financial help.

Among today's 55- to 64-year-olds, 34% still have a mortgage, and 26% pay rent. Home ownership is even worse for younger Kiwis – 44% of those aged 35 to 44 have a mortgage, and 35% still rent. "The data shows that our 40-year-olds don't have the savings of their parents. Their parents were often in compulsory retirement schemes through their work. That younger group is not saving enough in KiwiSaver.

"It's the paradox of health science. It is giving us an amazing opportunity to live longer lives. The question is how dignified that will be, as we all have a certain aspiration for our retirement. You need money beyond NZ Super to even have a basic retirement."

With a rising number of over-65s staying in the workforce to fund their retirement, Vernon says employers need to be open to keeping older people on the payroll.

It was a point made in the OECD report. "Given that retirement ages are moving up in many countries, it is important that employment follows suit. Extending

Under strain
Hardship grants paid to over-65s have more than doubled in five years, a trend expected to worsen as more people retire without owning a home.

working lives should be at the forefront of the policy debate," the authors said.

Retirement Commissioner Maxwell: "Work has meaning and gives people a sense of purpose. The message we're getting loud and clear is that people in their mid-60s don't feel old, and they want to keep working."

VALUING EXPERIENCE

It's all very well to want to work, though. The commission has done work on ageism in the workforce and found instances of discrimination. After consulting 500 employers, 83% had no strategy to handle an ageing workforce. "You have to ask, 'Really?' It's what is happening, so why not actively prepare for it?"

At Bunnings, the DIY and hardware store, one in 10 employees is aged between 60 and 69. Jacqui Coombes, the company's director of human resources, says older, experienced team members share skills and knowledge with customers. "Some have been with us for their whole career and others have joined us after retiring, often from trades. They often bring great experience from their own home-improvement projects and this knowledge really helps our DIY customers."

"A lot of older people find out what I do and think I'm lucky. You feel like they wish they were still working."

One of Bunnings' senior employees is John Thwaites, who greets customers arriving at the Lyall Bay store. The 69-year-old has been with the company for seven years, since he left his Taranaki dairy farm and shifted to Wellington with his wife, Alison, a teacher, to be closer to their children and grandchildren.

Thwaites arrives at work at 5.50am each day to set up the store, and clocks off at 2.30pm, a routine he follows five days a week. He prides himself on getting to know the many customers and their names. He pulls a green notepad out of his pocket and scribbles the occasional name in it, noting a characteristic to jog his memory.

Walking around the store, he waves hello to a customer, calling her by name as she looks over plant pots. He directs tradies towards the right aisle, and customers

Demographic storm

Do we have enough young people working to support our growing number of pensioners in decades to come or are we heading for a "demographic storm"?

In the US, a *Forbes* article has warned that plunging birth rates and rising lifespans mean that American workers will be increasingly burdened paying for retirees. By 2030, every 2.3 American workers will be supporting one pensioner.

According to the Commission for Financial Capability, there are about 4.4 workers for every person over 65, a ratio that is expected to drop to 2.8 by 2038.

Professor Paul Spoonley, a demographer from Massey University, says we are similarly heading for a demographic storm. "I probably would describe it as a "demographic transformation", probably similar to the post-war years (1945-65) when the baby boomers arrived."

He says New Zealand's fertility rate has dropped to its lowest on record, at 1.7 births per New Zealand woman, which means we have reached sub-replacement. Our population will not grow unless we get net migration.

He says our rising dependency rate brings significant issues for New Zealanders. "The key one is how do we pay for some of our services and financial support, especially for superannuation?"

In late 2016, Treasury warned

that an ageing population would lead to less growth and more healthcare and NZ super costs over the next 40 years. To cover this rising bill, it floated options including raising GST and lifting the super age to 67.

Education Minister Chris Hipkins has warned of a "ticking time bomb" for schools as baby-boomer teachers retire and too few teachers come through to take over.

The Commission for Financial Capability is calling for proactive plans so our society, economy and workplaces can evolve and adapt to a very different world.

Retirement Commissioner Diane Maxwell says: "The number of people working relative to the number of retirees is decreasing, which will put pressure on funding for NZ Super and healthcare and leave future governments with difficult decisions. We need to rethink 'what is old' as our 65-year-olds are increasingly active, fit and able, and continuing to work – and importantly, don't view themselves as old."



seeking gear for home renovations to the right place. Asked if he was ready to stop work at 65, Thwaites shakes his head. "I started milking cows when I was nine. I've always loved working.

"I just like being among people. There are a lot of interesting things going on in this place."

He adds that it would be hard to live on the pension without a part-time job or savings. "A lot of retired people won't admit it's a struggle."

Asked about raising the age, he thinks of

farming friends and others who have had physical jobs who were ready to stop working at 65. "Another two years might just be too hard to wait."

Thwaites hopes to keep working at Bunnings until he is 72, and then might switch to part-time hours if the firm will let him.

"I think it's good for people my age to keep working if they want to. We have a lot of older people who come through here who find out what I do and they think I'm lucky. You feel like they wish they were still working." ■