# Senior Care NZ article

DIVERGENT PATHS: CHANGES IN PUBLIC AND PRIVATE INCOME PROVISION AMONGST OLDER HOUSEHOLDS Vasantha Krishnan Social Policy Agency

New Zealand's Changing population structure Like other similar countries, New Zealand is currently experiencing (although in a less pronounced fashion) an ageing of its population. This has involved a redistribution of groups within the age structure, with increasing proportions of people in the older age groups. While the ageing of New Zealand's population has been occurring since early this century, the pace of ageing will significantly accelerate after 2011. The current ageing of New Zealand's population is primarily the result of low fertility since the 1950s and 1960s, increased longevity, and annual net emigration in many years since 1975. The consequences of ageing will mean that by 2031, the population aged 65 years and over will make up 21% of the total New Zealand population. This compares with just 10% in 1981, and 12% in 1996. This trend is a function of a steep decline in New Zealand's total fertility rate from approximately four births per woman of reproductive age in 1962 to two births in 1995. Significant changes in life expectancy at the other end of the life cycle have also contributed to this phenomenon. Since the early 1960s, the average life expectancy at birth for men has increased from 68 years to 73 years. For women, the equivalent increase has been from 73 years to 79 years. Furthermore, by age65, men and women in the early 1960s could expect to live a further 12 and 15 years respectively. By the 1990s, at 65 years of age, men could expect to live a further 15 years, while women could expect to live a further 18 years (Statistics New Zealand 1996). Along with changes in the age structure of New Zealand's population, New Zealand's sex structure has also changed. Of all people resident in New Zealand at the time of the 1996 Census, 1,840,840 or 51%, were female (an excess of 63,378 females over males). This numerical predominance of women over men, which first occurred in 1968, is the result of the ageing of the population and women's greater life expectancy (Statistics New Zealand 1994). Of the various age segments of the population, the elderly (aged 65 years and over) will show the fastest growth during 1996-2031. Under a 5,000 net immigration per annum scenario, New Zealand's elderly population will increase by 16% over the next decade from 422,667 in 1996 to 490,590 by the year 2006. The pace of increase will pick up after the year 2011 when the large baby boom generation begins to enter retirement age, pushing up the number of elderly to 958,970 by 2031, i.e. more than double the number in 1996. By 2031, one in every five New Zealanders will be over 64 years of age, compared with just over one in ten at present. Within the elderly group, the number of those aged 80 years and over will almost treble, from 93,743 in 1996 to 261,170 in 2031, and among them, women will outnumber men by three to two. Children (aged 0-16 years), will comprise a smaller percentage of the population in future, decreasing from about 26% in 1996 to 20% in 2031, if current trends continue (see Figure 1). Projections also indicate a steady growth in the population of the main working-age group (16-64 years), up 18%, from 2.3 million in 1996 to 2.7 million in 2021. During 2021-31, the working-age population is expected to remain stable but will have a considerably older age profile than at present. The working-age population will make up 60% of the total population in 2031, down from 64% in 1996. In fact, the ageing of the workforce is a more potent issue facing New Zealand in the near future than the size of the retirement age cohort (Pole 1997).

THE FALLING SUPERANNUATION / WAGE REPLACEMENT RATES

At the same time that the increasing magnitude of private superannuation provision lessens dependence on public provision for those in the middle and top of the income distribution, there have also been substantial changes in the value of New Zealand Superannuation in relation to wages income. When National Superannuation was established it differed from other income maintenance in that it was paid at a higher rate than other benefits and was linked to wages. The after-tax rate of this benefit for a married couple was equal to 80% of the after-tax average wage. Financial pressures in the years following 1977 have seen considerable changes to this policy. The multi-party Accord on Retirement Income Policies ensured that, from 1993 on, increases in the public pension (now renamed "New Zealand Superannuation") should follow a price index, while simultaneously being maintained within a band of between 65% and 72.5% of the after-tax national average wage (St. John and Ashton 1993). Table 4 shows that over the 1982-84 period, the couple rate of National Superannuation remained at around 80% of the net average wage, reflecting the effects of the wage and price freeze at the time. By 1984, there was an extra increase announced in the budget, to adjust National Superannuation rates in line with price movements, and to maintain relativity to other benefits. This was to compensate for some of the effects of the earlier wage and the price freeze. Between 1985 and 1989, changes in the rate reflected movements in prices and wages. Between 1991 and 1992, there were no adjustments due to fiscal restraints, and October 1991 also saw a reduced rate for new applications from couples where a non-qualifying spouse was included. By April 1994, adjustments were in accordance with upward movements in prices and the net married couple rate was to be no less than 65% or no more than 72.5% of the net average ordinary-time weekly wage. CONCLUSION Population ageing in New Zealand is resulting in a redistribution of population between younger and older age groups. Older people will outnumber dependent young people in relation to the size of the work force after the turn of the century. These changes have implications for planning and funding for retirement. This paper has illustrated that since the introduction of National Superannuation in 1977 there have been many changes to public retirement provision in an attempt to increase its sustainability in the longer term. These have changed the level of public provision which older people in different income groups receive. Analysis of data from the New Zealand Household Economic Survey has shown that older households in the bottom 40% of the income distribution for older households have a high and steady reliance on public provision for almost all of their income. In the middle quintile of the income distribution, public provision is a lower, but still predominant, source of income. Only those in the top income quintile for older households receive more income from private provision than from public provision. While income from private sources has grown over the past ten years as a proportion of retirement income for older households in the top 40% of the income distribution, much of the growth in proportion for the fourth income quintile appears to have resulted from a shrinkage in public provision income going to this group, rather than any increase in private provision income in real terms. It is only in the top income quintile that real terms incomes from private provision have moved upwards, too. This paper has also shown that a growing number of those aged between 55 and 64 are accessing income support. This group of beneficiaries are likely to have depleted resources and savings prior to reaching the age of eligibility for New Zealand Superannuation, thus

increasing their economic vulnerability as they grow older. These trends depict an emerging division between older people in the bottom and top of the income distribution. This split is likely to accelerate as income diversity amongst the aged increases. This will have implications for the different income groups' relative interest in public and private retirement provision. Along with these changes, there has been an overall decline in the ability of New Zealand Superannuation to replace wages. This trend may continue as further attempts are made to increase the long-term sustainability of universal retirement income provision based on pay-as-you-go financing.