# Retirement: Policy context and political debates, including issues specific to retirement and nurses.

## Purpose

The purpose of this briefing paper is two-fold: the first part sets the policy context for retirement provision in New Zealand, while the second concerns issues specific to retirement for nurses, including sources of advice and further information.

## Part one: Retirement provision in New Zealand: policy context

New Zealand Superannuation (NZS) is currently a universal (i.e. it is not means tested) entitlement for all over the age of 65. It guarantees an income of around two thirds of the net average wage. Current debate on the future funding, affordability and delivery of retirement pensions in New Zealand has highlighted many issues and points for reflection. The Council for Financial Literacy report 2013 produced after *extensive* consultation - has recommended that changes are required if New Zealand is to continue to be able to afford to support the predicted larger numbers of superannuitants living longer retirements, funded by fewer young workers funding superannuation via their taxes.

As of October 2013, the Greens, the Council of Trade Unions (CTU) and the National Party favour a policy of no change to age of first entitlement. The Retirement Commissioner and the Labour Party recommend a graduated rise in the age of entitlement by two months or so per year, starting with those born in 1955. Both have proposed 'protections' for those physically unable to work beyond 65, but details have yet to emerge. The argument for a proposed lift in age is the increased longevity/years of funded retirement required, and a changing demographic base, explored further below.

The New Zealand Institute of Economic Research, based on modelling out to 2060, has also advised decisions on change are needed now, to avoid a future fiscal crisis similar to that in the United States. Estimates from the Labour Party indicate the rising cost of retirement will force a policy change in the coming years, estimating that Goods and Services Tax (GST) would have to increase from 15 per cent to 17 per cent, at the same time as the country would have to meet the additional health costs of an ageing population. However, acceptance of these scenarios is far from universal. For example, Auckland University's Retirement Policy and Research Centre, reports that if there were no changes, even in 2060, the cost to the Gross Domestic Product (GDP) of retirement will still only be two-thirds of the Organisation for Economic Co-operation and Development (OECD) average. Because New Zealand's population is relatively small, subject to rapid change in demographics, and with the potential to rapidly adjust via immigration policies, political reference to the necessity of copying changes underway in Europe and America is highly questionable.

It is extremely unwise to uncritically accept long-term projections and statistics, as they rely on many uncertain assumptions and politically motivated imperatives. The main issues and points of difference politically are outlined below, along with information on several potential options being put forward to address potential shortfalls in the adequacy of NZS.

## Longer work life and potential health costs

In encouraging a longer work life, it is equally important to avoid the ‘work until you drop’ approach, as it could lead to higher long-term health costs, especially for workers in more stressful and/or physically-demanding occupations . See participation-of-older-workers   Additionally, differential life expectancy (and therefore potential years of collecting superannuation) exists for those in low socio-economic sections of the community, and for Māori who live less long on average compared to other groups by up to eight years. Moreover, forecasting 50 years into the future, whether longevity or financial stability, is surely more of a guess than a science! Economist and economic historian Keith Rankin gives a very persuasive and informed view, challenging many of the assumptions on which treasury modeling, in particular, is based[5]. Other potential policy options related to requiring longer qualifying periods for NZS (currently 10 years) exist; though the impact on non-reciprocating states may adversely affect migrants from other countries, with adverse impacts on demographics or skill and may lead to labour shortages.

## Employment practice changes

Employment practices must become more flexible to facilitate increased caring responsibilities and volunteering by older people. Part-time work is more common in the occupations and industries in which women tend to be employed, such as health care and community services. Demand for these services will almost certainly increase as the population ages. Not only will more people need these services, but it is expected there will be relatively fewer workers to deliver them. As the proportion of older people in the population increases, the pool of available labour will be subject to greater competition from other industries—and countries. In encouraging higher workforce participation at older ages, it is important to remember that older unpaid carers play a significant role in reducing demand on the formal workforce.  Higher workforce participation rates could jeopardise this all-important arrangement. Similarly, the role of many grandparents in caring for grandchildren, enabling the children’s parents to work, needs to be kept in mind. These circumstances indicate the need for greater acknowledgement by employers of the multi-level family demands on older people, suggesting greater flexibility in work arrangements, again possibly through adoption of age management planning.  In particular, older people also have relatively high levels of participation in the voluntary sector; unpaid carers particularly play a significant role in reducing demand on the formal workforce.  See senior citizens volunteering for more information.

## Differential financial impacts on women

Political consideration is being given in the long term to put in place policies that will increasingly require funding of retirement to be topped up from savings (primarily Kiwisaver). This would unfairly disadvantage women (especially nurses), who earn less than men throughout their careers and who often have fewer years in the workplace, due to caregiver responsibilities for both children and parents. Proposals for an evening-up of savings opportunities may be required (or are likely to be developed).  A review of property divisions following separation and divorce suggests that further research should be undertaken into the working of the Property (Relationships) Act 1976 as results of previous work (referenced in Women in Super reference below) suggest that separated women are financially disadvantaged more than separated men. Where possible, women need to understand and mitigate the impact of living longer and partnering with older men on their likely household status in later years.  Of women currently receiving NZS, only 46 per cent are part of a couple, compared to 72 per cent of men.  See Women-In-Super for more information.  Trends for late divorce (with attendant impact on mortgages and savings), and the vulnerability of some financial services to fraud or devaluation have particular implications for women. Such information needs to be highlighted, debated and addressed by more equitable policy changes, such as the crediting of Kiwisaver top-ups while on parental leave. Nursing, with its predominantly female workforce, is potentially particularly vulnerable to ill-considered policy changes. Shortages and skill and/or experience deficits will be exacerbated if older nurses cannot be persuaded to remain (at least part time) in the workforce post 65. Nursing education is likely to be particularly affected if current nurse educators cannot be persuaded to remain in the workforce after 65 as the nursing education workforce is a markedly older workforce. Safe staffing levels and flexible rostering will be two ways employers will be able to ease shortages of both numbers and skills or experience. This, too, has been borne out in recent NZNO research: Retirement intentions of nurses in New Zealand

## Flexible Super or Pension Deferment

Another policy proposal currently being debated is introducing flexible NZS, or pension deferment. This is where those able and willing to continue working past the age of NZS entitlement may opt to defer receipt of their NZS in return for a larger ongoing entitlement when they do start receiving it.

As yet, no specific details have been proposed, but these will need to be carefully considered on an individual basis. Variables (health, financial status, partner status, financial obligations etc,) at the point of making a decision to defer or to take early settlement, may dramatically affect future financial well-being. Council of Trade Union modelling has indicated that the most detrimental impact would be felt most by those from low socio-economic backgrounds, those in poorer health and those whose employment options require full health and fitness. These groups could be tempted to accept lower rates of NZS, meaning they would be trapped on lower NZS benefit levels for life. A fiscally neutral deferment scheme (meaning it has no overall impact on the cost to the treasury) based on actuarial tables that predict life expectancy has been proposed but would be complex and expensive to administer and would have the potential to further promote inequality and social division.

The Government has agreed to investigate the plan, which would allow people to opt to retire from age 60, at a reduced pension rate, or hold out till as old as 70, in return for a bigger pension. While this may benefit some (particularly those in occupations that support older workers), many occupations (the very physically or emotionally demanding) are less suitable for those over 65. This would undoubtedly increase inequality in old age, as poorer people are already clustered in manual occupations, with lower ability to save. Rough calculations show that someone who retires at age 60 might expect to get about 60 per cent of the existing NZS entitlement for, as opposed to getting 130 per cent if they wait till they are 70 before starting to claim. For a married couple, that would equate to about $696 a week, if they both wait till the age of 70, or $321 for a married couple if they retire at 60. At the lower rate, many have questioned whether it would condemn those who opted out early to living their old age in poverty. See Flexible Super for more information

## Annuities

Annuities are a financial tool used in many other countries to shift the funding of retirement from the individual savings/asset model to a population/actuarial risk pooling model. Assumptions based on expected longevity (based on actuarial tables) divide any assets (whether savings or in pension schemes) by the number of years of expected life, thus protecting retirees from spending all their accumulated assets too soon into their retirement. New Zealand has a very tiny annuities market/history, and recent global and NZ finance company collapses are still casting a shadow over trust in the financial markets more generally. However, increased access to, and regulation of, annuities has been proposed (and flagged in the Council for Financial Literacy paper). Additionally, opaque changes to rules governing pensions and savings can have perverse impacts on desired savings habits, and encourage exploitation of rules and loopholes especially by the financially literate and those able to afford expensive accountants. Changes to New Zealand trust laws are also proposed, and citizens will have to ensure they remain informed about potentially far-reaching changes. See annuities for more information.

## Equity release

Some sectors in New Zealand have historically used property as a safe savings vehicle, both in primary residences (which can be 'downsized' thus releasing capital) and in investment properties for generating rental income, or again to sell to fund retirement. The Ageing in Place Strategy is founded on a large body of research which shows the very elderly can often live more safely and happily in their own, known home. Therefore, one option can be to borrow capital against the value of a home, against the lender eventually taking back the property, once the occupant dies or has to move to other housing. This can be a sensible strategy or it can have disastrous longer-term consequences, depending on unique circumstances. Again, the market for this sort of option is not well developed in New Zealand, nor is its regulatory environment. The potential for financial manipulation or worse is considerable, and regulation and oversight of such schemes urgently required. See home-equity-release Policy decisions based on assumptions that home ownership will continue to exist at the current high rates in the future are both unsafe, and inequitable. Policies based on reliance on home ownership to fund healthy retirement will further widen disparity in older age.

### Caring responsibilities and workforce flexibility

Part-time work is more common in occupations and industries in which women tend to be employed, such as health care and community services [1] and it is worth noting that demand for these services will almost certainly increase as the population ages. Not only will more people need these services, but it is expected there will be relatively fewer workers to deliver them. [2] This, too, has been borne out in the NZNO research on older nurses.

## Part two: Retirement advice for nurses

### Inadequacy of sole reliance on New Zealand Super (NZS)

Regardless of proposed changes, nurses need to become more informed and concerned about their retirement provision. The importance of examining employers' contributions to Kiwisaver as part of remuneration packages, employer participation in retirement planning /enabling retention planning, access to training, up-skilling and job-changing to offset shift work and physical roles must be emphasised. While individual circumstances vary, missing out on the government and tax credit contribution, and at least three per cent of salary from the employer contribution, is rarely the soundest financial decision. kiwisaverbasics is a really good source of information on Kiwisaver, tax credits etc. To re-emphasise: nurses need to become really well informed so they can avoid high-cost debt, diversify investment risk, actively engage in retirement planning from the earliest possible age, and be aware of pension fund management fees and regulations surrounding independent financial advisers. The web site Sorted is a really good source of information, with online calculators, financial planning and advice.

### Employment practice changes

Employment practices must become more flexible to facilitate retention in the workforce and safe practice for older nurses, including adoption of age management planning. Predicted workforce shortages, combined with an age-related bulge of retirees, with attendant loss of skills and experience means that employers who are able to accommodate the needs of older nurses around reduced hours and requirements for rostered and rotating shift work will struggle less to maintain an adequate workforce.

### Caring responsibilities and workforce flexibility

In encouraging higher participation by older nurses, it is important to remember that older unpaid carers also play a significant role in reducing demand on the formal workforce, and higher participation rates could jeopardise this all-important arrangement. Similarly, the role of many grandparents in caring for grandchildren, enabling the children's parents to work, needs to be kept in mind. Many nurses (the "sandwich generation") are simultaneously responsible for caring needs for both children and elderly parents. These circumstances indicate the need for greater acknowledgement by employers of the multi-level family demands on older people, suggesting greater flexibility in work arrangements – again possibly through adoption of age management planning.

## Internationally qualified nurses (IQNs)

Specific issues exist for internationally qualified nurses (IQNs) working in Aotearoa New Zealand. These include portability of international pensions, residency tests for NZS, and either higher or lower savings history depending on age/country of origin. IRD overseas-pensions-and-annuity-schemes Taking specialist professional advice is *highly* recommended. There are also particular issues for IQNs from countries with double taxation/pension agreements, such as the United Kingdom, where elements of UK pension deferral from (employment-related) occupational pension schemes exists already. Returning Kiwi nurses need also to be aware of these pension rules, and the rules related to entitlement to NZS. Currently, NZS is generally available to those people who have been resident and present in New Zealand for 10 years, including five years since the age of 50 years. However, people may qualify for NZS with less than 10 years' residence, if they have migrated to New Zealand from countries with which New Zealand has a social security agreement.

**Finally, with such an evolving, complex, technical and far-reaching topic as funding retirement, NZNO recommends members seek up-to-date, independent financial advice before making any decisions.**

## Web links

1) Council for Financial Literacy report 2013
2) Flexible Super
3) NZNO Late Career Nurse research
4) participation-of-older-workers
5) keith rankin
6) Women-In-Super.
7) kiwisaverbasics
8) Sorted
9) senior citizens volunteering

## References


1) Department of Labour, 2009a; Newell, 2009, p. 9
2) McPherson, 2012; Immigration New Zealand, 2013.

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**Mission statement**
NZNO is committed to the representation of members and the promotion of nursing and midwifery. NZNO embraces Te Tiriti o Waitangi and works to improve the health status of all peoples of Aotearoa/ New Zealand through participation in health and social policy development.



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