



*Serving the needs of older people*

## **SUBMISSION**

**to: The Retirement Commission**

**on: Review of Retirement Income Policies, 2010**

**from**

**Age Concern New Zealand He Manaakitanga Kaumātua Aotearoa**

30 April 2010

**Age Concern** is committed to serving the needs of older people, koroua and kuia. Through a national office and a nationwide network of 34 members, branches and associates, we provide services, information and advocacy to older people in response to local needs. We are active and vocal on issues affecting older people, taking every opportunity to work towards our vision of an inclusive society where older people are respected, valued, supported and empowered.

## Introduction

Age Concern New Zealand appreciates the opportunity to contribute to the Retirement Commissioner's 3-yearly review of Retirement Income Policy. We note that the Government has requested that the review consider:

- developments and emerging trends in the provision of retirement income
- the interaction of retirement income policy with policies on housing, long term care and health
- the products financial services are or could be providing, including KiwiSaver, and an analysis of what further might be done to enhance markets and consumer trust in the financial sector
- the wellbeing of the current and future retired population and the role that communities and government can play
- how the financial crisis might affect the adequacy of retirement income provisions for individuals at various life stages

In accordance with these Terms of Reference, this submission addresses the following subjects, all of which we have raised with the relevant Ministers and through other submissions:

- adequacy and purpose of NZ Superannuation
- cost of living increases
- cost of residential care
- enhancing consumer trust in the financial sector

## NZ Superannuation – adequacy and purpose

Most older people plan to live on New Zealand Superannuation (NZS) and a little extra. However, since the Commissioner's last review, many superannuitants have seen that 'little extra' diminished by failed investments, leaving them to rely on NZS as their main or only source of income.

People living on NZS alone struggle to meet day-to-day regular expenses. and they find it virtually impossible to meet one-off expenses for items such as medical treatment, dental treatment and household repairs or maintenance. They have few prospects for increasing their income, yet are faced with unavoidable increases in expenditure on heating, health care and food.

A recent study by John Logan (attached) reveals the current level of NZS to be insufficient to cover the most basic of living costs. The Retirement Commission's own research on expenditure in retirement also shows this to be the case, with participants indicating that "bills over which they felt they had no control and where costs seemed to be rising, such as local authority rates, electricity and heating"<sup>1</sup> were of particular concern.

Age Concerns around the country see older people who do not have sufficient income to maintain their health, social connection, and ultimately their human dignity. People who have cut their food budgets to the point that their basic nutritional needs are not being met; who endanger their health by not heating their homes; who lose contact with their communities because they stay in bed all day to keep warm.

It is unacceptable for older people to be experiencing this kind of hardship. Age Concern New Zealand believes that New Zealand Superannuation must be set at a level that prevents this from happening.

**We recommend that the Retirement Commissioner examine the work of John Logan and explore the possibility of setting the level of New Zealand Superannuation on the basis of a series of model, minimum budgets that allow people to live in dignity.**

## A 'perfect storm' of cost of living increases

Age Concern New Zealand wrote to the Prime Minister in February this year stressing the fact that older people, as predominantly low-income earners, would be particularly badly affected by GST increases.

We think there is potential for any GST increase to combine with price rises already announced and those projected for this year to produce a 'perfect storm' of cost of living increases that would greatly increase the proportion of older New Zealanders living in financial hardship.

Two danger signs are:

1. Statistics New Zealand's latest Food Price Index, which found food prices rose 2.1 per cent in January alone. This is an increase in food prices of 12 percent in the past two years, far outstripping the overall CPI, and therefore the annual Superannuation cost-of-living increases. For comparison, Super was increased just 3.3 percent last year. Economists expect further demand-driven increases this year as international markets recover.
2. A major electricity supplier's 5 percent price increase – despite widespread disbelief (including by the Minister of Energy) – that such a rise can be justified. This again shows the competitive market model is failing to protect retail power consumers. When voluntary price freezes end in October this year, what protection will the government offer electricity consumers, beyond exhortations to shop around?

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<sup>1</sup> Davey, J. Expenditure in Retirement, May 2009. p.2

Age Concern considers that adjustments to NZ Superannuation for CPI and any GST increase must take adequate account of older people's specific circumstances and that adjustments must reflect the change in costs of essential services, such as power, water, phone, housing (rates), and expenses associated with maintaining involvement in society, including transport.

**We therefore ask the Commissioner to recommend that cost-of-living adjustments to NZ Superannuation be based on the real expenses faced by seniors, and that these adjustments be made quarterly, rather than annually.**

**We also ask that the Commissioner encourage government to take action to contain electricity price rises, beyond relying on a market model which does not protect retail consumers.**

**Finally, we ask that the Commissioner recommend a law change to make the single living alone rate of NZS the base rate from which all others are calculated. This would help do away with the common misconception that a superannuitant receives 66% of the net average wage.**

## Cost of residential care

### Additional charging

Many residential care facilities apply additional charges for services they provide over and above those covered by the Age Related Residential Care agreement. Age Concern New Zealand has received complaints from older people about this practice and we are opposed to the way it is currently applied by residential care facilities.

There are two key areas in which greater clarity is necessary to safeguard the rights and well-being of residents:

- additional charging based on room size, and
- additional charging for provision of private toileting and bathing facilities. Toileting becomes more complicated for people with greater dependency so that a higher degree of privacy is necessary to maintain dignity when assisting a person in this most intimate function.

Age Concern New Zealand has heard of residents who have been forced to move because their room was 'upgraded' and they could not afford to pay the extra charges. The philosophy of 'you get the care you pay for' creates dangerous inequities and should be discouraged. Instead, residential care facilities should strive to provide the best possible care and services to *all* residents.

It would appear that some facilities are not open about charging for additional services until a person is on the point of signing the admission agreement. This practice is

dishonest and leads to some older people accepting admission into facilities for which they are unable to afford the additional fees.

**Age Concern New Zealand recommends that residential care facilities be required to advertise their fee structure openly in all promotional material facilities provide.**

### **Hospital rate of NZS**

Many subsidised rest home residents find it impossible to stretch the hospital rate of NZS (\$35.55 per week) to cover the services that are excluded from the Age Related Residential Care agreement. These include care provided by dentists, opticians and audiologists – expensive services that many older people require from time to time. Residents needing customised personal care or mobility aids, specialist assessment and rehabilitation services must also meet these often high costs themselves. Everyday needs such as clothing and personal toiletries, personal toll calls and insurance for personal items, gifts, newspapers etc. must also be paid for by residents themselves. \$35.55 per week is totally insufficient to cover all of these costs.

**We therefore recommend an increase in the Hospital rate of NZS.**

## **Enhancing consumer trust in the financial sector**

### **Consumer Protection for Older People**

Age Concern New Zealand believes that all possible efforts should be made to ensure maximum protection for consumers of financial services. Our concern, in particular, is with older people, for several reasons:

- Many retired people depend on extra income derived from their savings and investments to supplement New Zealand Superannuation. Even though the dollar amounts may be small, they may make the difference between a comfortable standard of living and one which is very basic. Therefore this extra income must be protected to the fullest extent.
- People who have retired from the paid labour force are not able to recoup income and capital lost as a result of bad financial decisions, possibly made based on poor advice. Their investment “nest eggs” are the result of a lifetime of work and careful saving.
- Older people need trustworthy advice on financial matters in an increasingly complex environment. In the past they would have trusted their lawyer or bank manager. Now lawyers’ fees are prohibitive and most people no longer have a personal relationship with their bank. Advisers in trading banks are often inexperienced, have performance targets to achieve, and may be in receipt of incentives that cause them to lose sight of the difference between marketing a product and providing advice.

- Some older people suffer from physical and mental disabilities which may impair their ability to handle their financial affairs.
- Some older people are vulnerable to abuse and neglect, especially financial abuse.
- Older people have been hit hard by the recent failure of so many finance and investment companies. Many have lost some or all of their life savings. The money they invested in good faith has gone, and with it, for some, their plans for a comfortable retirement.

For all of these reasons, Age Concern New Zealand has devoted scarce resources to responding to consultation after consultation on the implementation of financial sector reform. We have made submissions on the Financial Advisers Act and have also commented on the following:

- Securities Commission Staff Paper on Regulating and Supervising Financial Advisers (July 2009)
- Ministry of Economic Development Disclosure Regulations Discussion Document (August 2009)
- Commerce Committee Inquiry into Finance Company Failures (October 2009)
- Code Committee proposed Minimum Standards of Ethical Behaviour and Client Care for Authorised Financial Advisers (December 2009)
- Financial Service Providers (Pre-Implementation Adjustments) Bill 2009 (March 2010)

### **Imbalance of Power**

While the primary aim of the reforms is to protect consumers of financial services, we have no doubt that in all these consultations industry responses have outnumbered those of consumer organisations. To date, the results bear witness to the imbalance of power between the industry and the consumer.

We fear that the Code will suffer the same fate. This may leave organisations such as our own with no choice but to openly discourage the use of financial advisers altogether.

## **Ban on commissions and incentives**

Age Concern New Zealand has long been calling for incentives and commissions to be abolished and we are heartened by the recent move by the Investment Savings and Insurance Association to make this happen. Consumers need objective, unbiased financial advice - advisers who are in receipt of commissions and other incentives simply cannot be trusted to give such advice.

While a switch to a fee-for-service model would cost consumers more up front, it would go a long way to renewing confidence in the industry. Transparency is preferable to the current situation where the line between providing advice and marketing a product has become blurred.

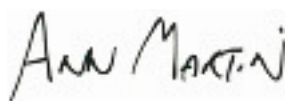
**We therefore recommend that the Retirement Commission support the new ISI policy and that you call for the Code of Professional Conduct for Authorised Financial Advisers to include a ban on commissions and incentives.**

We thank you for this opportunity to comment, and welcome any questions you might have about our recommendations.

## **Contact**

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**30 April 2010**