

# POLICY Quarterly

Volume 10 – Issue 3 – August 2014

## SPECIAL ISSUE

# Ageing Population

Sir Frank Holmes Memorial Lecture 2014 –  
Learning from Regulatory Disasters

*Julia Black*

Adapting to an Ageing Society:  
the need for cultural change

*Simon Biggs*

Focusing on the Future: a summary and  
critique of the 2013 retirement income report

*Robert Stephens*

Decumulation 101: the basics of drawing  
down capital in retirement

*Geoff Rashbrooke*

What Has New Zealand's Retirement Policy  
Framework to Offer the International Debate?

*Susan St John*

Labour Force Participation and  
Well-being among Older New Zealanders

*Michael P. Cameron and Matthew Roskrug*

3

12

17

23

29

35

Age Discrimination in the Workplace

*Judith Davey*

42

Later Life in Rental Housing:  
current New Zealand issues

*Sally Keeling*

49

Living Alone as a Lifestyle of Older  
People in New Zealand: policy implications

*Peggy Koopman-Boyden and Sheena Moosa*

54

Old and Poor or Old and Cared for?  
Some policy reflections on data from  
the first two waves of NZLSA

*Charles Waldegrave*

60

Improving New Zealand Water Governance:  
challenges and recommendations

*Elizabeth Eppel*

66

*Policy Quarterly* (PQ) is targeted at readers in the public sector, including politicians and their staff, public servants and a wide variety of professions, together with others interested in public issues. Its length and style are intended to make the journal accessible to busy readers.

The journal welcomes contributions of about 4,000 words, written on any topic relating to governance, public policy and management. Articles submitted will be reviewed by members of the journal's Editorial Board and/or by selected reviewers, depending on the topic. Although issues will not usually have single themes, special issues may be published from time to time on specific or general themes, perhaps to mark significant events. In such cases, and on other occasions, contributions may be invited from particular people.

**Subscriptions:** The journal is available in PDF format on the Institute for Governance and Policy Studies (IGPS) website: <http://igps.victoria.ac.nz/publications/publications/list/10>. Readers who wish to receive it by email should register as PQ subscribers [igps@vuw.ac.nz](mailto:igps@vuw.ac.nz). This service is free.

For all subscription and membership enquiries please e-mail [igps@vuw.ac.nz](mailto:igps@vuw.ac.nz) or post to Institute for Governance and Policy Studies, P.O. Box 600, Wellington.

**Electronic Access:** The IGPS directs interested individuals to its website: [www.igps.victoria.ac.nz](http://www.igps.victoria.ac.nz) where details of the Institute's publications and upcoming events can be found.

**Permission:** In the interest of promoting debate and wider dissemination, the IGPS encourages use of all or part of the papers appearing in PQ, where there is no element of commercial gain. Appropriate acknowledgement of both author and source should be made in all cases. The IGPS retains copyright. Please direct requests for permission to reprint articles from this publication to [igps@vuw.ac.nz](mailto:igps@vuw.ac.nz).

**Editors:** Jonathan Boston and Bill Ryan

**Guest Editor:** Judith Davey

**Editorial Board:** Guy Beatson, David Bromell, Valentina Dinica, Don Gray, Gerald Minnee, Mike Reid and Andrea Schollmann.

**ISSN:** 2324-1098 (Print)

**ISSN:** 2324-1101 (Online)

Volume 10, Issue 3 – August 2014

**Copy Editor:** Rachel Barrowman

**Design & Layout:** Aleck Yee

**Cover Design:** Aleck Yee/Alltex Design

**Production:** Alltex Design

**Proof Reader:** Vic Lipski

## Editorial Note

Population ageing is one of the most significant issues facing New Zealand in the coming decades. Its implications are crucial for government and all policy-making bodies. It will affect individuals, households, communities, businesses and voluntary organisations. An understanding of how ageing relates to other social and economic changes in New Zealand and an in-depth knowledge of behavioural factors that promote positive ageing is fundamental to successful adjustment as the age composition of the population changes. The nine articles on ageing in this issue of *Policy Quarterly* all contribute to this understanding and the 'cultural adaptation' called for by Simon Biggs, who visited the Institute for Governance and Policy Studies (IGPS) in February this year. He points out that the challenge of ageing is facing both mature and emerging economies and exercising the minds of policy makers throughout the world.

Three articles relate to retirement income policies. Bob Stephens presents a critique of the 2013 retirement income policy review, looking to the future and exploring the options for keeping present policies sustainable. He calls for more public discussion around this issue. Geoff Rashbrooke focuses on the decumulation phase, which will become especially important as KiwiSaver accounts mature. How will people use their lump sums and what is the role of public policy in this area? Susan St. John places the New Zealand retirement income support system in an international context and finds it has much to offer, despite its flaws.

Workforce ageing is an aspect of population ageing and also calls for policy responses. Michael Cameron and Matthew Roskrige analyse the trends, pointing to significant increases in labour force participation by older New Zealanders, especially compared to other OECD countries. Age discrimination can be a barrier to such participation and Judith Davey, drawing on the impressions of employers and other informants, finds that legislation cannot combat it without other action.

Housing is a third area in which population ageing will make its mark. Sally Keeling cites research which indicates a growing demand for rental accommodation, and the disadvantages experienced by older renters when policies assume that home ownership is the norm. Living alone has become a common lifestyle for older people and increasing numbers among oncoming cohorts. Drawing on interviews with older people, Peggy Koopman-Boyden reports on what makes their lives meaningful and how their situation could be improved. Housing tenure is also one of the areas covered by the New Zealand Longitudinal Study of Ageing, alongside income, poverty, asset accumulation and well-being. Charles Waldegrave, in his article, points out the fundamental influence of policy in these areas, linking with some of the points raised by Stephens.

As Simon Biggs points out, 'everyone wants to live a long life, but no one wants to grow old'. Lasting solutions to the challenges of population ageing must be based on intergenerational complementarity, on progressive and well-based policies which balance the opportunities and risks of an ageing world.

The first article in this issue of *Policy Quarterly* is the text of the 2014 Sir Frank Holmes Memorial Lecture, presented annually by the IGPS. The presenter this year was Julia Black, professor of law and pro-director for research at the London School of Economics and Political Science. Her title is 'Learning from Regulatory Disasters'. For New Zealand readers the mention of 'regulatory disasters' immediately calls to mind events such as the Pike River mine explosion in 2010 and the 'leaky buildings' built and identified in the 1990s and 2000s. In her article Professor Black also draws on the Macondo oil spill in the Gulf of Mexico, the explosion at the Buncefield tank storage depot in the south of England, and the 2008 collapse of the Royal Bank of Scotland, a contributor to and casualty of the global financial crisis. Each of these cases revealed regulatory failures often stemming from tensions within and between different approaches to regulatory regimes. Detailed, prescriptive regulation can quickly become outdated, but performance-based or outcomes-focused regimes require a supporting scaffolding of guidance. From her case studies, the author identifies key lessons for regulators and those who oversee them.

The final article, from Elizabeth Eppel, was held over from the previous issue of *Policy Quarterly* to account for the government gazetting on 4 July of amendments to the 2011 National Policy Statement for Fresh Water, which came into effect on 1 August. In it Elizabeth addresses the difference between what she calls 'good governance' and 'effective governance', where the latter depends on bringing a complexity lens to the issue of designing and enacting policy. Water governance is such a case. There are multi-layered and complex institutional arenas for decision-making, and interacting and interdependent complex systems, and the entire framework must be adaptive and sustainable. She then explores the conditions that are necessary for effective governance, concluding that New Zealand has some distance yet to go in order to achieve them. She argues that lessons learned elsewhere point particularly to the need for improved collaboration, more adaptive learning, and more comprehensive, open and transparent information, particularly pertaining to actual outcomes. The fresh water problem demands effective governance processes compatible with its complexity.

Judith Davey and Bill Ryan

Julia Black

# Learning from Regulatory Disasters

In 2010 an explosion in the Pike River mine in New Zealand killed 29 people, and, on the other side of the world, a blowout at the Macondo oil well killed 11 people and caused major environmental damage as four million barrels of oil spilled into the Gulf of Mexico. In 2005 a cloud of petrol vapour spread over two major motorways early on a Sunday morning after an explosion at the Buncefield storage depot in the South of England, which if it had happened at any other time could have caused significant loss of life. In 2008 the Royal Bank of Scotland (RBS), one of the UK's largest banks, was rescued from collapse by a government bail-out of £46bn, a contributor to and casualty of the global financial crisis. In the 1990s to early 2000s poor New Zealand building

practices led to significant losses for home owners caused by leaky buildings. Estimates of the losses range to as high as \$NZ11.3bn (PricewaterhouseCoopers, 2009).

These disastrous events from opposite sides of the globe seem to be disparate: some are systemic failures across an industry, others are single events; some are low-probability, high-impact events, others high-probability and low-impact if measured as the impact per individual affected at a single point in time, but high-impact if assessed on an aggregate basis across a number of individuals and a period of time. What they have in common is that they are all regulatory disasters: a catastrophic event or series of events which have significantly harmful impacts on the life, health or financial well-being of individuals or the environment, caused, at least in part, by a failure in the design and/or operation

---

Julia Black is Professor of Law and Pro Director for Research at the London School of Economics and Political Science.

of the regulatory regime put in place to prevent their occurrence.

Regulatory disasters can be a particular form of policy disaster. Policy disasters have been defined as the disastrous unintended consequences which occur as the direct consequence of poor intentional choices by top political decision-makers (Dunleavy, 1995). Regulatory disasters may also be seen as a particularly acute form of a policy blunder. King and Crewe, for example, define a 'policy blunder' as:

an episode in which a government adopts a particular course of action in order to achieve one or more objectives, and as a result largely or wholly of its own mistakes, either

indeed need not be confined to the state at all: they result from the unintended and unforeseen consequences of the design and/or operation of a regulatory system and its interactions with other systems. As such, they can arise from poor decisions by politicians in the design of the regulatory regime and/or political influences on its operation, and/or poor decisions and practices by regulatory officials themselves within a system that may be either well or poorly designed. Regulation, or regulatory governance, is the organised attempt to manage risks or behaviour in order to achieve a publicly-stated objective or set of objectives; a regulatory system consists of the (sometimes shifting) set of interrelated

persuading political overseers of the need for change. Regulatory systems can have a significant number of 'latent' failures which only become apparent on the occurrence of a particular major event, such as explosion or financial collapse, or through the recognition of an accumulation of a number of smaller events, such as individual deaths, smaller-scale pollution events or individual financial losses. These are the disasters 'which are waiting to happen'. Other disasters were not foreseen, but neither may they have been reasonably foreseeable; or they involve 'black swan' events – what had been seen as low-probability albeit high-impact events (Taleb, 2007). Nonetheless, the inquiries that often follow a disaster, even if it is a 'black swan' event, often reveal systemic problems within the regime which have thus far gone unnoticed by regulators, or unheeded by key policy actors.

Analysing the causes and nature of regulatory disasters also enables us to understand more about the nature of regulation itself. Although regulatory disasters often occur in apparently unrelated domains or countries, they can in fact contain lessons for all regulators, for the regulatory regimes share a common set of elements which, through their differential configuration and interaction, create the unique dynamics of that regime. In the regulatory disasters analysed here, these manifest themselves as six contributory causes, operating alone or together:

- the incentives on individuals or groups;
- the organisational dynamics of regulators and regulated operators and the complexity of the regulatory system;
- weaknesses, ambiguities and contradictions in the regulatory strategies adopted;
- misunderstandings of the problem and the potential solutions;
- problems with communication about the conduct expected, or conflicting messages;
- trust and accountability structures.

The article focuses on five distinct and unrelated regulatory disasters: the construction of 'leaky buildings' in New

## Although regulatory disasters often occur in apparently unrelated domains or countries, they can in fact contain lessons for all regulators, ...

fails completely to achieve those objectives or does achieve them but at a totally disproportionate cost, or else does achieve them but contrives at the same time to cause a significant amount of 'collateral damage' in the form of unintended or undesired consequences. (King and Crewe, 2014, p.4)

However, the scale of their consequences means that 'regulatory disasters' are more than just 'policy blunders'. They include disasters caused by 'judgement calls' as well as poor design and implementation, and, as used here, 'regulatory disasters' deliberately excludes 'political disasters' – those that are disasters for the reputation or continued existence in power of the politicians or regulators involved. Many of the regulatory disasters focused on here are also political disasters, but a policy which is purely or mainly a disaster in political terms is not included.

Regulatory disasters are also distinct from policy disasters in that they occur in a particular sub-field of public policy, and

actors who are engaged in such attempts and their interactions with one another and the dynamic institutional and organisational environment in which they sit. Thus, regulatory disasters also differ from public service delivery disasters, as they do not involve the delivery of services to the public directly organised by a government department, agency or authority; or that are provided on behalf of, financed and regulated by government (contrast Dunleavy et al., 2010) unless those disasters arise at least in part from failures in the design and/or operation of the regulatory system to which that public service, such as a hospital, is subject.

Regulatory disasters are horrendous for those affected by them. Because of that, we have an obligation to learn as much from them as we can, notwithstanding all the well-known challenges related to policy and organisational learning. For regulators, probing the reasons for the disaster, even if it occurred in another country, or in a different regulatory domain, can provide insights for the evaluation of their own systems. They can also provide useful leverage for

Zealand in the late 1990s–2000s; the explosion at the Buncefield chemical plant in the UK in 2005; the events leading up to the bail-out of the Royal Bank of Scotland in 2008; the Macondo oil well blowout at the Deepwater Horizon oil rig in the Gulf of Mexico in 2010; and the Pike River mining tragedy in New Zealand, also in 2010.<sup>1</sup> These are chosen because they are uncontroversial examples of regulatory disasters: events having significantly adverse impacts on human health, the financial position or the environment which arose from the design and operation of a regulatory regime intended to manage the very risks which materialised. They also have the advantage that each was subject to extensive investigation by an independent body established specifically to inquire into the causes of the disaster, so providing a wealth of factual information. While there are always inherent biases in any investigation, those which followed each of these disasters has not been significantly criticised as biased or ‘captured’ by any particular interest.

#### **The incentives on individuals or groups**

In the aftermath of any disaster there are normally calls from politicians and the public for individual liability to be imposed; for some ‘heads to roll’. However, the role of individuals in causing or contributing to regulatory disasters is not straightforward. In some cases individuals may be a direct cause of a failure: for example, ‘rogue traders’ such as Nick Leeson, whose trading activities brought down Barings Bank in 1995. However, there is a complex interaction between individuals and the organisational context in which they are operating, which make separating out individual action difficult. In the regulatory disasters analysed here, individuals are often the proximate cause, but their actions are only an element in a series of interactions or events contributing to the disaster.

In particular, the organisational context can produce conflicting incentives which affect individual behaviour. The Pike River report found that individuals in the workforce were operating in a context in which production was more important than safety (Royal

Commission on the Pike River Coal Mine Tragedy, 2012 (hereafter Pike River report), p.12). Conflicts of interest can exist within regulators as well as regulated firms. In the case of Deepwater Horizon, regulators were responsible both for awarding licences for deep water drilling and collecting the associated royalties, and for ensuring safety and environmental protections. The drive for royalty income was such that a culture of revenue production dominated safety or environmental concerns, to the extent that some offices developed a practice of taking ‘benefits in kind’ instead of royalties, leading to serious charges of abuse of

both regulators and regulated operators (regulatees) have played a significant role in all the regulatory disasters analysed here, as have the dynamics of the interrelationships between them. The internal dynamics of organisations are in turn affected by their broader institutional context. For firms this is usually the markets in which they are operating. For regulators it comprises principally their legal mandate and powers, their governance and accountability structures, the political context and their informal and formal relationships with other regulatory actors.

That context can drive organisational

**... in the case of ... ‘leaky buildings’ disaster, the Hunn report found that ... the changing practices within the market meant that builders were no longer overseen by professionals ...**

government authority and even criminal misconduct (National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling (2011) (hereafter Deepwater Horizon report), p.77).<sup>2</sup> In addition, individual pay and reward schemes were linked to the speed with which officials issued licences, distorting balanced decision-making, particularly with respect to environmental impacts. (ibid., p.82). As many regulatory activities are performed through individuals, it is not surprising that the decisions, actions and inactions of individuals play a role in producing regulatory disasters. But to focus on individuals alone is to miss the significance of how their actions are governed by and interact with the broader organisational and institutional context in which they are situated.

#### **Organisational dynamics, institutional context and system complexity**

Organisations are mechanisms which translate individual actions into collective action by enabling them to be sustained over time (Reed, 2003). The organisational systems, processes and dynamics of

dynamics and priorities in direct ways. In the case of Pike River, for example, the report found that while the ‘drive for production’ was a normal feature of coal mining, Pike River was in a particularly stressed economic situation as the company was in ‘start up’ mode: it had only one mine, which was producing far less than had been forecast, and it was seeking to gain market credibility in order to raise capital (Pike River report, p.12). In such circumstances, directors and executive managers paid insufficient attention to health and safety risks. The market context can also have a systemic effect across an industry, with significant implications for how a regulatory regime operates in practice. For example, in the case of New Zealand’s ‘leaky buildings’ disaster, the Hunn report found that skill levels in the building sector had been declining, and that the changing practices within the market meant that builders were no longer overseen by professionals, such as surveyors and architects, as they had been in the past (Hunn, 2002, p.9).

For regulators, it is the political and legal context which has most bearing on

their organisational structures, processes and decision-making. Often the legal mandate and powers that regulators have is deficient in one or more ways. In the case of Pike River, the legal framework for health and safety regulation was criticised as too fragmented: those who issued licences to mine were not mandated to look at health and safety, so licences to mine were given without any scrutiny of health and safety. The regime may not include all of the risks that the activity poses: in the case of the Buncefield explosion, the report found that under the UK regulatory regime, societal risks (such as to the health and safety of those

regulatory disasters arising from the extraction industry (mining, oil drilling) that the conflicts of interest created by the government's interests in mining or drilling for natural resources can override its role in preserving the environment or making decisions about health and safety (Pike River report, vol.2, p.267; Deepwater Horizon report, p.72).

Legislators also impose a business model on regulators through their decisions on funding. Those funded directly from government are prey to cuts in resources, which has an obvious impact on their ability to perform their role.<sup>3</sup> The report to the president on Deepwater

on how the regulator interprets its mandate and uses its powers. In the case of the MMS, it tried more than once to amend the regulatory provisions to introduce the requirement for a safety case and other reforms, but was continually blocked by industry, Congress and the Office of Management and Budget (Deepwater Horizon report, pp.71-3). In the case of leaky buildings, the Hunn report stated that: 'Some territorial authorities and building certifiers hold the view that the certification process is constrained by a desire expressed by the BIA [Building Industry Authority] to building officials that any change to the process must avoid putting inflationary pressure on building costs.' Overall, it concluded that political 'influence may be compromising standards' (Hunn report, p.19). In the UK, although the Financial Services Authority (FSA) had a broad legal mandate and a wide set of powers to regulate banks and other financial institutions, the report into the failure of the Royal Bank of Scotland found that the FSA had felt constrained from intervening too closely in RBS's business model by politicians' ambitions to preserve the City of London's position as an international financial centre (FSA, 2011, p.262). In the United States, royalty income from oil exploration was a highly lucrative source of revenue;<sup>4</sup> in such a context, industry's voice was allowed to frustrate attempts by the MMS to enhance regulation of their activities and the agency was never granted the political autonomy to resist them (Deepwater Horizon report, ch.3).

While the political and legal context has a role to play in shaping organisational processes, cultures and decision-making, a striking feature of all the regulatory disasters analysed here is the central role played by failures of governance and leadership within organisations, in both regulators and regulated firms. Critical are the skills and training of personnel, the resources of the organisation, weaknesses in leadership, and governance, including failures to manage risks strategically. Also striking are the consistent failures of organisations, particularly regulatory organisations, to coordinate in the operation of the regulatory system,

### ... a striking feature of all the regulatory disasters analysed here is the central role played by failures of governance and leadership within organisations ...

living in the vicinity of the site) were not taken into account in the land use and planning decisions made with respect to high-hazard sites. The legal mandate may also be such that it creates significant conflicts of interest for the regulator. In the case of the Deepwater Horizon disaster, the Minerals Management Service (MMS) was responsible for licensing and collecting royalties and for environmental and health and safety regulation, and operated in a political context in which oil exploration, and preserving the royalties from that exploration, were the dominant concerns (Deepwater Horizon report, ch.3). Conflicting incentives and objectives in legal mandates often stem from the political compromises brokered between conflicting parties which are then embodied in the governing legislation. As the report to the president noted, 'From birth, MMS had a built-in incentive to promote offshore drilling in sharp tension with its mandate to ensure safe drilling and environmental protection' (ibid., p.56). Furthermore, governments themselves can have vested interests which conflict with other goals: it is a notable theme throughout the

Horizon concluded that the MMS had to pursue safety regulation on a 'starvation diet' due to Congress's unwillingness to grant it appropriate resources (Deepwater Horizon report, p.72). In the case of Pike River, the government had reduced funding to the inspectorate and merged it with the broader Department of Labour. As a result, there were only two mining inspectors for the whole of New Zealand. But business models can be imposed in other ways. Both environmental and health and safety regulators in the UK, for example, are under a legal requirement to recover the costs of their inspections. The report into the Buncefield explosion found that the legal requirement to recover costs 'can have an unwanted effect upon regulatory activities and the relationship between the [regulators] and duty-holders' and 'induce tensions in the relationship with site operators' (Buncefield Major Incident Investigation Board, 2012 (hereafter Buncefield report), p.66).

Even where the legal mandate is clear and a regulator has a full range of powers, the political context and accountability structures can have a significant impact

failures which are exacerbated the more complex the system.

With respect to internal failings of organisations, there are four central findings which are common to both regulators and regulated operators.

First, and most obviously, culture matters. Organisations are internally complex and informal norms often dominate formal rules in the way activities are carried out and decisions are made. As a result, safety rules can be overridden when employees think they are unnecessary, as in Pike River (Pike River report, p.19). Or the culture drives decisions. In the case of the MMS, for example, environmental scientists within MMS stated that their managers believed that all environmental impact assessments should result in a 'green light' for drilling (Deepwater Horizon report, p.82).

Secondly, the training, skills and expertise of personnel matters: organisations may simply lack people with appropriate expertise. This is a common feature in all the disasters, but it is notable that lack of training and expertise is often a more striking feature of regulators than it is of regulatees. This is frequently due to resources: disparities in pay between the regulator and industry, which makes recruitment difficult (see, for example, Pike River report, pp.29, vol.2, 274-5; FSA, 2011, p.24). However, it can also be because those at the top of the organisation do not value specialist expertise, as in the case of the MMS in the United States (Deepwater Horizon report, pp.77-8). Alternatively, organisations may have the expertise but those experts are not called upon to look at the appropriate problems, as in the case of the supervision of major hazard chemical sites in the UK, where environmental specialists were not called on at the appropriate times. The Buncefield investigation also found that experts from different disciplines can find it difficult to work together productively, and specialists may have little empathy or time for generalists, all of which can lead to conflicts over priorities and oversights (Buncefield report, p.30). In contrast, generalists may disregard the calls for resources made by specialists, as they cannot see the need for them. The impact this has depends on where the expert or

generalist is within the organisation: one feature of Pike River was that the line managers were generalists and so did not understand how to inspect mines, even limiting the travel budgets of the inspectors to inspect mines in the North Island on the basis that the resources came out of the South Island budget (Pike River report, vol.2, p.277).

Thirdly, organisational failures usually come from the top. A central finding is the failure of leadership, in both regulators and regulated firms. For example, in the case of Pike River the investigation found that 'The board did not provide effective health and safety leadership and protect

into the generalist health and safety inspectorate, which was itself part of a much larger Department of Labour, meant that the department did not focus sufficiently on health and safety issues (Pike River report, p.29).

Fourthly, organisations often take the path of least resistance, and as a result can fail to manage risks strategically. In the case of major hazard regulation (which for these purposes is taken to include financial supervision of systemically important banks), attention can focus more on the events that are 'happening here and now' than on risks that events 'may happen in the future'. The board

## ... inter-organisational failures between regulators can be as significant as internal failures in regulators and regulatees in contributing to regulatory disasters [as was] in the case of Pike River ...

the workforce from harm' (Pike River report, p.18; see also Hutter, 2001). The necessary information simply was lost as issues moved up the organisation, and as a result the board could not assess or challenge assurances that had been given to it by management. An analysis of the failures of the boards of financial institutions in the wake of the financial crisis found exactly the same (Senior Supervisors Group, 2009; OECD, 2009). Boards can also be distracted: in the case of Pike River the board was distracted by the financial and production pressures that confronted the company; in the case of RBS, by the gains to be made from the activities it was pursuing. Regulators can be equally distracted: in the case of the FSA, the board had focused most of its attention on dealing with legacy issues from the previous regime, and on retail and insurance regulation. Analysis of board minutes for the years leading up to RBS's rescue found that the board had devoted very little time to considering prudential regulation issues (FSA, 2011, p.266). In the case of Pike River, the absorption of the mining inspectorate

report into the supervision of RBS found that the board focused more on legacy issues and retail mis-selling which demanded immediate attention, and as a result did not pay attention to prudential risks, which were seen to be remote. In the context of more traditional major hazard industries, the Buncefield report provided a useful reminder that

Previous major incidents around the world such as Texas City, Longford (SE Australia) and Piper Alpha remind us that the task of controlling major hazard risks can become insidiously subverted by undue attention being paid to the less organisationally demanding issues of occupational safety. (recommendation 22)

This is not a problem confined to regulators: in the case of both RBS and BP, neither focused adequately on high-impact, low-probability events (Deepwater Horizon report; FSA, 2011; and see House of Commons Energy and Climate Committee, 2010, para 33).

The complexity of the regulatory system can also be a key contributory element. In any regulatory system, multiple regulators will often have to interact, but for varying reasons fail to do so effectively, or even at all. As a result, inter-organisational failures between regulators can be as significant as internal failures in regulators and regulatees in contributing to regulatory disasters. For example, in the case of Pike River the investigation found that each regulator involved interpreted its mandate narrowly and did not share information with

its assessment of the site, delaying the ability of the environment regulator to ask the firm to address particular issues. Although there was a memorandum of understanding in place between the two regulators, there was 'scant compliance' with it. Software incompatibility inhibited data sharing, and communication was 'more a case of "copying in" colleagues in the other agency than proactive liaison'. Very commonly, there is also a lack of clarity about which agency has lead responsibility for which issues (Buncefield report, paras 55, 72, 99, 124-5).

## In the case of New Zealand ... the Pike River commission argued that in translating the UK system for health and safety regulation to the New Zealand context, New Zealand implemented a 'light' version of the system ...

the other agencies involved (Pike River report, vol.2, p.268). In the case of leaky buildings, the Hunn report found that split responsibilities for approving building consents and issuing certificates led to confusion about roles, responsibilities and processes (Hunn report, p.23). In the case of Deepwater Horizon, the overlapping jurisdictions of the MMS and the United States Coastguard led to a requirement to continually renegotiate informal inter-agency agreements over an extended period and in effect expand the MMS's jurisdiction, contributing to its under-resourcing (Deepwater Horizon report, p.76).

Furthermore, the different mandates of regulators may lead them to have differential priorities, which is a problem when they are meant to be jointly regulating the same site or activity, particularly where each is operating a risk-based system for allocating inspection resources. For example, in the case of Buncefield, the site had a lower priority for the Health and Safety Executive (HSE) than it did for the Environment Agency. As a result, the HSE was slow to complete

Finally, failures in oversight can contribute to the difficulties of system management: regulators can be subject to performance or accountability measures which impose conflicting priorities on them, as with the MMS, or which are incapable of identifying weaknesses as the regulator lacks the expertise to do so, as in the case of Pike River, or does not see it as their role, as in the case of the Building Industry Authority.

### Regulatory strategies and techniques

At the outset, regulatory disasters were differentiated from more general policy disasters as they involved the failure of a regulatory regime to manage the behaviour or risks the regime was created to manage in order to achieve a broadly-defined goal or set of goals. A wide array of regulatory techniques can be used to achieve those goals, each with its own strengths and vulnerabilities. Each of the failures involved a different regulatory technique. In the case of Deepwater Horizon, regulation was highly prescriptive and expressed in legislation. Although the regulator had pressed Congress to revise

the legislation to bring it up to date, this had not occurred. As a result, the deep-water drilling techniques that the industry was using were in effect unregulated, as they were simply not covered by the relevant legislation (Deepwater Horizon report, pp.71, 75). In the aftermath of the disaster the US government agreed to adopt a system akin to that used in Norway and the UK, often referred to as 'enforced self-regulation' or management-based regulation. In such systems, the safety systems and processes are not prescribed in legislation; rather, the legislation sets an overall objective, such as 'a safe system of work', and the duty holder has to present its 'safety case' to the regulator for approval, setting out how it proposes to achieve that objective. This system was introduced in the UK as a result of the Robens Report in 1972 (Robens, 1972), and forms the basis of New Zealand's health and safety regulation.<sup>5</sup> It was widely praised by the US commission investigating the Deepwater Horizon disaster as the best system to use, and has since been adopted there. The UK also reassured itself of the strength of the regime in a parliamentary review of the regulation of offshore drilling in the UK in the wake of Deepwater Horizon, set up to see what lessons, if any, could be learned from it for the UK (House of Commons Energy and Climate Change Committee, 2010).

However, any strategy has an Achilles heel. One of the striking things about the regulatory failures relating to the supervision of banks and financial markets in the UK, and mines and buildings in New Zealand, is that each was an example, at least from a distance, of a textbook case of 'new regulatory governance' techniques (on the UK system see Black, 2012). Management-based regulation was used in the case of both the regulation of the mining industry in New Zealand, and the regulation and supervision of RBS (and other banks) in the UK. In the case of New Zealand, however, the Pike River commission argued that in translating the UK system for health and safety regulation to the New Zealand context, New Zealand implemented a 'light' version of the system which gave flexibility by focusing on the objectives to be achieved, but failed to supplement

this with sufficient guidance or even prescription as to the minimum standards necessary, or sufficient engagement of the workforce in compiling the safety case (Pike River report, vol.2, p.252; see also Independent Taskforce on Workplace Health and Safety, 2013). Management-based regulation works well where management's incentives are sufficiently aligned with the regulators' goals; however, as the FSA's supervision of RBS showed, where they are not so aligned the technique is vulnerable to failure.

In the case of the building and mining industries, New Zealand also pulled back from prescribing products or processes in favour of setting performance standards, more often referred to in the UK context as 'outcomes-focused' regulation. This strategy involves removing a great deal of prescription from the rules, while setting overall goals to be achieved. The Pike River report found that in getting rid of those provisions, the regulatory system lost what might be termed its 'institutional memory'. It commented: 'The special rules and safeguards applicable to mining contained in the old law, based on many years of hard-won experience from past tragedies, were swept away by the new legislation, leaving mining operators and mining inspectors in limbo' (Pike River report, p.32). Performance-based or outcomes-focused regulation places significant demands on both regulators' and regulatees' judgement and expertise. However, complex systems of detailed rules can be just as demanding to implement, and have the additional disadvantage of becoming easily outdated, as in the case of the regulatory regime for deep-water drilling in the US. These contrasting examples highlight the care that has to be taken in designing a rules-based system, to ensure that there is the right combination of principles or outcomes-focused norms and sufficient 'scaffolding' through more detailed guidance provisions to indicate to firms how to comply and assure themselves and regulators that they have done so (Black, 2008).

A less commented-on regulatory technique, at least in the academic literature, is the art of monitoring and inspection. While there is considerable

research on how to get regulated operators to comply with regulation, there is far less on how regulators can assure themselves, and others, that operators are or are not complying. However, a common feature across all the cases studied is poor monitoring strategies. In the case of Pike River, for example, inspections were on-site, but did not involve wider audits of systems and processes, or assessments of the firm's culture. In the case of RBS, in contrast, oversight focused too much on systems and processes and not enough on the business model. It was also partial, focusing on some areas of risk, mainly

regulatory disasters as it does to any other problem.

Knowledge, ideas and understandings are critical in the context of risk regulation. As noted above, operational drivers can be such that risks that are known but considered low-probability, albeit high-impact, are ignored, not because they are not known about but because a combination of assumptions about probabilities, understandings of impact and operational drivers means they are not prioritised for attention.

More problematic, perhaps, are the risks which are not known about. Low

## Low risks ... may escape attention both in the design of the regulatory regime or its operation because their cumulative impact is not known ... in that particular regulatory regime.

retail operations where there were known concerns, but not others, notably capital adequacy, where the risks were seen as more remote (and where the supervisors had less experience) (FSA, 2011, p.242). Similarly, in Buncefield, the regulators were criticised for focusing on known defects rather than taking a strategic review of all the control measures in place, and focusing on lagging rather than leading indicators. The report recommended that there should be a 'clear line of sight' between the inspection plans and the strategic outcome sought' (Buncefield report, para 97, recommendation 6).

### Knowledge, ideas and understandings

Regulation is a problem-based activity: 'society' in some form decides there is a problem, or that there is a risk of a problem in the future, and policy makers and regulators devise ways to address that problem. But how we identify something as a problem is contingent on what we value (and therefore what we think is under threat), and how we analyse problems and create solutions for them is contingent on our knowledge and understanding of the world and our ideas of how it operates. This applies to our understandings of

risks, in particular, may escape attention both in the design of the regulatory regime or its operation because their cumulative impact is not known, or at least not recognised in that particular regulatory regime. For example, the Buncefield report found that the UK's regime for major hazard regulation of chemical sites did not cover low risks which may have an incremental impact. Nor did it recognise societal risks, i.e. risks to those living near the site, as opposed to those working on it (ibid., paras 146-7). While the report recommended that planning decisions should take account of societal risk, and the HSE is working on technical guidance on the issue, the UK government has yet to introduce such a requirement.<sup>6</sup> Some risks are just unknown, however. The explosion at Buncefield, for example, was a consequence of the ignition of a large cloud of vapour which was formed during the loss of petrol from a storage tank. The circumstances which led to the release of the vapour were predictable, but the consequences were not. The vapour release generated much higher pressures than would normally have been expected from a vapour cloud explosion, and exactly how or why the chemical reaction

occurred was still unknown at the end of the investigation (ibid., paras 19, 32, 51). Similarly, in the case of RBS, and indeed with respect to the global financial crisis more broadly, assumptions that had been made as to how markets would react in particular scenarios proved significantly misplaced, with risk events that had been anticipated to occur once in several lives of the universe occurring every day. In this case the causes were social rather than chemical, and it is a moot issue as to whether they could have been predicted had different modelling techniques, and a different understanding of markets,

account 'economic growth' in the exercise of their functions.<sup>7</sup>

Relationships with regulatees may also become over-trusting, though this is always a difficult issue to manage in practice. Regulators may have long-standing relationships with certain regulated firms, particularly large-scale operators who are geographically fixed (mining operators, in contrast to container ships, for example). Much research has found that regulators, either deliberately or less consciously, seek to build cooperative relationships with regulatees, and only to escalate enforcement action in response

07, notwithstanding that relationships had in the past been highly fractious. In its report into the failure of RBS the review team declared that the concept of a regulatory dividend was 'flawed' and 'potentially dangerous'. It rewarded firms with less intensive supervision if they could demonstrate effective controls and displayed a degree of cooperation with the FSA 'that ought to have been a non-negotiable minimum'. It is worth noting that 'trust' may be resource-driven, however: the report also noted that the dividend may also have been awarded to enable supervisors to manage conflicting pressures with limited resources (FSA, 2011, pp.257, 252).

**Although the analysis here examines each element in isolation, in reality each element interacts with the others to produce the unique dynamics of any regulatory regime.**

been used. Nonetheless, we cannot always manage uncertainty: we cannot always prevent disasters arising from risks that we know exist but about which we do not have full knowledge; nor can we manage risks that we do not know about at all.

### Communication and trust

Finally, the last elements of regulatory regimes which play a role in contributing to disasters lie in the communication and trust (or lack thereof) that exist between regulators themselves, and between regulators and those they regulate. Across the regime, different regulatory actors may send conflicting messages as to its goals. The Hunn report found, for example, that the foreword to the guidance on compliance with the Building Act stated that the aim of the act was to 'minimise compliance costs', but it was unclear whether this related to the administrative costs of compliance or to the overall cost of design and construction compliance (Hunn report, p.18). This is a particularly pertinent observation for the UK, which has recently introduced a requirement for non-economic regulators to take into

to the attitude of the regulatee and/or the scale of the incident (Ayres and Braithwaite, 1992). Although the US is often distinguished from other countries in this regard, it is worth noting that relationships between the MMS and the operators were also close, in some cases overly so (Deepwater Horizon report, p.77). In all the examples analysed here, the reports criticised the regulators for being insufficiently interrogative of the information given to them by firms, too slow to take action once problems were identified, or not having set out clearly when more formal action would be taken (Buncefield report, para 95; Hunn report, p.21).

In the case of RBS, regulators were simply too trusting. From mid-2006 onwards the FSA's supervisors assessed firms against criteria relating to their management and controls, and whether they had dealt openly with the FSA. On the basis of these assessments it decided whether, and to what extent, a firm could benefit from a 'regulatory dividend'. The Royal Bank of Scotland was given a regulatory dividend in 2006–

### Regulatory dynamics and potential points of failure

Although the analysis here examines each element in isolation, in reality each element interacts with the others to produce the unique dynamics of any regulatory regime. But while each disaster is in many ways distinct, there are some common sources of failure which are observable irrespective of the domain being regulated. In fact, the points of failure are depressingly familiar, and, most importantly, are common to both regulators and regulated operators. Within organisations these are most often inadequate training and skills of front-line staff; conflicting incentives, or incentives which conflict with the goals of the regulatory regime; and poor leadership and management oversight. In addition poor internal coordination and communication, for example between different types of experts, and weak coordination between the different regulators charged with managing the system are all too common.

The disasters also illustrate the particular points of weakness of different regulatory techniques. For example, prescriptive regulation can quickly become outdated, but performance-based or outcomes-focused regimes require a supporting scaffolding of guidance. Management-based techniques need to ensure that the goals of the regulator really are embedded in firms. In industries characterised by low-probability, high-impact events, they show that firms and regulators need to take care not to be

overly distracted with managing the high-probability, low-impact events which are happening here and now. All the disasters also illustrate the need for consistent communication, and the importance, and difficulty, of managing trust within and of the regulatory regime as a whole.

In sum, they illustrate that regulators have to be aware of and respond to limitations of the capacity and attitude of regulated firms; the weaknesses of their own organisational structures and processes; the pressures imposed by the market, legal and political context in which the regime is operating; the potential points of failure in the regulatory techniques being used; knowledge and understandings of risks and markets; the role of communication and trust throughout the regime; and changes

in each of these (Baldwin and Black, 2008). The analysis also suggests where those who oversee regulators should be looking for potential points of failure; and points to the varying ability that even independent regulators may possess to counter the pressures that politicians can place on them. But above all it shows that we need to learn from disasters, wherever they happen around the world. In doing so we will not prevent them from happening again, but we could reduce their likelihood.

- 
- 1 Note that the lecture on which this article is based also included examples from the Mid-Staffordshire hospital inquiry in the UK, but this is omitted here for reasons of space. See Report of the Mid Staffordshire NHS Foundation Trust Public Inquiry (2013) HC947.
  - 2 For a full discussion of the regulatory environment see chapter 3.
  - 3 See Deepwater Horizon report, chapter 3, for a discussion of the depletions of the MMS's resources.
  - 4 At the time the MMS was created royalties for oil drilling

- 5 See <http://www.mbie.govt.nz/pdf-library/what-we-do/workplace-health-and-safety-reform/effective-regulatory-framework.pdf>.
- 6 <http://www.hse.gov.uk/landuseplanning/societalrisk.htm>.
- 7 Deregulation Bill 2014, clause 61.

### Acknowledgements

This article was given as the Sir Frank Holmes Memorial Lecture in April 2014 when the author was the Sir Frank Holmes Visiting Professor of Public Policy at Victoria University of Wellington. I am grateful to those attending the lecture and participating in subsequent discussions for their comments, and to Judy Kavanagh and Peter Mumford for their comments. All the usual responsibilities remain my own.

### References

- Ayres, I. and J. Braithwaite (1992) *Really Responsive Regulation*, Oxford: Oxford University Press
- Baldwin, R. and J. Black (2008) 'Really responsive regulation', *Modern Law Review*, 71 (1), pp.59-94
- Black, J. (2008) 'Forms and paradoxes of principles based regulation', *Capital Markets Law Journal*, 3 (4), available at <http://eprints.lse.ac.uk/23103/1/WPS2008-13.pdf>
- Black, J. (2012) 'Paradoxes and failures: "new governance" techniques and the financial crisis', *Modern Law Review*, 75 (6), pp.1037-63
- Buncefield Major Incident Investigation Board (2012) *The Report of the Buncefield Major Incident Investigation Board into the Policy and Procedures of the Health and Safety Executive's and the Environment Agency's role in regulating the activities on the Buncefield site under COMAH Regulations*, London
- Dunleavy, P. (1995) 'Policy disasters: explaining the UK's record', *Public Policy and Administration*, 10 (2), pp.52-70
- Dunleavy, P., J. Tinkler, C. Gilson and E. Towers (2010) 'Understanding and preventing public service policy disasters', LSE Public Policy Group, available at <http://www.academia.edu/2871538/>
- FSA (2011) *The Failure of the Royal Bank of Scotland: Financial Services Authority Board report*, London: Financial Services Authority
- House of Commons Energy and Climate Change Committee (2010) *UK Deepwater Drilling: implications of the Gulf of Mexico oil spill*, HC 450-I, London: Stationery office
- Hunn, D. (2002) *Report of the Overview Group on the Weathertightness of Buildings to the Building Industry Authority*, Wellington
- Hutter, B. (2001) *Regulation and Risk: occupational health and safety on the railways*, Oxford: Oxford University Press
- Independent Taskforce on Workplace Health and Safety (2013) *Report of the Independent Taskforce on Workplace Health and Safety in New Zealand*, Wellington
- King, A. and I. Crewe (2014) *The Blunders of Our Governments*, London: Oneworld
- National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling (2011) *Deepwater: the gulf oil disaster and the future of offshore drilling, report to the president*
- OECD (2009) *Corporate Governance and the Financial Crisis: key findings and main messages*, Paris: OECD
- PricewaterhouseCoopers (2009) *Weathertightness: estimating the cost*, Wellington: Department of Building and Housing, <http://www.dbh.govt.nz/UserFiles/File/News/WHRS/pdf/PWC-weathertightness-estimating-cost-full-report.pdf>
- Reed, M. (2003) 'The agency/structure dilemma in organization theory: open doors and brick walls', in C. Knudsen and H. Tsoukas (eds), *The Oxford Handbook on Organization Theory*, Oxford: Oxford University Press
- Robens, Lord (1972) *Committee on Safety and Health at Work: report of the committee*, London: Stationery Office
- Royal Commission on the Pike River Coal Mine Tragedy (2012) *Royal Commission on the Pike River Coal Mine Tragedy*, volume 1, Wellington
- Senior Supervisors Group (2008) *Risk Management Lessons from the Global Banking Crisis of 2008*
- Taleb, N. (2007), *Black Swan: the impact of the highly improbable*, London: Penguin

Simon Biggs

# Adapting to an Ageing Society

## the need for cultural change

**A demographic change, a task of cultural adaptation**

In 2050 the global population aged over 60 will reach two billion, making this age group three times larger than it was in 2000. This is a challenge that is facing both mature and emerging economies. The debate on the future shape of a long life is one that is critical to social development in the 21st century and is increasingly exercising the minds of policy makers throughout the world. The World Economic Forum global risks group has now identified population ageing as one of the five top issues facing the world community in terms of material provision (Beard et al., 2012). If, as the

World Economic Forum claims, the task of addressing global ageing is principally one of cultural adaptation, the forms that adaptation takes require critical consideration.

**Everyone wants to live a long life, no one wants to grow old**

Much is now well known in terms of overall demographic trends: people are living longer and the numbers of older people relative to younger ones is increasing (Bengtson and Lowenstein, 2003). In other words, with the possible exception

---

Simon Biggs is Professor of Gerontology and Social Policy, sponsored by the Brotherhood of St Laurence, in the School of Social and Political Sciences, University of Melbourne, and was a visitor to the Institute for Governance and Policy Studies in February 2014.

of some African states and parts of the Russian Federation, we are moving, as a global trend, away from the 'traditional' demographic triangle, with many younger and few older adults, to a column whereby different age groups are becoming more or less equal in size (Bloom, 2011). In many advanced economies the transition has largely been completed, although in emerging ones the speed of this transition is happening at a much faster rate.

In addition, mature-aged individuals are, generally speaking, richer and fitter than preceding generations (Metz and Underwood, 2005), and as a result are developing lifestyles that reflect a mixture of extended youthful activities and novel mature priorities. If one were to try to encapsulate this as a cultural trend it may be to say that 'Everyone wants to live a long life, but no one wants to grow old'.

For societies to respond successfully, to make this transition work, they need to engage in a series of tasks, including a re-design of our cities (World Health Organisation, 2007), the extension of a healthy life (Olshansky et al., 2007), intergenerational negotiation of age-related roles and expectations (Biggs and Lowenstein, 2011), and a re-evaluation of the contribution of older adults to the societies in which they live (Walker, 2009).

In cultural and in policy terms, the question that arises is what sort of adaptation should we be aiming for? What, in other words, might the relationship between life-course continuity and discontinuity be, and how is it reflected in wider social discourse on the purpose of a long life?

#### **Phase one: more of the same**

In this context, the work of the World Bank (1994) and the OECD (2006), plus the policy statements of numerous nation states (see Commonwealth of Australia, 2010; European Union, 2012) show an emerging international policy consensus. This consensus marks a shift away from a holistic approach to the inclusion of older adults, as reflected in the OECD's report on 'active ageing' (OECD, 1998), to a more restricted approach encapsulated by the title of the seminal document *Live longer, Work Longer* (OECD, 2006), which

focuses almost entirely on employment as the means of filling the additional years of a long life. This view appears to have become increasingly entrenched following the global financial crisis, such that the European Union's European Year of Active Ageing and Solidarity between Generations programme states: 'Empowering older people to age in good health and to contribute more actively to the labour market and to their communities will help us cope with our demographic challenge in a way that is fair and sustainable for all generations' (European Union, 2012). Whether there are jobs available and ageism can be reduced in the workplace, is another matter. It assumes that a new direction has been found which lies in extending working life and adopting a restricted

any transition in life priorities, replacing recognition of differing life priorities with a denial of the special qualities that a long life brings with it (Biggs, 2004; Calasanti and King, 2011; Dillaway and Byrnes, 2009; Martinson and Halpern, 2011). There is emerging evidence that while individuals desire continuity of identity, this does not preclude discontinuity of age-related life priorities. A key element of this approach draws not on neo-liberal economics but on psychosocial understandings of changing existential tasks that face adults as they grow older (Tornstam, 2005; Dittmann-Kohli and Joop, 2007). A focus on a discontinuity of psychosocial priorities across the adult life course also raises the issue of the degree to which intergenerational agendas overlap, and suggests that a

**... evidence is emerging that many of the assumptions of the 'more of the same' solution to population ageing may not stand up, at least in terms of age as a burden or as a source of resentment from younger age groups.**

understanding of active and productive ageing that has been reduced to work and work-like activities (Moulaert and Biggs, 2013). 'Fair and sustainable' here reflect both the anxiety as well as the promise of 'intergenerational solidarity' around jobs and pensions, that, as Kohli (2005) put it, 'In the twenty-first century, the class conflict seems to be defunct and its place taken over by generational conflict'.

#### **Phase two: exploring difference and generational complementarity**

In contrast to the 'more of the same' approach, a number of writers have emphasised the discontinuous qualities of long-lived experience. The notion of adaptation implies that there is a qualitative as well as a quantitative distinction to be made as the different generations become more equal in demographic size. It has been argued that current policies attempt an erasure of

solution to generational solidarity may lie less in causing generations to compete on the same territory as in developing complementary roles and relationships (Biggs and Lowenstein, 2011).

In fact, evidence is emerging that many of the assumptions of the 'more of the same' solution to population ageing may not stand up, at least in terms of age as a burden or as a source of resentment from younger age groups. For example, in the private sphere, at least, generational transfers tend to travel from older to younger family members, even in later life (Irwin, 1998). The OECD has noted that in the public sphere there may be a form of fiscal generational altruism associated with large infrastructural investments, where the contributors may not live long enough to receive the full benefit of investments made (OECD, 2011). It has also been argued that it may be incorrect to assume that continued working is the

solution to the fiscal costs of health – for example, if 60% of tax revenue is raised outside taxable income (Betts, 2014). A more equitable solution may be to increase a ‘longevity dividend’, whereby ‘the extension of healthy life creates wealth for individuals and the nations in which they live’ (Olshansky et al., 2007). This would include adopting policies that extend healthy ageing through investment in prevention and medical innovation, thus creating a longer period of healthy working life. Further, it does not appear that younger adults see their elders as a burden. A number of studies are emerging that indicate that younger adults do not resent caring for older relatives; rather, they want the right work–life balance that allows it. Neither may younger

from intergenerational rivalry and towards measures that reinforce a life course-based contract between citizens and the state.

If the first phase of cultural adaptation has been to fill a longer life with the obligation to work, the second may be to discover the complementary skills that different age groups bring to a diverse number of settings and potential contributions to society.

#### Sticks or carrots in social policy

A further implication that follows from this is what might be called a stick-versus-carrot approach to workforce policy. If the stick concerns removing benefits (for those relying on statutory pension eligibility) to force older people to look for

2010); in other words, ‘It’s no longer a project to aid the elderly; it’s simply a fresh new plan to improve productivity.’

The question isn’t really that we don’t know what to do to save money around demographic change, but that the solutions are complex, requiring long-term planning. They are rarely exciting and lack the brouhaha of ‘tough’ political posturing. The list would include: a shift to focus on prevention in health care rather than reactive intervention; reducing cumulative disadvantage such that social inequalities are addressed early in the life course rather than allowing an accumulation of problems as time progresses; adopting policies that further emphasise community integration rather than residential care; working a few years longer in workplaces designed for age diversity; creating facilitative environments for social engagement through universal/age-friendly design; and business innovation to make age-friendly products at affordable prices.

#### Phase three: rediscovering whole life course priorities

If the first phase of adaptation has been marked by a ‘more of the same’ response – filling the vacuum with priorities from elsewhere – and the second a facilitative and intergenerational response to the question of what to do with all those extra years, the third, which is only dimly visible on the horizon, may cause us to address some fundamental questions around the purpose of a long life, the contribution of older adults and a re-shaping of the life course as a whole. The signposts are already there if we wish to follow them.

First would be to embrace the psychosocial discontinuities that occur as we age, rather than fear personal change. The mature half of adult life contains an awareness that we are not, in fact, immortal and have a limited time on this planet. This generates a set of new existential priorities that are only just becoming recognisable. It is not, then, simply that people wish they could spend more time in the workplace.

Second would be a rediscovery of the importance of generational intelligence. This would include the ability both to put oneself in the shoes of another

## Taken together these ... would facilitate the discovery of each age group’s contribution to social well-being, and the development of complementary rather than competitive relations between those generations, in the workplace, in the family, in policy and in civil society.

adults resent paying for others’ pensions and health; they just want the same commitment for themselves when their time comes (Gentrans, 2006–2009; Azra and Kohli, 2008; Keck and Blome, 2008; Komp and van Tilberg, 2010). Finally, the longstanding ‘lump of labour’ fallacy that younger adult unemployment is linked to retaining or recruiting older workers appears to have no empirical evidence to support it. In fact, reduced rates of youth unemployment correlate positively with high levels of mature-age employment, such that: ‘An exhaustive search found no evidence to support the theory in the United States. In fact the evidence suggests that greater employment of older persons leads to better outcomes for the young – reduced unemployment, increased employment and a higher wage’ (Munnell and Wu, 2012). These arguments would tend to re-focus political debate away

work which may or may not be there or be appropriate, then the carrot concerns modifying workplaces to make them more age-friendly. A number of studies have shown that this can be achieved by: creating greater choice and flexibility about transitions in and out of work (Taylor, 2006); enhancing the capacity of older workers through training, lifelong learning and anti-discrimination policies (Seiki, Biggs and Sargent, 2012); making workplaces more attractive to both recruit and retain mature-age workers (Manninen, 2011); and adapting policies to facilitate new pathways and meanings associated with work and retirement (Sargent et al., 2013). Perhaps most famously, the car manufacturer BMW successfully adapted their Bavarian production line to make it mature-age friendly and found that productivity increased and absenteeism fell, as did the defect rate (Loch et al.,

generational group and to develop the skills for sustained negotiation between generational interests. As a first step it might include a series of assessments of contemporary frameworks to evaluate the degree to which they facilitate becoming conscious of self as part of a generation, the relative ability to put oneself in the position of other generations, and the relative ability to negotiate between generational positions.

Taken together these two steps would facilitate the discovery of each age group's contribution to social well-being, and the development of complementary rather than competitive relations between those generations, in the workplace, in the family, in policy and in civil society. We have glimpses of these alternative rhythms in the differences between 'youthful' and 'mature' identities, in age-specific life tasks, changes in perspective, in 'gero-transcendence' and in 'generational intelligence'. They provide a starting point

for the question of meaning in later life that is not solely contingent on economic materialism. The 'more of the same' offered by productivist solutions cannot answer these desires; rather, it seeks to suppress them. We should, given this historical turn in age relations, see what it can tell us about the human condition, the ways we lead our lives and the kind of futures we collectively desire.

#### The journey ahead

If everybody really does want a long life, it is becoming clearer that few want to grow old as it is currently conceived. The task is of cultural adaptation to a society where the age groups are roughly equal in size and finding new age-specific roles and contributions. Then lasting solutions can be based on intergenerational complementarity. Policy should be less about work continuation versus reinvented retirement, and more about allowing mature adults to develop

multiple aspects of their identity, and in so doing permitting the emergence of life course-specific contributions to the wider social good. The role of a progressive social policy would be to make available new social spaces in which these novel forms of age-based identities can emerge. It would rest on a critique not only of physical space, but of temporal relations such as work-life balance across the life course and the meanings attributed to different life phases. Sustainable solutions, those that can stand the test of time and respect the life priorities of different generational groups, can then be negotiated as each party recognises their own and the others' specific contribution. True cultural innovation would lie in the facilitation of new roles adapted to a long life, greater attention to generational interconnection, and discovering new ways of releasing age-specific potential.

#### References

- Azra, C. and M. Kohli (2008) *Pension Reform in Europe: politics, policies and outcomes*, 1st edn, New York: Routledge
- Beard, J.R., S. Biggs, D.E. Bloom, L. Fried, P. Hogan, A. Kalache and S.J. Olshansky (2012) *Global Population Ageing: peril or promise?*, Geneva: World Economic Forum
- Bengtson, V.L. and A. Lowenstein (2003) *Global Aging and Challenges to Families, Life Course and Aging*, New York: Aldine de Gruyter
- Betts, K. (2014) *The Ageing of the Australian Population: triumph or disaster?*, report prepared for the Monash Centre for Population and Urban Research, <http://artsonline.monash.edu.au/cpur/files/2014/04/Ageing-of-the-Australian-population-4.pdf>
- Biggs, S. (2004) 'New ageism: age imperialism, personal experience and ageing policy', in S.O. Daatland and S. Biggs (eds), *Ageing and Diversity: multiple pathways and cultural migrations*, Bristol: Policy Press
- Biggs, S. and A. Lowenstein (2011) *Generational Intelligence: a critical approach to age relations*, London, New York: Routledge
- Bloom, D.E. (2011) '7 billion and counting', *Science*, 333 (6042), pp.562-9
- Calasanti, T. and N. King (2011) 'A feminist lens of the third age: refining the framework', in D. Carr and C. Komp (eds), *Gerontology in the Era of the Third Age*, New York: Springer, pp.67-85
- Commonwealth of Australia (2010) *Intergenerational Report: Australia 2050 future challenges*, [http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR\\_2010.pdf](http://archive.treasury.gov.au/igr/igr2010/report/pdf/IGR_2010.pdf)
- Dillaway, H.E. and M. Byrnes (2009) 'Reconsidering successful aging: a call for renewed and expanded academic critiques and conceptualizations', *Journal of Applied Gerontology*, 28 (6), pp.702-22
- Dittmann-Kohli, F. and D. Joop (2007) 'Self and life-management', in J. Bond (ed.), *Ageing in Society*, London: Sage
- European Union (2012) *Europa: European Year of Active Ageing and Solidarity Between Generations*, <http://europa.eu/ey2012>
- Gentrans (2006–09), 'Baby Boomers' Generational Transmissions in Finland', the GENTRANS research project, University of Helsinki, data collected by Statistics Finland, available at <http://blogs.helsinki.fi/gentrans/>
- Irwin, S. (1998) 'Age, generation and inequality', *British Journal of Sociology*, 49 (2), pp.305-10
- Keck, W. and A. Blome (2008) 'Is there a generational cleavage in Europe?', in J. Alber, T. Fahey and C. Saraceno (eds), *Handbook of Quality of Life in the Enlarged European Union*, 1st edn, London: Routledge
- Kohli, M. (2005) 'Generational changes and generational equity', in M.L. Johnson (ed.), *The Cambridge Handbook of Age and Ageing*, Cambridge: Cambridge University Press
- Komp, K. and T. van Tilburg (2010) 'Ageing societies and the welfare state: where the inter-generational contract is not breached', *International Journal of Ageing and Later Life*, 5 (1), pp.7-11
- Loch, C.H., F. Sting, N. Bauer and H. Mauermann (2010) 'How BMW is defusing the demographic time bomb', *Harvard Business Review*, March
- Manninen, O. (2011) *Work among the elderly*, Kopijyvä (Tampere)
- Martinson, M. and J. Haplern (2011) 'Ethical implications of the promotion of elder volunteerism: a critical perspective', *Journal of Aging Studies*, 25 (4), pp.427-35

## Adapting to an Ageing Society: the need for cultural change

- Metz, D. and M. Underwood (2005) *Older, Richer, Fitter: identifying the customer needs of Britain's ageing population*, London: Age Concern England
- Moulaert, T. and S. Biggs (2013) 'International and European policy on work and retirement: reinventing critical perspectives on active ageing and mature subjectivity', in *Human Relations*, 66 (1), pp.23-44
- Munnell, A.H. and A.Y. Wu (2012) *Will Delayed Retirement by the Baby Boomers Lead to Higher Unemployment Among Younger Workers?*, working paper, Chestnut Hill, MA: Center for Retirement Research, Boston College
- OECD (1998) *Maintaining Prosperity in an Ageing Society*, Paris: OECD
- OECD (2006) *Live Longer, Work Longer*, OECD Publishing (online)
- OECD (2011) 'Paying for the past, providing for the future: intergenerational solidarity', background document for ministerial meeting on social policy, Paris, 2–3 May, [www.oecd.org/social/ministerial](http://www.oecd.org/social/ministerial)
- Olishansky, S.J., D. Perry, R.A. Miller and R.N. Butler (2007) 'Pursuing the longevity dividend: scientific goals for an aging world', *Annals of the New York Academy of Sciences*, 1114, pp.11-3
- Sargent, L.D., M.D. Lee, B. Martin and J. Zikic (2013) 'Reinventing retirement: new pathways, new arrangements, new meanings', *Human Relations*, 66, pp.3-21
- Seiki, A., S. Biggs and L. Sargent (2012) 'Organizational adaptation and human resource needs for an ageing population', in J.R. Beard et al. (eds), *Global Ageing: promise or peril?*, Geneva: World Economic Forum
- Taylor, P. (2006) 'Work and employment: society', *Encyclopaedia of Gerontology*, 2nd edn, Oxford: Elsevier
- Tornstam, L. (2005) *Gerotranscendence: a developmental theory of positive aging*, New York: Springer
- Walker, A. (2009) 'Commentary: the emergence and application of active aging in Europe', *Journal of Aging and Social Policy*, 21 (1), pp.75-93
- World Bank (1994) *Averting the Old-Age Crisis: policies to protect the old and promote growth*, New York: Oxford University Press
- World Health Organisation (2007) *Global Age-friendly Cities: a guide*, Geneva: WHO



## Institute for Governance and Policy Studies

A research institute of the School of Government

## Upcoming Events

Date	Title	Speaker	Venue
Friday 19 September 12.30pm –1.30pm	Rural Ageing: Who Cares?	Dr. Norah Keating, <i>Professor of Human Ecology at the University of Alabama</i>	Victoria University of Wellington, Pipitea Campus, Old Government Buildings (Law School) GBLT2 <i>All Welcome –No RSVP's required</i>
Friday 26 September 12.30pm –1.30pm	A New Zealand perspective on Thomas Piketty's Capital in the 21st century	Dr. Geoff Bertram, <i>Senior Associate with the IGPS</i>	Victoria University of Wellington, Pipitea Campus, Old Government Buildings (Law School) GBLT2 <i>All Welcome –No RSVP's required</i>
Friday 17 October 12.30pm –1.30pm	When Collaboration Goes Wrong – The Perverse Incentives of Community Enterprise	Dr Jonathan Scott, <i>Head of Centre for Strategy and Leadership, Reader in Entrepreneurship, Teesside University (UK)</i>	Victoria University of Wellington, Pipitea Campus, Old Government Buildings (Law School) GBLT2 <i>All Welcome –No RSVP's required</i>
Friday 24 October 12.30pm –1.30pm	Decolonisation and Economic Performance in Small Island Economies	Dr. Geoff Bertram, <i>Senior Associate with the IGPS</i>	Victoria University of Wellington, Pipitea Campus, Rutherford House, RHLT2 <i>All Welcome –No RSVP's required</i>

### Other speakers confirmed for 2014 include:

Professor John Alford, *Professor of Public Sector Management at the Australia and New Zealand School of Government (ANZSOG)*

Professor Howard Zehr, *Co-director of the new Zehr Institute for Restorative Justice*

Professor Alan McConnell, *Professor of Public Policy at Sydney University in the Department of Government and International Relations*

For further information on IGPS Events visit our website <http://igps.victoria.ac.nz/>

Robert Stephens

# Focusing on the Future

## a summary and critique of the 2013 retirement income report

### Introduction

Every three years, under the New Zealand Superannuation and Retirement Income Act 2001 the Commission for Financial Literacy and Retirement Income is required to conduct a review of retirement incomes, to be submitted to the government. This article presents a summary and discussion of their 2013 report, entitled *Focusing on the Future*.

The commission is funded by the government, but operates and comments as an independent organisation. However, the terms for the triennial review are determined by agreement between the government of the day and the commission. Between reviews the commission's work focuses on improving

New Zealanders' financial literacy, ensuring that there is free and independent financial information available, and monitoring retirement villages legislation, with the overall objective of improving the financial well-being of New Zealanders throughout their lifetimes.

Retirement income policies cover both public provision via New Zealand Superannuation (NZS) and the veteran's pension, and private provision through KiwiSaver, occupational pensions, and private savings through bank deposits, shares etc. The split between public and private is not clean. Public provision is largely funded from current government revenue, predominantly taxation revenue on a pay-as-you-go basis, although the New Zealand Superannuation Fund, built up from tax revenue (plus accumulated interest), is largely invested in the private sector and can be used to smooth NZS expenditure flows (Guardians of the New Zealand Superannuation Fund, 2013). KiwiSaver is operated on a save-as-you-go basis to individual accounts, accumulating interest throughout the contribution period, based on contributions from employees (who are automatically enrolled, with an opt-out provision), with employers required to provide a matching contribution. There is a government tax offset of \$1000 upon enrolment in the scheme, plus a 50% tax credit for contributions to a maximum of \$521 per annum. This government contribution to KiwiSaver amounted to \$1.05 billion in 2012, or about 12% of the current costs of NZS (Dwyer, 2013). Other private savings receive no tax assistance, and the interest and dividends

---

Robert Stephens is a Senior Associate of the Institute for Governance and Policy Studies. He was formerly Associate Professor in Public Policy at Victoria University. His research has been largely in the areas of social and public policy and tax reform.

from the private savings are taxed at the individual's personal income tax rate.

The 2013 report was able to draw upon nine policy position papers and a variety of background papers prepared for the commission. Each paper related to particular aspects of the terms of reference, as well as past reviews and government responses to those reviews. The terms of reference, and the wider context surrounding the report, were discussed at a workshop held by the Institute of Governance and Policy Studies. The papers and workshop fed into a peer-reviewed discussion document. The final report was tabled in Parliament in December 2013.

## ... between 1986 and 2006 there were no tax advantages from entering occupational pensions (leading to a substantial drop in participation in occupational pensions) ...

### The report

While the report is a stand-alone document, it really should be read in conjunction with the background and position papers. The majority of the report relates to future challenges facing both the private and public provision of retirement income, set in a global and historical context. Seventeen recommendations were made, covering NZS, KiwiSaver, the New Zealand Superannuation Fund, financial literacy, taxation, age-friendly housing and workplaces, and international pensions. The executive summary provides a succinct abstract of the report.

### The global context

The report's chapter on the global context shows that most countries have developed distinctive programmes to provide income in retirement, with different emphasis on the three tiers of pension income – with government provision of a universal superannuation at age 65, occupational pensions and voluntary savings.

The chapter provides limited comparative data on trends in the number

of pensioners, pension expenditure and labour force participation rates. Knowledge that most OECD countries have an average ratio of government pension expenditure relative to national output of 9.3% in 2010, which exceeds the projected ratio in New Zealand of 7.2% in 2050, would have been vital contextual material. NZS is affordable by international standards: the real issue is whether we want to spend that amount of money on pensions. The level of expenditure is thus a matter of intergenerational equity, and thus social (and political) choice, based on what the alternative uses are for the fiscal expenditure saved if the cost of NZS is reduced.

Instead, the chapter concentrates on different scenarios based on the level of future economic growth and social cohesion, set in a context of likely and uncertain global economic, demographic, health and societal trends. Economic progress and a lack of social cohesion could lead to a situation of winners versus losers, while economic growth and social cohesion should lead to success. A failure in economic growth could result in a fall in social cohesion or all of us struggling together. To be useful, this matrix needed to establish the framework for the remainder of the document.

### The framework for retirement income

Much of this section of the report is a descriptive history, along with information on the outcomes of the current framework for older New Zealanders. One interesting feature is the wide range of programmes in existence for pensioners, ranging from NZS and KiwiSaver to the SuperGold Card, the means-tested assistance of the Community Services Card, housing, transport and mobility assistance, special

needs grants, disability support and rates rebates. There is little analysis of how these programmes developed, how they link together, or their fiscal costs and distributional effects.

The report shows that two key features of retirement income policy – lack of compulsion for savings and a lack of policy to replicate working income levels into retirement – have persisted. The report does not state the dominant policy objective, which is the adequacy of income levels in retirement. Another feature overlooked is the constantly changing use of the tax system in regard to savings, especially in regard to occupational pensions: until 1986 contributions to superannuation funds received a tax reduction, but receipt of the pension was taxed; between 1986 and 2006 there were no tax advantages from entering occupational pensions (leading to a substantial drop in participation in occupational pensions), but pension receipt was tax free; and post 2006, KiwiSaver has provided a \$1000 inducement to enter into voluntary schemes and a small tax reduction on contributions. Given the report's stress on intergenerational equity, some analysis should have been made of the idiosyncratic nature of the winners and losers from these different tax treatments.

The report provides eight objectives, which cover the adequacy of income support; ensuring financial and social well-being; personal responsibility for managing of finances; risk-pooling if individuals live longer than they expect to; a citizenship dividend based on past contributions to society; lifetime consumption smoothing, due to a mismatch through the life cycle between needs and income; equity between generations so that each generation pays taxes roughly equivalent to its pension receipt; and the government having a sound fiscal position that can permit payments of NZS. While the report identifies the need to 'find a balance between the [eight] objectives that is both politically and fiscally sustainable for a long period' (p.18), it does not cover the trade-offs between these objectives. For example, improving the adequacy of

income comes at a fiscal cost; an adequate NZS reduces the need for personal responsibility to provide adequate savings; the baby-boomer bubble reduces equity between generations, as current pensioners have paid less in tax than pension receipt, with the reverse for future generations (although the New Zealand Superannuation Fund was designed to offset this imbalance).

History has shown how politicians have constantly meddled with the policy framework and parameters, probably because of the simplicity of NZS and KiwiSaver. Past retirement income reports have not led to certainty and confidence in the framework, and recommendations on raising the age of entitlement for NZS have not been politically welcomed. The recommendations in this report are relatively modest: to raise the age of entitlement only in line with increased longevity. But this change will not start until 2027, meaning that any fiscal savings will be very small, especially if offset by income-related benefits for those unable to remain in employment.

NZS, plus private provision, has generally resulted in very low deprivation and income poverty rates for those 65 and over. However, NZS is only just above the 60% of median income poverty threshold, so that the very low level of additional income most pensioners have puts them at risk of poverty, especially for non-home owners. As the non-home owner group is likely to rise significantly in the near future, the adequacy of NZS is going to come under increasing pressure, with consequential impacts on fiscal expenditures, or private savings: all of these issues are considered in section 3 of the report, 'Future challenges'.

#### *Future challenges*

Addressing population ageing is the major challenge ahead, but the decline in home ownership and the increasing expectations for rising living standards for those aged over 65 should be added to the policy mix. Raising tax rates on the working-age population to pay for the baby boomers' pensions may result in new political configurations due to perceived intergenerational inequity: for example, how willing will a young

Māori population be to support an ageing European population, especially if the current differential in income and living standards continues?

#### *Fairness of the system*

The report states that the key achievement of the pension system is social inclusion and cohesion. A universal system overcomes the stigma from targeting; reduces administration costs due to complex and ever-changing eligibility rules; stops gaming of the pension through the formation of trusts and hiding income; and encourages the continuation

of increasing the age of eligibility as longevity increases. By international standards the proposed rate of increase in the age of eligibility is very slow, and starting at a far later date than for most of the OECD: the policy work has been done, most of the population are familiar with the population ageing issues, and the slow rate of change in the age of eligibility means that fiscal savings will be relatively low. This recommendation seems to stem from critical responses to previous, more speedy age-raising recommendations, as well as political expediency.

**Raising the age of eligibility from 60 to 65 caused limited resentment, and reducing the pension level from 80% of earnings to 66% was also seen as fair; but the introduction of the tax surcharge on non-pension income led to tax avoidance, especially via trusts.**

of work and savings. The report could have indicated how past issues in regard to fairness have had political impacts. Raising the age of eligibility from 60 to 65 caused limited resentment, and reducing the pension level from 80% of earnings to 66% was also seen as fair; but the introduction of the tax surcharge on non-pension income led to tax avoidance, especially via trusts.

#### *Population ageing*

The future cost of population ageing is a function of the dependency ratio of the working-age population to those over 65. The report indicates the substantial potential impact of increasing labour force participation rates among both those in the 15–64 age group and the 65-plus age group. The experience of a substantial rise in the labour participation rates of those aged 60–64 following the rise in NZS entitlement age in the 1990s could have been used as an example of behavioural responses to policy change. This example would also have provided support for the

#### *Affording retirement income*

Table 9 of the report (p.41), which shows the gross public pension expenditure as a percentage of GDP for a selection of OECD countries, demonstrates the relatively low cost of NZS. It would have been useful to have had the data in net (after tax) figures rather than the gross figure which is entered into the national accounts. The difference is just under one percentage point. Other OECD countries (except Australia) have much higher expenditure due to an older age structure, mainly because of the earnings-related nature of most OECD pension schemes, where higher pension levels go to those who had larger incomes while in work. The low cost of NZS is a further reason for having a universal, flat-rate pension. While the data indicates that there is no need for New Zealand to panic, and could be used to justify the slow rate of raising the age of eligibility from 2027, the report states that 'it makes sense to take steps now' (p.41).

Figures 5 and 6 (pp.42 and 43) compare current expenditures on health, NZS, education and non-NZS welfare expenditures, with three alternative scenarios:

1. cost-pressure increases based on past growth rates;
2. net debt stabilised at 20% of GDP;
3. the current population age structure maintained into the future: this scenario shows how much of the cost increase is due to age structure changes.

The cost pressure increase is large for health and NZS and downward for the other items of social expenditure. The ageing population impact explains most of the estimated four-percentage-point increase in health and NZS expenditures to 2050.

## The New Zealand evidence indicates that only a third of contributions to KiwiSaver represent additional savings (p.66), as many private occupational pension schemes have been rolled into KiwiSaver.

### *Options for reducing the cost of NZS*

The options need to be seen in relation to other aspects of retirement income, especially KiwiSaver.

1. *Raising the age of eligibility.* The report argues that '[r]aising the age will also *save money*' (p.44, italics added) – presumably this means fiscal savings, as individuals just turning 65 will lose money. The cumulative impact is a significant fiscal saving on pensions, especially with increases in labour force participation, but the savings need to be offset by greater expenditure on income-related benefits. The proposal to raise the eligibility age in line with changes in longevity seems logical, but does not give certainty to individuals or fiscal forecasters, and would have high administration costs with constant changes in the eligibility age.

2. *Changing the method of indexation.* In the 1990s, when adjustments to the pension were based on movements in the consumers price index (CPI) rather than average income, income poverty quickly emerged for pensioners with limited additional income. (The post-1999 Labour-led governments raised pensions back to 66% of average wages.) The report recognises this possibility and recommends using the average of wage growth and CPI movements. This approach should maintain current living standards and provide for some of the benefits of economic growth. The report also recommends greater use of targeted second-tier benefits, but this would reduce the desired level of fiscal savings.

3. *The impact of KiwiSaver.* The report correctly indicates that 'KiwiSaver is additive to NZS, not a substitute' (p.46) and represents the second tier of pension schemes. But the report requests further research on how KiwiSaver could impact on the method of indexation. Using KiwiSaver to lower the rate of adjustment of the pension level could be seen as a back-door method of means-testing for NZS.
5. *Varying the age of eligibility.* People could delay the time of receipt of NZS and receive a higher pension as a result. There should be no future fiscal impact if pension levels are actuarially calculated. Compared to raising the age for all, it would assist those retiring early or with a lower life expectancy. It would increase the risk for those making an incorrect estimate of their longevity, making

them more vulnerable to income poverty.

The proceeds from the New Zealand Superannuation Fund can be used as a form of intergenerational transfer of the cost of NZS. Current working baby boomers are paying less tax than required to sustain their NZS, and making contributions to the Super Fund. The fund provides a useful mechanism to spread the tax burden fairly across generations, thus improving the affordability of NZS. The fund improves the level of savings, and, if it continues to be sensibly invested, can increase the rate of economic growth. But additions to the fund are only sensible if the return on the fund is greater than the interest cost of government debt. The report recommends that the fund's returns be made tax exempt, which would treat them similarly to those of ACC and EQC, but be out of line with the additional tax burden that is placed on the returns from private savings.

The report's conclusions on the options are appropriate: 'the issue that arises is not so much one of affordability as of future generations' ability and willingness to pay the additional cost' (p.47).

### *New Zealand's saving performance*

There is considerable concern and debate as to whether New Zealanders are saving sufficiently to supplement NZS and maintain their pre-retirement income. Macroeconomic data shows that aggregate savings are potentially negative. The macro data looks at economy-wide savings, including public, external and individual debt as well as personal savings. The data does not allow an assessment of whether individual savings are adequate for a desired retirement income, nor the extent to which KiwiSaver accounts are offset by reductions in other private savings. Overseas evidence suggests that the extent of transference between forms of savings is substantial. The New Zealand evidence indicates that only a third of contributions to KiwiSaver represent additional savings (p.66), as many private occupational pension schemes have been rolled into KiwiSaver.

The microeconomic data indicates a general adequacy of savings to maintain pre-retirement income. There are substantial differences in the level of household savings by gender, age, ethnicity, income levels when in work, home ownership etc., with adverse events such as poor health, redundancy, divorce or death of a spouse also exacerbating individual differences in savings levels. Maintaining the level of NZS is a necessary safety net to offset these risks and lifestyle events.

Savings are not necessarily beneficial for an economy. Savings reduce consumption levels, and thus production and employment. Savings have to go into new productive investment to make a contribution to economic growth, but are often invested overseas, or into housing as a rental investment, which can raise house prices and rents. Reduced levels of home ownership in future will affect the adequacy of NZS for renters. The report provides limited direct recommendations to address this issue.

Further, aggregate savings only increase while the fund is building up: when mature, the savings fund will remain constant, or, with an ageing population, fall. Some 72% of those aged 65 and over intend to withdraw their savings from KiwiSaver over the next five years, generally in a lump sum (Dwyer, 2013). The impact of this on aggregate savings depends on whether these funds are used for current consumption (overseas trip, payment of debt, etc.) or reinvested.

#### *KiwiSaver*

KiwiSaver, which started in 2007, is a 'voluntary' occupational pension scheme designed to increase individual retirement income. Contribution rates are relatively low at 3%, though 36% of members have a 4% contribution rate. The report states that only half of eligible New Zealand residents are members, but this includes those aged over 65 or who are not in the workforce. 67% of people aged 18–24 are members, indicating a degree of acceptance among the younger generation, possibly due to a belief that NZS will no longer exist when they retire (Pinkerton, 2010), and the potential use of KiwiSaver funds as a deposit for home purchase.

KiwiSaver has become a political football, with changes to the employee and employer contribution rates and tax liabilities. The report does not advocate compulsory membership, but would like to see a more active approach to enrolment, with greater financial education. The report supports the administrative, compliance, enforcement and monitoring aspects of KiwiSaver developed since 2007. It supports maintaining the use of a single account for each member whenever members change employment.

#### *Adequacy of income in retirement*

The amount of income from savings in retirement is partly a function of the ability

to save and desired standards of living in retirement, complicated by unknown longevity, the after-tax interest rate on savings, and the degree to which assets are run down in retirement. This latter feature is overlooked in the report. The commission's Sorted website concentrates on the level of current savings for that adequate income, but not possible means of asset rundown (decumulation) to maintain post-retirement income levels (Rashbrooke, 2014). Scenarios can be done on an actuarial basis (requiring costly financial advice) or by self-help. The Sorted website could indicate that, with a portfolio of assets, one bundle could be set aside for the rainy day, greater-than-expected longevity or for inheritance. Then, with different net interest rates and varying amounts of drawdown, it could indicate how long the other assets would last; if too short or long, then the decumulation rate can be adjusted. The report recommends only the development of an Ministry of Social Development discussion document on decumulation.

#### *Housing*

The report covers the impact of home ownership and housing costs on the adequacy of retirement income. Those who own their homes generally have a higher standard of living, are able to maintain their independence longer, and have a better standard of accommodation. Those in rental accommodation tend to have a high rate of income poverty (Perry, 2013).

Home owners have an asset which could be used to enhance current living standards, through equity release schemes, where the asset value is converted to an income stream or lump sum, or by downsizing into a smaller property (Davey, 2005). The report indicates

## **[the 2013 retirement income report] lack of coverage and influence should be of grave concern to policy makers who have to consider long-term fiscal impacts from population ageing.**

the limitations of both approaches. Equity release has issues with estimating longevity and high interest rates. Downsizing may be restricted by a lack of availability of smaller dwellings with ready access to transport, and the capital released may be too small to generate a satisfactory income stream. Movement into retirement villages may release some financial capital, but incurs regular fees and complex legal issues.

The recommendation is for yet another review, to find ways of increasing the supply of age-friendly housing, presumably covering issues of design, transport and access to amenities.

#### *Continued employment*

Adequacy of income can be maintained by continuing to work beyond the age of eligibility for NZS. The universal nature of the pension, with no income test, along with the absence of a compulsory retirement age encourage labour force participation. Over the 22-year period from 1991 to 2013 the proportion of people 65 years and over participating

in the labour force has increased from 5.8% to 22.5% (Statistics New Zealand, 2014). This rise in the participation rate reflects reduced employer discrimination against older workers, skill shortages and a willingness of employees to continue working (Davey, 2014). Not all are able or wish to. Attitudinal change needs to start when a worker is younger. Other factors are a possibility of retraining, part-time work, adjustment for health status or job change (e.g. going from being a builder to a building inspector).

The report is neutral on the 'lump of labour' theory, which posits that employment of older workers reduces employment for younger people. The majority of research rejects the hypothesis.

The report's recommendation is weak. It calls for the Ministry of Business, Innovation and Employment to 'work with employers, industry associations and unions to implement ways to encourage the recruitment, retention, retraining and mobility between jobs of older workers' (p.83).

#### Financial literacy

The report agrees with the trend towards greater individual responsibility for retirement income, provided that responsibility is underpinned by NZS. Making KiwiSaver compulsory reduces the risk for workers, but compulsion is not recommended due to compliance costs, savings substitutions, greater financial

burdens for low-income earners, and lack of incentives for financial advisers. Greater financial literacy is seen as the preferred mechanism, giving individuals the ability to make appropriate savings decisions, rather than compulsion.

The Sorted campaign certainly tries to provide financial advice, but there is limited discussion here about how many people actually use the service and act on its information. The report would like to see financial advice provided through the workplace as well as its own programmes to increase financial literacy. However, most people receive information from banks, which tend to push their own products; family or friends, who are not always well informed; or financial advisers who are not always well known or trusted. The recommendation to give the commission 'an explicit mandate to lead the provision of financial education' (p.87) would probably have limited impact on the status quo.

The report fails to consider issues round the appropriate timing of savings. It assumes that saving from a young age is the best option, due to the impact of accumulated interest. Taking account of the life cycle could provide greater flexibility for savings levels, with high savings rates before the arrival of children (and thus a base from which interest can accumulate), low savings when equivalent income falls because of the extra costs associated with children and often a shift to one income, then higher savings

rates when the children have left home. Of course, many do not fit this picture, but at least acknowledging the benefits of flexibility in savings rates, with some instructive guidance, may help even out income and expenditures and provide for greater income adequacy over the whole life cycle, not just when over 65.

#### Future directions

This section covers the recommendations made in the body of the report, on keeping NZS fair and affordable; KiwiSaver; the New Zealand Superannuation Fund; financial literacy; taxation; age-friendly housing; age-friendly workplaces; and international pensions. When the recommendations are put in one place, the document seems very conservative, which is probably because past reports have been largely ignored by governments. Being published just prior to Christmas 2013, the report received limited media coverage and probably had limited influence within government circles. This lack of coverage and influence should be of grave concern to policy makers who have to consider long-term fiscal impacts from population ageing. Individuals should be concerned, as the lack of detailed policy development gives politicians too many opportunities to alter both NZS and KiwiSaver. The hard decisions are left for other reviews, but the commission has been around long enough to have done the required analysis themselves.

#### References

- Commission for Financial Literacy and Retirement Income (2013) *Focusing on the Future: report to Government*, Wellington: Commission for Financial Literacy and Retirement Income
- Davey, J. (2005) *The Prospects and Potential of Home Equity Release in New Zealand: update to 2005*, Wellington: Office of the Retirement Commissioner, available at [www.retirement.org.nz](http://www.retirement.org.nz)
- Davey, J. (2010) 'What Are We Saving For? Using assets in retirement', in J. Davey, G. Rashbrooke and R. Stephens (eds), *Retirement Income and Intergenerational Equity*, Wellington: Institute of Policy Studies, Victoria University of Wellington
- Davey, J. (2014) 'Age Discrimination in the workplace', *Policy Quarterly*, 10 (3)
- Dwyer, M. (2013) 'The Place of KiwiSaver in New Zealand's retirement income framework', background papers to the 2013 review, Commission for Financial Literacy and Retirement Income
- Guardians of the New Zealand Super Fund (2013) 'The role and performance of the New Zealand Superannuation Fund', background papers to the 2013 review, Commission for Financial Literacy and Retirement Income
- Perry, B. (2013) *Household Income in New Zealand: trends in Indicators of Inequality and hardship 1982–2012*, monitoring report, Wellington: Ministry of Social Development
- Pinkerton, N. (2010) 'Getting buy-in from the young', in J. Davey, G. Rashbrooke and R. Stephens (eds), *Retirement Income and Intergenerational Equity*, Wellington: Institute of Policy Studies, Victoria University of Wellington
- Rashbrooke, G. (2014) 'Decumulation Methods 101', *Policy Quarterly*, 10 (3)
- Statistics New Zealand (2014) 2013 Census of Population and Dwellings

Geoff Rashbrooke

# Decumulation 101

## the basics of drawing down capital in retirement

### Introduction

Decumulation in the retirement income context is the using up of retirement savings by way of drawing out regular income – for example, a fixed amount each month. It's the converse of accumulating retirement savings while in paid work by regularly putting money aside. And return on investment plays its part in both: in the accumulation phase it enhances the amount saved; in the decumulation phase it enhances the regular amount that can be paid out.

The first question is whether decumulation is something that actually needs any policy attention. Since the answer to that question here is a qualified yes, the next part of this article outlines a number of decumulation methods, considering such matters as cost, risk and flexibility. The desirability of any form of decumulation

to individuals will naturally vary according to their preferences in respect of those points. The article concludes by positing some public good components in respect of each decumulation method, and setting out some possible government interventions in response.

Overall, the object of the article is to introduce readers to the policy questions at a fairly high level, and there will be no in-depth research quoted; academic references are unashamedly in short supply. Readers are left to identify research possibilities for themselves.

### Relevance

For most people, life experience up to retirement does not teach how to manage retirement savings assets for financial support thereafter. Investment of savings is mostly left to experts. At best, many aim to live on the income generated by those assets after retirement, and leave the assets for their heirs. At worst they spend the lot, which may have its attractions but doesn't usually result in anything sustaining for the rest of life.

The lack of acquired competence in managing financial assets for income could be seen as already sufficient reason for paying attention to decumulation policy. But provision of regular income is only one use of retirement savings, and a number of conflicting objectives need to be reconciled. Some questions individuals need to ask themselves as they withdraw from paid work are:

---

Geoff Rashbrooke is a Senior Associate of the Institute for Governance and Policy Studies. He is a consultant on insurance and pension schemes and was formerly Government Actuary.

- What debts would it be sensible to pay off, so as to save making repayments out of my retirement income?
- What amount of assets do I want to hold as 'rainy day' money against shocks (such as needing urgent medical treatment not available quickly in the public health system) or some planned major expenditure, such as travel or replacing a car?
- Is there some bequest I want to make?
- Apart from my 'retirement savings' assets, what other assets do I have: for example, a house?
- Is all the income generated from my assets available to be spent, or do I want to put some aside to protect the real value of my intended bequests?

assessment may lead to the conclusion that decumulation is not relevant to them: access to some financial assets can often make a significant difference to welfare after retirement, providing resilience to financial shocks. For those more financially advantaged the assessment is not straightforward. One problem is that the income one might generate from decumulating some savings can be hard to quantify. (The Sorted website of the Commission for Financial Literacy and Retirement Income could help here, but would need to be able to reference and quantify decumulation products.)

Nonetheless, decumulation products have the potential to be very useful, particularly for those with minimal bequest intentions. And, without wanting to sound excessively paternalistic, it may

rent in this context) and no tax on any drawdown of capital.

#### *Financial adviser as manager*

This is employing a person on an ongoing basis to manage the drawdown of retirement assets. This seems ideal. There should after all be a number of people who have an excellent knowledge of the financial products on the market, and who also understand how to communicate and engage with their clients in order to explain the risks and rewards of different scenarios.

There are, however, two large problems with entrusting retirement wealth to an adviser. One is cost. On a person-to-person basis, if you have moderate wealth then it is very expensive relative to assets to engage a financial adviser other than short-term, and not always just then. Commission-based remuneration disguises this cost, but does not align the interests of the adviser and the client.

The other problem is competence. It has been said of financial advisers that those who can, work on their own account, and those who can't, advise. Whether one agrees with that or not, what is inescapable is that a poor adviser can cost clients dearly through their naivety or inability, let alone any fraudulent behaviour. Although regulation of advisers has improved over the last decade, there is still no real basis on which to assess who will do a good job and who will not. Hence, although there are doubtless some very good practitioners and a number who are reasonably competent, getting a financial manager who is not up to scratch puts at risk the whole of one's savings.

There is little scope to reduce the cost of direct, ongoing financial advice. One could observe that on average a financial adviser is less likely to do damage to a client's savings than the client themselves, and that this has value. How much, however, is disputable. And adviser competence issues remain: poor performance has catastrophic and unrecoverable effects.

#### *The lifetime annuity*

This is the most traditional form of decumulation. An insurer, by pooling mortality risk over a sufficiently large number of annuitants, can offer to provide

## Although regulation of advisers has improved over the last decade, there is still no real basis on which to assess who will do a good job and who will not.

These questions lead to identification of the assets one wants to hold on to, and for how long. In turn this leads to determination of how much, if any, will be available to be run down through decumulation to provide additional income on top of:

- investment income from the assets planned to be retained (rather than run down), including rents;
- New Zealand Superannuation when eligible;
- any private pension;
- earnings from continued paid workforce participation, including self-employment.

There may well be trade-offs needed between the level of total regular income one would like to have and how much one wants to retain for bequests and/or rainy day money (and hence not available for decumulation).

For those with little retirement savings and no freehold house, such

be no bad thing to have some assets assigned to providing income and not at risk to financial predators. Among other things, cognitive failure is more of a risk with greater age.

#### **Decumulation methods**

The decumulation methods discussed here are:

1. Financial adviser as manager
2. Lifetime annuity
3. Pooled annuity funds
4. Drawdown 'pension'
5. Term annuity
6. Drawdown 'pension' or term annuity plus deferred annuity
7. Home equity release.

For each I describe salient features, pricing issues, relative advantages and disadvantages, and, where relevant, tax issues for neutrality. Tax neutral treatment is taken as tax at the applicable individual rate on income (interest, dividends and

a fixed monthly amount for life in return for a lump sum. The insurer also effectively provides a guaranteed investment return. The working of an annuity is not, however, at all transparent. Determining how much monthly payment can be made for a given lump sum depends on projecting annuitant mortality (rather lighter than population mortality), investment return and expenses, and incorporating a profit margin for the cost of the capital held for solvency purposes. So annuities remove mortality, investment and expense risk in respect to the payments the annuitant is due to receive, but in doing this are more expensive to provide than a simple analysis would suggest.

On the demand side, potential annuity purchasers have difficulty with the prospect that if they die early, no refund of the unexpended part of the purchase price is available. One can try to explain that this is the result of risk-pooling and someone has to pay for those who live longer than average, but the downside risk does predominate. And, of course, there is no flexibility, no facility to change the arrangement to cope with an unexpected call on funds.

In terms of taxation, the aim should be neutrality for the individual. It is possible, although complex, for tax to be attributed to individuals by reference to the balance remaining of their purchase price, plus investment return credited to date, net of all expenses, plus the share of fall-in from deceased annuitants. Since it would be impossible to set prices based on projecting future individual tax rates, neutrality requires the insurer to pay no tax on its annuity business (other than profit, as it emerges) and the annuitants to be taxed directly on attributed investment income each year.

A useful approximation in place of annual attribution is to identify one half of an annuity payment as income: this may be acceptable on the basis that, very broadly, half of the total payout over an average lifetime will be investment income and half will be return of capital. (The precise split depends on the level of investment income earned.) Note that this approximation takes relatively more from those who live longer on average compared to those who die early.

#### *Pooled annuity funds*

These are an attempt to reduce the cost (i.e. improve the annuity payout) of the lifetime annuity. The administrator operates a pooled fund for mortality and investment risk, but does not provide any guarantees. The initial annuity is estimated based on applicable mortality and anticipated net investment return (and expenses), but annuity amounts may be reset each year based on actual experience. The administrator profit is usually derived from the investment activity.

Normally, lifetime annuity pricing is based on the best expected longevity (unless annuitisation is compulsory). Pooled annuity funds are voluntary, but could be segregated and, by making use of insurance risk assessment processes,

expense risk), the drawdown pension works on an individual approach. There are variations, but the basic approach is for a regular payout to be calculated based on the amount deposited, expected investment return and expenses, and the pensioner's preferred payment period. Operationally, a pension account is established, investment return credited, and pension payments and expenses debited. Tax is – or should be – paid by the pensioner on the net investment income credited. When no money is left, payments cease. If the pensioner dies before running out of funds the balance goes to the heirs.

Were the period set to life expectancy – the average period a person is expected to live – then, assuming investment returns and expenses match the estimates,

**Were the period set to life expectancy – the average period a person is expected to live – then, assuming investment returns and expenses match the estimates, half the pensioners will run out of funds before they die.**

---

pool those with poorer longevity prospects. However, attracting enough people to make this viable on a voluntary basis appears difficult. Indeed, while theoretically attractive, pooled annuity funds appear to have obtained even less traction than life annuities. Likely reasons include the downside risk of loss of some capital outweighing the continued payment, and absence of a tradition of such funds. Obtaining neutral tax treatment again has the same issues as with the lifetime annuity. The only real advantage of pooled annuity funds over lifetime annuities is the absence of a requirement for regulatory capital, and therefore potentially higher annuities for the same purchase price.

#### *Drawdown 'pension'*

While the lifetime annuity pools mortality and investment risk (and

half the pensioners will run out of funds before they die. For this reason a longer payment period may be favoured: for example, to the point where 70–75% of people will have died. Conversely, people who consider they are in poor health, or who have other resources for later in life, may prefer a period less than the average lifespan.

Because funds are held in individual accounts the facility of lump sum withdrawals can be provided, with a reset of the monthly pension. The administrator, however, will need to charge those who avail themselves of this appropriately, since not only are there administrative costs, but also implications for investment policy if higher liquidity may be needed.

Costs of the pension will include investment charges and administration, as well as a profit charge (although little

regulatory capital is needed), basically for providing an investment service. Drawdown pension arrangements can offer a variety of investment allocation strategies, particularly for longer planned drawdown periods; the deduction from gross income for investment charges (and profit) should be transparent, but may not always be so.

While the greater flexibility and capital protection are attractive, drawdown accounts can be depleted for the longer-lived, potentially giving rise to a non-anticipated fall in living standards. Poor investment returns compared to those anticipated in setting the drawdown

#### *Drawdown 'pension' or term annuity plus deferred annuity*

From the discussion of decumulation methods so far, it will be noted that drawdown pensions have the greatest 'market' appeal due to flexibility, but do carry the risk of reaching a certain point and running out of income. Term annuities have the same drawback. This suggests combining a drawdown pension arrangement or term annuity with a deferred annuity – that is, a lifetime annuity which doesn't commence until age 80, for example, or even age 85 – in order that there is a guarantee of income in the later years if one survives past the

annuities presents the same issues as for immediate lifetime annuities

#### *Home equity conversion*

Home equity conversion is not strictly speaking a decumulation option itself, but the funds made available from releasing equity in the home can then be converted into an income stream, in one of the ways set out above. The most common form of home equity release, the reverse mortgage, advances money on the security of the home. Compound interest is payable on the advance, but the owner retains full entitlement to remain in the home. The advance and accumulated interest are recuperated when the owner dies or moves out, whichever occurs first.

Reverse mortgage contracts usually have a no negative equity guarantee: that is, the total recoverable cannot exceed the current value of the house after expenses of sale. For this reason the maximum proportion of value that can be released takes into account mortality (including mortality improvement), likely interest charge, and likely increase in house prices for the kind of property in question.

It is understood that paying an advance as regular income has been considered by local home equity providers. There is no obvious reason why such providers could not offer a drawdown facility, and/or make deferred annuities available through a registered insurer.

#### **Public good issues**

The argument here is that welfare in later life would be improved were greater use made of decumulation products. As discussed earlier, many people are not well equipped to manage retirement assets for decumulation purposes themselves; nor is it reasonable to expect them to upskill (assuming ability to do so). And having assets assigned to decumulation will also offer protection against fraud and loss of cognitive ability.

The decumulation products described above are, however, either not widely available or in apparently low demand. In this situation, a three-pronged policy response in respect of education, standardisation and regulation (including tax) would do the following:

## **... many people are not well equipped to manage retirement assets for decumulation purposes themselves; nor is it reasonable to expect them to upskill (assuming ability to do so).**

---

amount may curtail the actual period of receipt (although the converse, better returns, will extend it).

#### *Term annuity*

A term annuity is a series of regular payments for a fixed term. Unlike a lifetime annuity, payment continues if the annuitant dies before the end of the fixed term. Pricing, therefore, does not need to include mortality projections. The advantage of a term annuity over a drawdown pension is that the payout amounts are known: there is effectively an investment guarantee. Conversely, there is no flexibility in terms of access to lump sums. And, like drawdown, the payout may well stop before death, the likelihood of that depending on the term chosen.

Regulation requires ensuring adequate reserving, plus regulatory capital for the investment guarantee. A term annuity is likely, therefore, to be less than a comparable drawdown pension. Tax on investment return has the same issues as for a lifetime annuity.

drawdown period or comes to the end of the term annuity period.

A deferred annuity requires rather less regulatory capital in relation to mortality risk than an immediate annuity, because the guarantee period is quite a lot shorter. There does, of course, need to be regulation to ensure adequate reserves are held and that profits are not anticipated before they are earned. Nonetheless, deferred annuities are less capital-intensive than full lifetime annuities, and should be more easily presented as direct insurance against living too long.

Purchase of a deferred annuity need not be associated with obtaining a drawdown pension or term annuity, but put together they offer the opportunity for retirement planning by harmonising the regular income from drawdown or fixed-term annuity and the deferred annuity (although there could be a hiatus if the drawdown funds run out before the deferred annuity kicks in). Note that the neutral tax treatment of deferred

*Education* would explain the advantages of decumulation, help people identify what assets (if any) could be used for decumulation, and identify the pros and cons of different options according to personal preferences in respect of risk, flexibility and cost.

*Standardisation* would be desirable in order that people not become bewildered by choice, and would help keep education initiatives focused. A comprehensive but limited option set can be a useful nudge as to what people should be looking at. It also enhances competition, as comparison of different providers is considerably simplified. Once the basics have been in place for a while, more sophistication can be introduced later.

*Regulation* is required to give confidence that, where a decumulation product provides guarantees, the purchaser can be confident that, in all reasonably foreseeable circumstances, those promises will be kept. It provides not only for reporting but also for monitoring and enforcement, where it is not reasonable to expect most clients to have the adequate skill or interest to do this themselves, and there is no gain for third parties to step in. Tax treatment would be neutral across options to avoid tax arbitrage affecting choice between products. Some concessional treatment could, however, be considered on a cost-benefit assessment where any particular decumulation product benefits the whole community.

So what might this policy framework mean in respect of each decumulation method listed above?

#### *Financial adviser as manager*

What is being considered here is having someone manage the whole decumulation process through ongoing asset management, not just giving advice on decumulation products such as lifetime annuities, etc. One might consider that, as

only the very wealthy would find such an approach cost-effective, no intervention is needed. However, the very wealthy are not necessarily all financially astute, and in any case some with lesser wealth might want to consider the possibility. For monitoring and regulation purposes, then, a policy option would be to maintain a register of qualified decumulation managers. Applicants would need to demonstrate fitness for the role, and to file reports on their activities and performance on behalf of their decumulation clients, with the registrar given a proactive role in monitoring. The aim would be to identify

Ultimately, however, it is difficult to see how insurers can obtain a required return on capital without compulsory annuitisation, as there was in the UK until very recently. For example, government could require annuitisation of the subsidised element of KiwiSaver entitlements. If that is a step too far, and there are good arguments either way, then arguably there becomes a role for government to establish a state-owned annuity corporation to provide lifetime annuities, on market-failure grounds. Were this to occur, however, there will still be need for best-practice regulation

## The existence of properly costed and managed deferred annuities would allow retirees to decumulate initially using drawdown pensions and/or term annuities, protecting themselves against early death

...

poor performance before it did too much damage; however, a performance guarantee fund, with levies tied to risk profiles, would also provide assurance to potential clients. Significant penalties for carrying out this business unregistered would be necessary to deter the unethical, and protect the brand. With this structure in place, education measures would be straightforward: describe the register, set out the requirements placed on those registered, and give an indication as to likely annual costs.

#### *Lifetime annuity*

While the benefits of these are appreciated by risk professionals, there is a corresponding lack of appreciation by laypeople. Education could assist, but there will remain distrust of insurers due to the opaque nature of the product. This can be addressed in part by improved regulation, including a review of currently applicable tax rules (also opaque); it would be helpful if tax treatment was demonstrably neutral.

(including for solvency capital) and best design practice: ideally automatic cost of living indexation, or at least some proxy such as annual 2% increases (i.e. at the broad inflation target rate).

Education initiatives to explain annuities, particularly the guarantees, would only be sensible if these other steps are taken – i.e. tax neutrality, sound regulation, and either some compulsion or the imprimatur of a government entity.

#### *Drawdown 'pension'*

This option is the most transparent and education can focus on how it works without too much difficulty. The key policy action is standardisation. What would be truly useful would be to require each KiwiSaver default provider to offer a drawdown pension arrangement with the following characteristics:

- a standard pension based on Statistics New Zealand population best-estimate mortality projections to last five years past life expectancy,

and investment return based on the experience of the provider's default portfolio, net of expenses;

- a 'high' pension to last until five years before life expectancy;
- calculation of pension to allow for automatic increases of 2% per annum;
- access to capital on full cost recovery, including a liquidity charge; and
- opportunity to reset – subject to a minimum monthly pension amount, since costs are similar per payment.

Regulation would fall under current KiwiSaver rules and scrutiny. While other forms of drawdown need not necessarily be barred, some form of branding should be used to establish the primacy of the standard versions, and other forms would need to be brought under KiwiSaver legislation.

#### *Term annuity*

This is in essence a bank product, since management principally concerns credit risk. One might consider requiring banks to offer a range of terms – 5, 10, 15 years – in return for government education initiatives so that retirees include these as options to consider. Certainly it would help retirees (and their advisers) to have an indication as to what they could obtain in this fashion.

#### *Pooled annuity funds*

While discussion of decumulation would have been incomplete without mentioning these, there does not seem any compelling reason to devote any further consideration to them here.

#### *Drawdown 'pension' or term annuity plus deferred annuity*

The deferred annuity can be seen as the missing piece of the puzzle, since it provides insurance against living longer than expected. One obvious drawback,

however, is that by providing an income source, it could constrain access to welfare benefits such as the residential care subsidy. Certainly, where means testing focuses on income and excludes capital, treating a capital element as income would be disadvantageous.

These considerations suggest that a concessional tax treatment for deferred annuities might have direct welfare benefit savings, as well as being welfare-enhancing in the wider sense. It would clearly be essential to ring-fence deferred annuities from other forms of annuity, and to have appropriate prudential regulation.

Whether or not the market-failure argument to have government offer lifetime annuities is accepted, the argument becomes stronger for deferred annuities, picking up the role of government as insurer of last resort. Whether this role could extend to inflation indexing is another point for investigation. Certainly the absence of any facility to obtain a good annuity product was regarded as an argument for being able to choose to defer New Zealand Superannuation payments.

The existence of properly costed and managed deferred annuities would allow retirees to decumulate initially using drawdown pensions and/or term annuities, protecting themselves against early death, and then have continued income if they survive past the point when the other two run out. The balance to put into a deferred annuity compared to that for drawdown or fixed term could be set according to preferences for continuing income: some might wish to target a level income; others a lower income in the deferral period, perhaps because they expect to be less active. The Sorted website would be very suitable in helping people investigate this for themselves, and the Commission for Financial Literacy and Retirement Income could no doubt run

effective education campaigns to assist more comprehensive retirement income planning.

#### *Home equity release*

Education here would have two aspects: letting people know that they have an income option through using one of the main decumulation approaches; and making sure that the costs of home equity release are understood. The dominance of one provider in the past has handicapped proper competition, with the profit margins – to the extent that these can be estimated – looking very high compared to those in more competitive jurisdictions, such as the UK. Again, it is moot whether the government needs to introduce competition by establishing its own provider, as it did with Kiwibank; a problem, however, could be finding enough credit. Were the government to get involved, it could reasonably require that proceeds be taken as drawdown or fixed-term plus deferred annuity – i.e. focus on income provision.

#### **Recommendations**

Provision of lifetime annuities has collapsed and no immediate replacement has occurred. Some government intervention could assist the development of the most promising option, the drawdown pension. Standardisation is strongly recommended to ensure good understanding through education initiatives and meaningful competition, leaving room to relax strictures when the method has better public understanding.

Deferred annuity provision is the natural complement to drawdown. Some people may not want that insurance, but for those who do there are currently no market products. Again, government intervention, including public education, appears necessary; in time this should lead to opportunity for private providers.

# What Has New Zealand's Retirement Policy Framework to Offer the International Debate?

## Introduction<sup>1</sup>

New Zealanders don't realise that they are regularly regarded in other countries as world leaders, not just in sport.

Inaugural New Zealander of the year in 2010, Ray Avery, points to the 'never say it can't be done' attitude that has produced many astonishing results in science. In social policy too we have often been ahead of world thinking. One very under-trumpeted innovation is our retirement incomes policy, which, along with ACC, is unique on the world stage.

New Zealand Superannuation (NZS), the foundation of New Zealand's retirement income system, is a universal, pay-as-you-go (PAYG), taxable age pension, partially pre-funded by accumulated assets in the New Zealand Superannuation Fund. Alongside NZS sits KiwiSaver, the world's first national auto-enrolment saving scheme. New Zealand's success with the 'soft compulsion' of automatic enrolment has been and is continuing to be an influence in the design of opt-out schemes in the UK, Ireland and the United States. Seven years on, this retirement saving scheme both is well accepted by the public and has certain clever design features.

If KiwiSaver is made compulsory, as some powerful lobbies propose, there are large complexities to resolve, including the future role of the universal state pension, NZS. It is timely to reflect on the really good things about our retirement

---

<sup>1</sup> Susan St John is co-director of the Retirement Policy and Research Centre at Auckland University, with research interests in public sector and retirement policy issues.

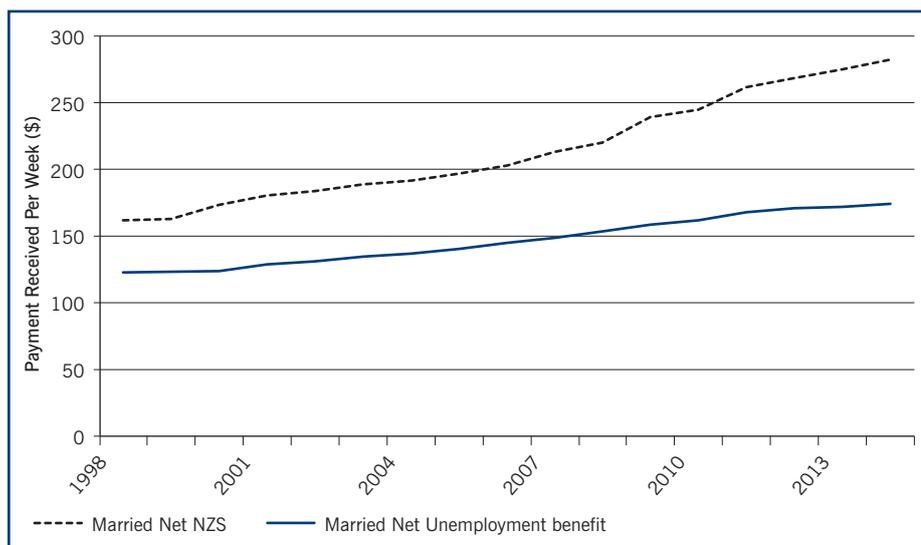
**Table 1: New Zealand Superannuation rates at 1 April 2014**

Category	% net average wage*	Annual rate NZ\$ (gross)	Annual Net Primary Tax	Annual Net 33% Tax
Single, living alone	43%	\$21,932	\$19,080	\$14,494
Single, sharing	40%	\$20,154	\$17,613	\$13,503
Married person or partner in civil union or de facto relationship (each)	33%	\$16,633	\$14,678	\$11,144

Source: Work and Income website: <http://www.workandincome.govt.nz/>

\* Supplementary income- and asset-tested benefits may also be paid.

**Figure 1: Married unemployment benefit vs NZS payments**



incomes framework before making ill-considered changes. Looking to the future, this article suggests that New Zealand is in a unique position to build on this framework and offer leadership in helping solve some of the intractable issues around decumulation that are plaguing other countries.

**New Zealand Superannuation**

New Zealand introduced the old-age pension in 1898 to provide some protection for the deserving poor aged over 65. Over 100 years later, the retirement income framework has, at its foundation, a flat-rate, universal, taxable benefit, paid out of current taxation. Eligibility is from the age of 65 years, if modest residency requirements are met.<sup>2</sup> Under a current political agreement, the combined net NZS rate for a couple has to be at least 66% of the net average wage (33% per married person). Higher rates apply for single people either living alone or sharing accommodation (see Table 1). NZS is indexed annually via the Consumers Price Index until the wage

floor of 66% is reached, then net pensions rise with the net average wage.

Home ownership rates are high amongst the ‘baby boom’ generation, and thus housing costs are relatively low. When compared with basic age pensions internationally, and with other welfare benefits domestically, NZS is generous. As a consequence, New Zealand has low rates of pensioner hardship, despite high rates of hardship among those on welfare benefits (Perry, 2013). In the future, however, falling home ownership rates may affect the degree to which NZS is adequate to remove hardship for those who rent.

The level of welfare benefits, indexed only to prices since 1991 when the level of welfare benefits was cut, has fallen well behind NZS over time. Figure 1 illustrates how indexation of NZS to wages has continued to produce a growing gap between NZS and welfare benefits.

At retirement, while low-income earners do fairly well in an international comparison of public pensions, those on average earnings or above have relatively

low replacement rates if just the state pension is considered (OECD, 2011, p.125). Individuals have been expected to save privately, including in employer-sponsored superannuation schemes, to achieve higher effective replacement rates in retirement.

**KiwiSaver**

KiwiSaver is the world’s first national auto-enrolment saving scheme. It was initially conceived as a purely voluntary saving scheme, with a modest government-provided kick-start and a fees subsidy as ‘sweeteners’. KiwiSaver is fully portable. Thus, when members change jobs or they leave employment their scheme goes with them, providing a valuable simplification over traditional employer-based schemes. With some exceptions, all new employees are automatically enrolled in KiwiSaver if they are not already members. Currently, employees and employers each contribute 3% of wages. Enrolled employees can chose to opt out, or go on a contributions holiday after a year of contributions. (For more detail see St John, Littlewood and Dale, 2014, as in References an U Auckland website)

In 2014 the tax-funded subsidies comprise just the kick-start at \$1,000 for new members and a maximum \$520 government contribution for the first \$1,040 of annual member contributions. By international standards these subsidies are extremely modest, and their unindexed nature implies that they will fall in value quite quickly over time.

KiwiSaver is not designed solely as an employment-based scheme and is widely inclusive in its conception. This interesting feature has helped membership reach over 2.1 million,<sup>3</sup> in a total population of 4.3 million.

*Purpose of the scheme*

The purpose of KiwiSaver has been, at times, confused. Is KiwiSaver’s purpose to benefit the individual in retirement? Is it to reduce the pressures on the economy of an ageing population? Is KiwiSaver supposed to solve the national saving problem? Or is it to expand the managed-fund industry? As long as the purposes are unclear, the scheme is vulnerable to the industry determining the design of the

scheme to meet its own objectives.

When KiwiSaver was first announced, the pivotal problem was seen to be one of low national saving. New Zealand is heavily reliant on foreign saving, with persistently large current account deficits and accumulated overseas debt. However, it was not clear that KiwiSaver was capable of lifting national saving.<sup>4</sup> By the time the KiwiSaver Bill was introduced there was little mention of the current account deficit problem. The purpose of the KiwiSaver Act 2006 is described thus:

to encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement. The Act aims to increase individuals' well-being and financial independence, particularly in retirement, and to provide retirement benefits. To that end, this Act enables the establishment of schemes (KiwiSaver schemes) to facilitate individuals' savings, principally through the workplace. (KiwiSaver Act 2006)

A reference to the hope that national saving will improve was buried on p.36 of the bill, and was not included in the act:

If the behavioural changes flow through into increased domestic saving, then economic growth may increase as more funds may be available to fund domestic investment and reduce New Zealand's reliance on borrowing offshore.

Law, Meehan and Scobie (2011) estimated that only about one third of the members' contributions to KiwiSaver are 'new' savings. Even if there is an impact on household saving, there is no guarantee that national saving (the sum of private and public saving) will improve. Importantly, while some of the rhetoric suggests that more KiwiSaver saving equals more investment and growth, in practice more saving from any source does not 'cause' more or better investment.

The Inland Revenue Department (2011) concluded:

It estimated, on the conditions and settings of the scheme at that time, that over the ten years to 2021 the net contribution of KiwiSaver to national savings would be marginal at best in the longer term, and may in fact reduce national savings.

The goals of improving retirement incomes and expanding national saving are inherently contradictory. Unless there is attention to the decumulation issues discussed below, KiwiSaver may simply

Benefit (DB) employer-based pension schemes to Defined Contribution (DC) or lump sum schemes and a decline in coverage. Importantly, even public sector DB schemes were closed to new members. The lack of impediments from a strong, tax-incentivised, employer-based superannuation culture allowed a clean roll-out of KiwiSaver as the new auto-enrolment national saving scheme in 2007.

With well-designed but modest sweeteners, KiwiSaver has become the occupational saving vehicle of choice for most New Zealanders, including for many within the public sector. Even

## With well-designed but modest sweeteners, KiwiSaver has become the occupational saving vehicle of choice for most New Zealanders, including for many within the public sector.

facilitate extra consumption by the better-off cohorts of a larger retired population, imposing more pressure on the working-age population.

### *Tax reforms and success of auto-enrolment*

New Zealand is fortunate to have reformed its tax treatment of saving for retirement many years before KiwiSaver was introduced. Based on the principle of tax neutrality, the New Zealand tax reforms of 1988–1990 abolished all tax concessions for private retirement saving (St John, 2005, 2007). Contributions, whether by employer or employee, are out of after-tax income (T); fund earnings were taxed at a rate that proxies the individual's marginal rate (T); but withdrawals are a return of tax-paid capital and hence tax-exempt (E). Under TTE, saving for retirement the same as saving in a bank account contrasts with the heavily-subsidised EET treatment conventional for retirement saving in other developed countries, including Australia.

The removal of all tax concessions accelerated both the shift from Defined

when subsidies were greatly extended and enhanced on the eve of the introduction of KiwiSaver in 2007, there was never any intention of a return to the regressive tax concessions of the past. In the last few years these subsidies have been cut back, as detailed in St John, Littlewood and Dale (2014). Interestingly, it appears that once sweeteners have helped establish KiwiSaver they can be reduced with little impact, at least on the formal membership numbers.

In contrast to the ease of introduction in New Zealand, the UK and Ireland face two impediments in introducing their auto-enrolment schemes. First, they have retained their over-generous, unreformed DB schemes for public sector employees. Second, they have a proliferation of employer-based DC schemes. These diverse and poorly-regulated schemes are the beneficiaries of new auto-enrolment proposals. The OECD notes: 'much can be done to improve the design of DC pension plans and to strengthen retirement income adequacy in these plans' (OECD, 2012). In their *Ready for Ageing?* report

(2013) the House of Lords observed: 'the current DC pensions system is not fit for purpose for anyone who is not rich, or who moves in and out of work', and the need to 'tackle the lack of certainty in DC pensions and address their serious defects'. Compounding these issues, the very generous tax incentives for both DB and DC schemes are widely viewed as regressive, expensive and unnecessary. They are, however, difficult to remove, making a more rational framework like that in New Zealand near impossible to adopt.

#### *Administration*

A clever feature of KiwiSaver is the administration by a central collection agency, the Inland Revenue Department, with a unique tax identifier for individuals, who have one provider, that they chose, and

#### *Monitoring and regulation*

As a generic product, KiwiSaver has facilitated the umbrella regulation and oversight provided by the newly-established and fit-for-purpose Financial Markets Authority. While individual providers can offer separate products, they do not have to do the marketing and branding of KiwiSaver itself.

#### *The flaws in KiwiSaver*

##### *Lack of a decumulation policy*

Despite clever features, there are nevertheless substantial flaws in the New Zealand approach if it is assumed that income supplementation is the point of KiwiSaver. Currently, there are no rules as to how lump sum KiwiSaver funds accessed at age 65 must be run down over the retirement period. The danger is that funds will be dissipated far too early in

DC retirement schemes. However, the Conservative–Liberal Democrat coalition government announced in 2010 that it intended to end the requirement for DC pension scheme members to purchase annuities by the age of 75 (Blake, Cannon and Tonks, 2010). Noting that 'the annuities market is currently not working in the best interests of all consumers. It is neither competitive nor innovative and some consumers are getting a poor deal', the government has recently announced

a radical set of reforms which will allow people more choice over how they access their defined contribution pension savings. From April 2015 the government proposes to change the tax rules to allow people to access these savings as they wish at the point of retirement, subject to their marginal rate of income tax (rather than the current 55% charge for full withdrawal). (HM Treasury, 2014)

While it is clear that the market for annuities suffers many aspects of market failure, this decision is an extreme response, akin to throwing the baby out with the bathwater, and is causing great uncertainty within the industry. There may be a stronger case for better annuities rather than no annuities at all if the risks retirees face are to be addressed.

#### *New Zealand's unique opportunity*

With the provision of initially generous, tax-funded subsidies, the government might have been justified in imposing restrictions on spending the maturing KiwiSaver lump sums. That option was ignored, indeed not even discussed, and the opportunity was lost. It is hard to imagine that, retrospectively, compulsory annuitisation could now be imposed. New Zealand's annuities market is virtually non-existent, and under current tax rules and lack of government support, including inflation indexing or long-term bonds, a viable annuities market is unlikely to emerge (St John, 2009).

However, there are now opportunities for innovative thinking. New Zealand has a unique opportunity, with a largely tax-neutral TTE regime for accumulation, to design an explicit subsidy to recognise the

## **New Zealand has a unique opportunity, with a largely tax-neutral TTE regime for accumulation, to design an explicit subsidy to recognise the gains to society from annuitisation, with few of the disadvantages of traditional tax incentives.**

one account. This has avoided the problems found in Australia, where many individuals have small sums in multiple accounts.<sup>5</sup> In the UK, the National Employment Savings Trust (NEST) auto-enrolment plan has required a separate infrastructure for administration. Auto-enrolment can be into the employer's existing DC schemes, so that the NEST scheme is not a generic national saving plan.

Similarly, in the US auto-enrolment for employer-based 401(k) plans is voluntary, and no national clearing house is proposed. The WorldatWork and American Benefits Institute (2013) notes that: 'Ultimately, companies without auto enrolment are more likely to report lower employee participation rates than those with automatic enrolment.' When employees change jobs, 401(k) plans must be either retained with the former employer or transferred, giving an additional complexity not faced by KiwiSaver members.

retirement, with many people finding they live much longer than they anticipated. While New Zealand was an early adopter of the worldwide trend to shift risks from employers to individuals in private superannuation schemes, lump sum or DC schemes, including KiwiSaver, do not currently assist with the management of risks in retirement, as noted in the three-yearly review by the Commission for Financial Literacy and Retirement Income (2013). Specifically, these are the longevity risk that may see an individual outliving their capital; the risk of loss through poor investment; and the inflation risk (Cooper, 2014). Older people using capital too early in retirement and requiring a state subsidy for long-term care is also a risk for society.

In other countries there are emergent issues with the risks of the period of decumulation. The UK has until recently required mandatory annuitisation of lump sum savings from subsidised

gains to society from annuitisation, with few of the disadvantages of traditional tax incentives. One of several possibilities is the provision of a tax-subsidised limited value, inflation-adjusted, gender-neutral annuity to supplement NZS, purchased out of lump sum savings, including a suitable share of home equity if required (St John, Dale and Ashton, 2012). Let's call this annuity 'KiwiSpend' and imagine it as a generic product like KiwiSaver where private providers may play a role. Like KiwiSaver, KiwiSpend would be regulated by the Financial Markets Authority. It would require considerable state oversight, maybe even state provision, and subsidies to ensure that the annuity is inflation-proofed, has low fees and the same capital cost for women and men, and includes long-term care insurance. As outlined in St John, Dale and Ashton (2012), a retiree's private saving, including KiwiSaver, could be used to buy an inflation-adjusted annuity of up to \$10,000 per annum, with an insurance rider that provides a trebling of the annuity if the recipient is assessed as needing residential long-term care. Success in New Zealand in designing such a product would once more attract considerable international attention.

#### *The dangers of compulsion*

The economic success of Australia is often attributed to the fact its superannuation scheme is compulsory. This is purported to have added to the capital base and encouraged domestic investment and strong growth (Brogden, 2013).<sup>6</sup> Most KiwiSaver schemes by volume of members are owned by Australian-based financial service providers which have profited from Australia's compulsory retirement savings scheme. Despite the fact that KiwiSaver has been in place only since 2007, there are many calls, especially from the industry, to make it compulsory (Financial Services Council, 2014). In the lead-up to the 2011 election, and now in the lead-up to the 2014 election, the

Labour Party, the Māori Party and New Zealand First have suggested that making KiwiSaver compulsory would create more household saving and help solve New Zealand's economic problems. The framework for compulsion is in place; the major changes needed would be to remove the opt-out and the contributions holiday provisions.

There are two principal concerns about compulsion. First, it is undesirable to force those who cannot afford to save into the scheme, but it is difficult to design exemptions that are fair. Second, there will be inevitable pressures to integrate KiwiSaver with NZS. Given the contribution that taxpayers make to the accumulation of KiwiSaver benefits, it would seem logical that a future government might link KiwiSaver and NZS, either directly with the kind of offset suggested recently by Sir Michael Cullen (2013), or through a general means test much as in Australia. This may undermine the advantages of a universal pension, although there is a case that can be made for more claw-back on NZS using the tax system (St John, 2012).

Evidence from Australia suggests that compulsion has not stopped offsetting borrowing that sees retirees reach retirement with more debt. Also, Australians seem to retire earlier and collect their compulsory retirement savings as a lump sum. Compulsion, including of the employer-matching contribution, may please people who work in payroll and in financial service provision, but would also be seen as an additional cost to employers.

#### **Conclusion**

The New Zealand combination of universal taxable floor of income, NZS, combined with a voluntary auto-enrolment saving scheme to supplement, not replace, the universal state pension, is a successful model with a lot to offer the rest of the world. If current trends continue, KiwiSaver will continue to

supplant the role of employer-subsidised superannuation and retail schemes. While this may have an ambiguous effect on total saving (Savings Working Group, 2011), the scheme should not be judged on its presumed macroeconomic effects.

One of the clear advantages of KiwiSaver is that it is fully portable. This is facilitated by the unique tax identifier and the Inland Revenue Department acting as the clearing house. It is also inclusive, and the minimal tax incentives have been designed to limit regressivity. The major focus now ought to be firmly on improving the outcomes of security in retirement for those who have not traditionally enjoyed the advantages of work-based plans. If the needs of formerly disenfranchised people, including many women and other disadvantaged groups, are placed at the centre, the decumulation of KiwiSaver must be designed primarily to achieve meaningful amounts of extra, secure income for them to supplement the state pension, regardless of how long they live. New Zealand has a unique opportunity to design a generic KiwiSpend decumulation product that adopts some of the clever features of KiwiSaver, possibly also incorporating long-term care insurance (Retirement Policy and Research Centre, 2012). If successful it would be likely to become a beacon of light in an increasingly complex international pensions' world.

1 This article draws on work done in the Retirement Policy and Research Centre, Auckland Business School, University of Auckland, and in particular St John, Littlewood and Dale (2014). Susan St John was invited to Ireland and the UK in February 2014 to address key stakeholders on the design features of the New Zealand retirement framework. The author thanks Bob Stephens and Judith Davey for comments on an earlier draft of this article.

2 Ten years in New Zealand after age 20, with at least five of those after age 50.

3 See <http://www.kiwisaver.govt.nz/statistics/ks-annual-statistics.html>.

4 The best thing the government did during the upswing of the six years preceding the global financial crisis to improve national saving was to run surpluses.

5 It appears that \$AUD15 billion in Australia's SG scheme is sitting in lost or unclaimed accounts. See <http://www.thorner.co.nz/tag/australian-superannuation-guarantee/>.

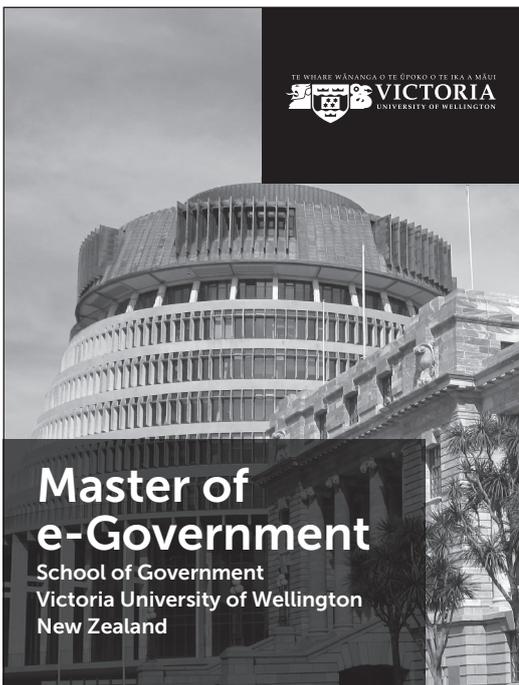
6 The mining boom is often ignored in these analyses. Other voices are more sceptical see (Ingles, 2009).

#### References

Blake, D., E. Cannon and I. Tonks (2010) *Ending Compulsory Annuitisation: quantifying the consequences*, London: Pensions Institute, Cass Business School, retrieved from <http://www.pensions-institute.org/reports/EndingCompulsoryAnnuitisationConsequences2.pdf>

Brogden, J. (2013) 'Australia's superannuation system', paper presented at the SuperSize Retirement Income conference, 14 October, Financial Services Council, Auckland

- Commission for Financial Literacy and Retirement Income (2013) *Focusing on the Future: report to Government*, Wellington: Commission for Financial Literacy and Retirement Income
- Cooper, J.R. (2014) 'Are defined contribution pension plans fit for purpose in retirement?', *Seattle University Law Review*, 37 (2), pp.511-32
- Cullen, M. (2013) 'The political economy of long-term fiscal planning from a social democratic perspective', *Policy Quarterly*, 9 (4), pp.15-20
- Financial Services Council (2014) 'New Zealanders with a mortgage even keener on compulsory KiwiSaver', media release, 20 May, retrieved from [http://fsc.org.nz/bulletin\\_display/x\\_blog\\_code/544.html](http://fsc.org.nz/bulletin_display/x_blog_code/544.html)
- HM Treasury (2014) 'Freedom and choice in pensions', doi:[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/294795/freedom\\_and\\_choice\\_in\\_pensions\\_web\\_210314.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294795/freedom_and_choice_in_pensions_web_210314.pdf)
- House of Lords (2013) *Ready for Ageing?*, report of the Select Committee on Public Service and Demographic Change, <http://www.publications.parliament.uk/pa/ld201213/ldselect/ldpublic/140/14003.htm>.
- Ingles, D. (2009) *The Great Superannuation Tax Concession Rort*, research paper 61, Australia Institute
- Inland Revenue Department (2011) *KiwiSaver Annual Report 4, 1 July 2010–30 June 2011*, Wellington: Inland Revenue Department, retrieved from <http://www.ird.govt.nz/aboutir/reports/research/reports/research-ks-annual-report-2011.html>
- Law, D., L. Meehan and G. Scobie (2011) 'KiwiSaver: an initial evaluation of the impact on retirement saving', paper presented at the 52nd NZAE conference, 29 June–1 July, Wellington, <http://www.nzae.org.nz/wp-content/uploads/2011/10/KiwiSaver-An-initial-evaluation-of-the-impact-on-retirement-saving-NZAE-2011.pdf>
- OECD (2011) *Pensions at a Glance 2011: retirement-income systems in OECD and G20 countries*, Geneva: OECD, retrieved from [http://www.oecd-ilibrary.org/finance-and-investment/pensions-at-a-glance-2011\\_pension\\_glance-2011-en](http://www.oecd-ilibrary.org/finance-and-investment/pensions-at-a-glance-2011_pension_glance-2011-en)
- OECD (2012) *Pensions Outlook 2012*, Geneva: OECD
- Perry, B. (2013) *Household Incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2012*, Wellington: Ministry of Social Development, retrieved from <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/monitoring/household-incomes/>
- Retirement Policy and Research Centre (2012) *Spending the Savings*, doi:<http://docs.business.auckland.ac.nz/Doc/2012-Proceedings-Spending-the-Savings-Symposium.pdf>
- Savings Working Group (2011) *Saving New Zealand: reducing vulnerabilities and barriers to growth and prosperity*, Wellington: Treasury, retrieved from <http://www.chinapost.com.tw/business/asia/new-zealand/2011/10/01/318365/Fitch-SandP.htm>
- St John, S. (2005) 'Retirement income policy in New Zealand', *Economic and Labour Relations Review*, 15 (2), pp.217-39
- St John, S. (2007) 'Farewell to tax neutrality: the implications for an aging population', *Economic and Labour Relations Review*, 18 (1), pp.27-52
- St John, S. (2009) *The Annuities Market in New Zealand*, Wellington: Ministry of Economic Development for the Capital Markets Taskforce, retrieved from <http://docs.business.auckland.ac.nz/Doc/The-annuities-market-in-New-Zealand-prepared-for-the-Ministry-of-Economic-Development.pdf>
- St John, S. (2012) 'Fiscal sustainability in an ageing population: adapting universal provision', paper presented at the Affording Our Future conference, 11–12 December, Victoria University of Wellington, <http://www.victoria.ac.nz/sacl/about/chair-in-public-finance/events/affording-our-future-conference-2012>
- St John, S., M.C. Dale and T. Ashton (2012) 'A new approach to funding the costs of New Zealand's ageing population', *New Zealand Population Review*, 38, pp.55-76
- St John, S., M. Littlewood and C. Dale (2014) *Now We Are Six: lessons from New Zealand's KiwiSaver*, Auckland: Retirement Policy and Research Centre
- WorldatWork and American Benefits Institute (2013) *Trends in 401(k) Plans and Retirement Rewards*, doi:<http://www.worldatwork.org/waw/adimLink?id=71489>



The School of Government presents a unique, new Master's qualification

## Master of e-Government

The programme provides students with the opportunity to learn about how to successfully manage transformational e-government initiatives, such as innovative technology-enabled forms of service provision and online engagement.

For more information visit the Chair of e-Government website <http://e-government.vuw.ac.nz>

**Domestic students** should contact the School of Government: [sog-masters@vuw.ac.nz](mailto:sog-masters@vuw.ac.nz) or [www.victoria.ac.nz/sog](http://www.victoria.ac.nz/sog)

**International students** should contact Victoria International: [victoria-international@vuw.ac.nz](mailto:victoria-international@vuw.ac.nz) or [www.victoria-international.ac.nz](http://www.victoria-international.ac.nz)

Michael P. Cameron and Matthew Roskruge

# Labour Force Participation and Well-being among Older New Zealanders

## Introduction

The population of New Zealand, along with those of other developed countries, is ageing rapidly. The rate of population ageing is unprecedented, with the number of New Zealanders aged 65 years and over projected to increase from 553,000 in 2009 to 1.07 million in 2031, and to 1.44 million in 2061 (Statistics New Zealand, 2010). Importantly, the ratio of those aged 65 years and over to those aged 15–64 is projected to increase from 0.19 (older people per person aged 15–64) in 2009 to 0.34 in 2031 and to 0.43 in 2061. This more than doubling of the ratio of older people to those in the prime working and income-earning ages represents a dramatic demographic shift which has implications for New Zealand, particularly in terms of the ability to support New Zealand

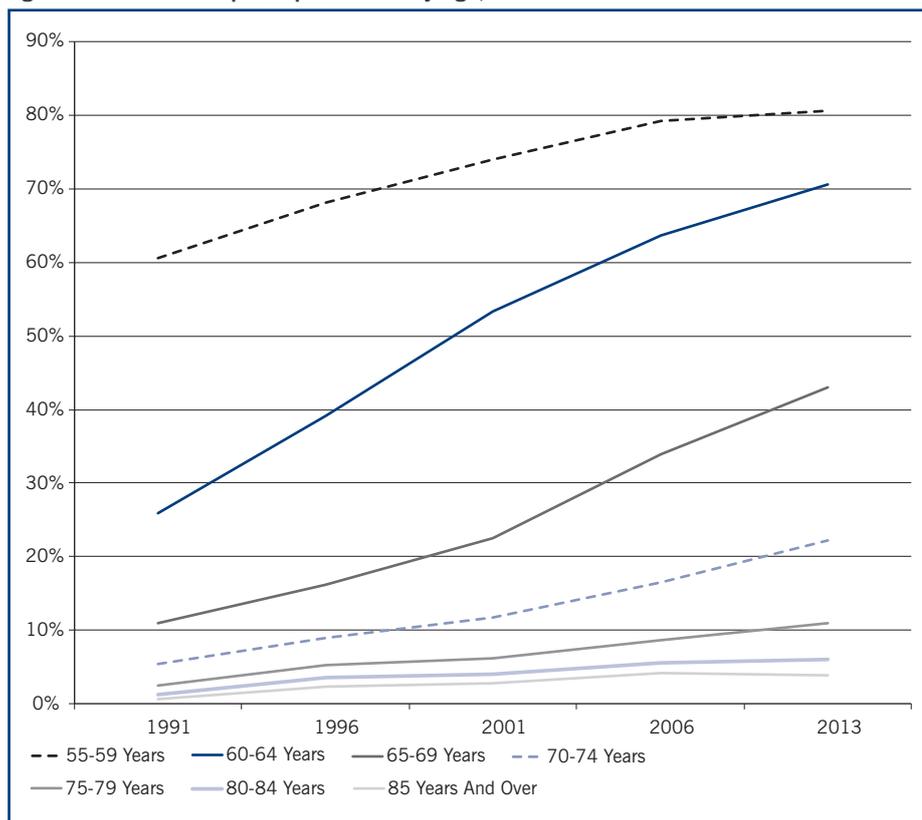
Superannuation (NZS) at current levels (Wilson and Rodway, 2006; Bascand, 2012; Treasury, 2013; Buckle and Creedy, 2014), retirement planning more generally (Jackson, Cochrane and McMillan, 2013), increased health-care costs (Bascand, 2012), potential skills shortages (Robson, 2001), and other challenges and opportunities for employers trying to cope with an ageing workforce (Davey, 2008).

---

Michael P. Cameron teaches in the Department of Economics at the University of Waikato.

Matthew Roskruge is with the National Institute of Demographic and Economic Analysis, University of Waikato.

Figure 1: Labour force participation rate by age, 1991-2013



One of the more important transitions which will result from these demographic changes is an ageing of the labour force (Statistics New Zealand, 2006). Two effects contribute to this. First, there is the overall ageing of the population. Second, New Zealanders are living longer and, importantly, living longer in a healthier physical and mental state (Gorman, Scobie and Towers, 2012). Many older people want to continue working rather than retiring at the traditional age of eligibility for NZS, currently 65 years. Labour force participation rates among older people are increasing, as shown in Figure 1 which presents data from the Census of Population and Dwellings from 1991 to 2013. The proportion of older people participating in the labour force has increased substantially over this 22-year period: from 5.8% to 22.5% of those aged 65 years and over; and from 21.5% to 46.3% of those aged 55 and over. These trends are not unique to New Zealand, with Australia and its states following similar trajectories (Temple, 2014). However, New Zealand currently has one of the highest employment rates among older people in the OECD (Jackson, Cochrane and McMillan, 2013).

As well as a substantial increase in the older labour force on a cohort basis, older people are increasingly choosing part-time rather than full-time work, as many choose to delay retirement through a longer transition involving part-time or bridge employment (Cameron 2014; Cahill, Giandrea and Quinn, 2005; Statistics New Zealand, 2008).

These changes in labour force participation among older New Zealanders suggest differences in the retirement decisions between recent and earlier cohorts at the same age. On the one hand, working reduces the amount of leisure time for the individual, although this may be somewhat offset by the enjoyment received from working and the social aspects of work and active engagement (Longino and Kart, 1982). Working may also involve physical and/or mental exertion that might make the individual worse off (although, as noted by Hotopp (2007), this effect is no more apparent for older workers than for younger workers). On the other hand, employment generally provides the individual with a higher level of income, which they can use to satisfy their needs and wants. This trade-off between leisure

and income is not unique to older people, but the addition of 'unearned income' in the form of NZS and the social and individual expectations around retirement will change the calculus somewhat (Hurnard, 2005).

Higher labour force participation among more recent cohorts of older people may arise through several mechanisms. First, the rate of NZS has fallen from around 76% of the average wage in 1989 to 66% in 2010 (Bell et al., 2010). Alongside this, the recent recession may have kept older people in employment longer as investment income has been reduced and capital lost through finance company failures (Coile and Levine, 2011; Kendig, Wells and O'Loughlin, 2013). Third, as older people are healthier now than earlier cohorts were at the same age, this might allow them to work longer and capture both income and non-income benefits of working.

The purpose of this article is to explore the implications of older people's increased labour force participation in terms of their overall (subjective) well-being. King and Waldegrave (2009) review the theoretical concept of subjective well-being in the context of older people in New Zealand. We note that subjective well-being often involves an evaluation of life satisfaction as a whole (Keyes, Shmotkin and Ryff, 2002). Thus, in this article we use self-reported life satisfaction as a proxy measure of subjective well-being.

#### Labour force participation and well-being

The relationship between labour force participation among older people and their well-being has important policy implications. It is almost inevitable that demand for older people's labour will increase due to the demographic effects outlined above. Moreover, as the ratio of the number of NZS recipients to full-time income earners and taxpayers increases, the affordability of universal superannuation becomes increasingly questionable (Bell et al., 2010). Delaying the eligibility for superannuation or reducing its real value increase the incentives for older people to work (Hurnard, 2005). However, it is not clear a priori what effect these changes

will have on older people themselves. Will increasing labour force participation among older people make them better or worse off? This question could be answered objectively by looking at the changes in income of older people, but important aspects of this change are subjective rather than objective, meaning that the broader concept of subjective well-being or life satisfaction is a more appropriate metric.

Retirement has been shown to positively increase life satisfaction among older people (Reitzes, Mutran and Fernandez, 1996; Latif, 2011), especially among those who are resource-rich (Pinquart and Schindler, 2007). In apparent contrast, participation in paid or volunteer work has also been shown to increase older people's life satisfaction (Aquino et al., 1996). However, it is important to recognise that full-time and part-time work may exert different influences on life satisfaction or well-being. Chang and Yen (2011) show that older people in part-time work have higher life satisfaction than those not working, while full-time work is associated with lower life satisfaction. Similarly, Kim and Feldman (2000) showed that bridge employment (part-time or temporary work which follows an individual's career and precedes permanent retirement) is associated with higher life satisfaction than full-time employment (see also Wang, 2007). Voluntary retirement has been shown to have no significant relationship with life satisfaction (Bonsang and Klein, 2012), while involuntary retirement has been shown to be associated with lower life satisfaction (Herzog, House and Morgan, 1991; Cameron and Waldegrave, 2009; Bonsang and Klein, 2012).

These results may not be as incompatible as they seem at first glance. As noted above, older people may prefer retirement for the additional leisure opportunities that it provides, but may also prefer to work in part-time or bridge employment as they transition into permanent retirement. Thus, permanent retirement may increase life satisfaction relative to working for some older people, particularly those in full-time employment, while simultaneously reducing life satisfaction for those who

are retired but would rather be working (i.e. those who are involuntarily retired).

Remaining in work may also present opportunities for older people to invest in social capital, building or maintaining social networks which are important for subjective well-being (Helliwell, 2006). However, as discussed regarding leisure opportunities above, there are diminishing returns to social capital formation from additional time spent at work. It may be that the amount of work which provides

retirement (Cameron and Waldegrave, 2009). Using the same 2007 data, both self-reported physical and self-reported mental health status were shown to have a likely positive relationship with overall well-being (Pool et al., 2009). Given the importance of health, we investigate below the relationship between labour force participation and life satisfaction among older New Zealanders, controlling for the effects of health status.

### ... simply comparing the well-being of older people who are working with those who are not working will not reveal the 'true' difference in well-being between an individual working and *that same individual* not working.

an optimal amount of income, social interaction and leisure time occurs at less than full-time employment.

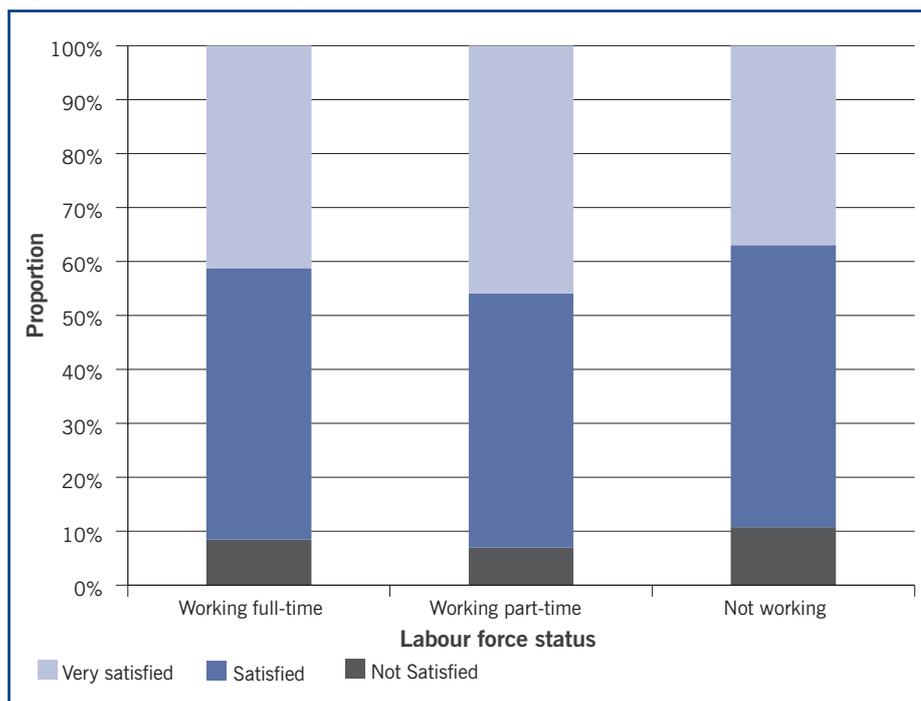
Health has critical relationships with both labour force participation and life satisfaction or subjective well-being. Labour force status affects health, with retirement having been shown to improve mental health status (Mein et al., 2003). In turn, health affects labour force status, as people with lower physical or mental health status are less able to work (Currie and Madrian, 1999), and older people may prefer to permanently retire in order to protect their health or make the most of their remaining life while healthy (Pond, Stephens and Alpass, 2010). The New Zealand Health, Work and Retirement survey demonstrated a difference in the probability of being in the workforce of 17 percentage points between those in good health and those in ill health (Gorman, Scobie and Towers, 2012). Within a large sample of New Zealanders aged 65–84 in 2007, poor health was the second most cited reason (behind family responsibilities) for periods of more than one year spent outside the workforce, and the third most cited reason (behind wanting to do other things, and reaching the pension age) for

#### Identification strategy

There are two critical methodological issues which must be overcome in investigating the effects of labour force participation on life satisfaction or well-being. First is the role of selection bias. Older people choose whether or not to participate in the labour market, and it is likely that those who believe that their well-being is likely to be increased as a result of working will work, while those who believe that their well-being is likely to be reduced by working will choose not to work. Thus, simply comparing the well-being of older people who are working with those who are not working will not reveal the 'true' difference in well-being between an individual working and *that same individual* not working.

Second, as discussed above, any analysis of the relationship between labour force participation and well-being must take account of the critical role of health. Health affects labour force participation, as healthier workers are more able to work. However, health has been shown to have a separate direct effect on life satisfaction. This creates a problem of endogeneity. If we simply investigate the effect of labour force participation on life satisfaction while controlling for health, we would be

Figure 2: Life satisfaction, by labour force status



ignoring the fact that health also directly affects labour force participation.

To overcome both of these issues we use instrumental variables regression (Pearl, 2000; Angrist and Krueger, 2001). This approach requires at least one variable that affects labour force participation that does not separately affect life satisfaction. We argue that gender is one such variable. Men have higher labour force participation than women, and there is no theoretical reason why life satisfaction should be higher among men than women, or vice versa.

**Data and methods**

Our data come from a confidentialised unit record file (CURF) of the 2008, 2010 and 2012 waves of the New Zealand General Social Survey (NZGSS): a total of 4242 observations for those aged 65–79 years. The NZGSS collects data on a variety of social indicators and demographics. Importantly, the data set includes data on life satisfaction, self-reported health status and labour force status. Life satisfaction is measured as the response to the question: ‘How do you feel about your life as a whole right now?’ Responses are measured on a five-point Likert scale (1 = very satisfied; 2 = satisfied; 3 = no feeling either way; 4 = dissatisfied; and 5 = very dissatisfied). This measure is very similar to measures

of subjective well-being employed in other surveys in New Zealand and elsewhere (Koopman-Boyden and Waldegrave, 2009). We reduce the ordinal life satisfaction data to a binary variable that is equal to one only when the respondent was ‘very satisfied’ and zero otherwise.

Self-reported health status is measured using the SF-12 measures (Ware et al., 2007). The SF-12 can be used to produce two scales, a physical component summary (PCS) and a mental component summary (MCS), which are taken to represent physical health status and mental health status respectively (Pool et al., 2009). Labour force status is defined in terms of part-time or full-time work. For the purposes of this article we ignore those who define themselves as unemployed (who comprise only 0.36% of the sample of those aged 65–79 years), although technically they are part of the labour force. For most practical purposes in terms of well-being, there is likely to be little difference between an unemployed and a retired person, particularly given how few of them there are in the sample.

Overall levels of life satisfaction in the sample are very high, with nearly 90% of respondents stating ‘very satisfied’ or ‘satisfied’. This is similar in magnitude to other surveys of life satisfaction among older people in New Zealand (Waldegrave

and Koopman-Boyden, 2009). On average, physical health was below the standardised mean score, which is not surprising given that this was a sample of older people, while mental health was slightly above the standardised mean score. Just over 17% of the sample was in paid employment, with slightly more than half of those in full-time employment. Most of the sample was aged 65–69 years (56.3%), with 24% aged 70–74 years and 19.7% aged 75–79 years. Only 40.9% of the sample was male; most (84.5%) owned their own home.

**Results**

Figure 2 shows the relationship between life satisfaction and labour force status in our sample. Again, the level of life satisfaction in the sample overall is very high. Satisfaction is highest among those working part-time (45.9% very satisfied and 47.1% satisfied), followed by those working full-time (41.3% very satisfied; 50.3% satisfied), and lowest among those not working (37% very satisfied; 52.3% satisfied). However, the apparent differences in Figure 2 tell us little about whether there is any causal relationship between labour force status and life satisfaction, and importantly do not control for health status (healthier people are expected to both work more and have higher life satisfaction).

Accounting for selection bias, health status and the endogeneity of labour force participation, our econometric results of the final model specification are presented in Figure 3. As expected, self-reported health is highly significant in explaining life satisfaction. An additional standard deviation of self-reported physical health score is associated with a 5.9% higher probability of reporting being ‘very satisfied’. Similarly, an additional standard deviation of self-reported mental health score is associated with a 15.1% higher probability of reporting being ‘very satisfied’. Older people are less likely to report being ‘very satisfied’, with those aged 70–74 years being 7.5% less likely than those aged 65–69 years to report this level of life satisfaction, and those aged 75–79 years being 5.8% less likely (though the latter is not statistically significant).

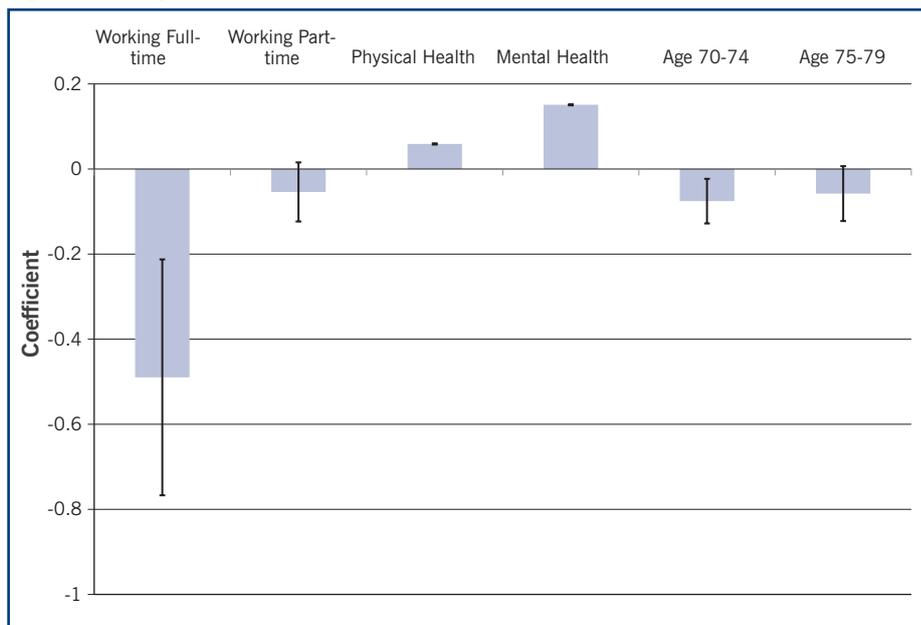
Of most interest in this article are the results for labour force status. Working full-time is associated with significantly lower life satisfaction after controlling for selection bias, endogeneity, age and self-reported health status. Compared with older people who are not working, those who are working full-time are 49% less likely to report being 'very satisfied' with their life, and 21.8% less likely to report being either 'satisfied' or 'very satisfied'. The results for working part-time are more equivocal. Compared with older people who are not working, those who are working part-time are not significantly less likely to report being 'very satisfied' with their life.

### Discussion and conclusion

Our results demonstrate that labour force status is strongly associated with life satisfaction among older New Zealanders, with those working full-time having significantly lower life satisfaction than those not working, while those who are working part-time have slightly lower life satisfaction than those not working. If improvements in well-being (or life satisfaction) are an important policy goal of government (as inferred in *The Social Report 2010* (Ministry of Social Development, 2010)), this result has important policy implications. The New Zealand population is ageing, and older people are healthier and increasingly prolonging their labour force involvement. While improved health has a protective effect on life satisfaction among older people, working full-time reduces life satisfaction according to this NZGSS data. Helping some older people to avoid the necessity of full-time work could potentially substantially improve their well-being.

Decreases in full-time work among older people could be achieved through developing mechanisms for assisting phased transitions from full-time work to retirement through a period of part-time or bridge employment (Cahill, Giandrea and Quinn, 2005). Indeed, phased retirement is becoming increasingly common both in New Zealand (Dixon and Hyslop, 2008) and elsewhere (Kohli and Rein, 1991). Moreover, a recent study found that around 20% of retired older

Figure 3: IV regression results



New Zealanders would like to have part-time work (Gorman, Scobie and Towers, 2012). However, despite the increasing role that phased retirement plays in retirement transitions for New Zealanders and the desirability of part-time work in later life, there is currently little government support to help older people negotiate this transition. The Careers New Zealand website ([www.careers.govt.nz](http://www.careers.govt.nz)) offers useful tips for mature workers, but these are targeted more towards older people who are looking to return to work or continue in employment, not those who are attempting to transition out. Work and Income New Zealand (WINZ) will offer older workers some support in finding work. However, it is difficult to believe that when WINZ has the option of matching a job vacancy to people on job seeker support (formerly the unemployment benefit) or people on NZS, preference will not be given to younger workers, given the opportunity to reduce the cost of government transfers.

A dedicated agency to help older workers into phased retirement would be ideal. Such an agency could fulfil multiple roles, including matching unemployed or underemployed older people to part-time or bridge employment, and helping full-time employed older workers to manage a transition to part-time or bridge employment. There would be additional benefits if such an agency was able to work with employers, particularly

small and medium enterprises which can face large risks associated with the retirement of their older workers. As part of a phased retirement plan, the agency could help the employer with succession planning by matching a job seeker (in concert with WINZ) with an employer that has an older worker who desires phased retirement. This would not only help the older worker to transition to retirement, but help the employer to find a suitable replacement while the older worker is still available to pass on job-specific knowledge and skills. Large employers are often able to manage these transitions without the assistance of an external agency, but small and medium enterprises could benefit greatly from such a service. Finally, an external agency with the roles described above could eventually help New Zealand adopt 'age management planning' processes similar to those of the European Union (Naegele and Walker, 2006), including coordinating training or re-skilling opportunities for older workers.

Helping New Zealanders to actively manage the transition in employment status from working full-time to full retirement through a period of bridge or part-time employment may have an added benefit of allowing a greater number of older people who would previously have permanently retired to remain in paid work for longer. If bridge employment is easier for older people to find through

government-sponsored employment matching programmes or similar, then this will both ease the transition for workers who are looking for phased retirement and provide additional opportunities for those who would otherwise have left the labour force. Simultaneously, aiding older people to remain in paid part-time (as opposed to full-time) work would not necessarily impede their important roles in volunteering and unpaid caring.

The potential gains from bridge employment may differ substantially between men and women, who have different retirement aspirations and make different transitions from employment to permanent retirement (Noone, Alpass and Stephens, 2010). Unfortunately, the nature of the analysis presented here precludes a detailed exploration of the potential differential effects on well-being of labour force status by gender. This question clearly warrants attention in future research.

Having fewer older New Zealanders in full-time employment and more in part-time employment will necessarily require a greater consideration of the income support available, including the level of and age of eligibility for NZS. Some older workers may be working full-time because they are supporting a younger non-working spouse who is not yet eligible for NZS. In 2014, NZS for a couple where one of them qualifies

is \$302.27 a week before tax, and where both qualify is \$638.46 before tax.<sup>1</sup> This substantial difference may encourage some older people to continue working full-time, whereas allowing a smoother income transition for a couple once one qualifies for superannuation may reduce full-time employment in favour of part-time or bridge employment. Any increase in costs associated with this may be more than offset by potential savings from fewer people having financial dependence on social security.

There are ongoing debates about the long-term affordability of NZS. Should the level be reduced, or the age of eligibility be raised, this will create incentives for older people to remain in the workforce for longer. Moving superannuation to an income-tested or means-tested basis would have the opposite effect. Based on the results above, to the extent that older people remain in full-time employment or substitute part-time employment for full-time employment this will reduce the well-being of older people. This reduction in well-being should be considered as part of the trade-off in future policy decisions about changes to superannuation. Cost savings from reducing the level or delaying eligibility for NZS will be partially offset by reductions in well-being among older people. Making part-time employment a more feasible option for older people

would help to reduce the cost (in terms of well-being) of superannuation changes.

The New Zealand population is ageing rapidly, and larger numbers of people are reaching the age of eligibility for NZS. At this important point in their lives, many older New Zealanders choose to continue in full-time paid employment when a transition to part-time or bridge employment would increase their well-being. Others choose to move directly from full-time employment to permanent retirement, when a period of part-time or bridge employment would ease the transition to retirement and improve well-being. Finding a suitable mechanism to assist in these transitions will increase life satisfaction for older New Zealanders, and should be an important future policy goal for the New Zealand government.

<sup>1</sup> A higher rate may be paid where one partner does not qualify, but in that case the superannuation becomes income-tested.

#### Acknowledgements

This research was funded by the Ministry of Business, Innovation and Employment as part of the Making Active Ageing a Reality project (contract UOWX0901), led by Peggy Koopman-Boyden of the University of Waikato. The authors are grateful to Statistics New Zealand for providing access to the NZGSS CURF data used in this article.

#### References

- Angrist, J.D. and A.B. Krueger (2001) 'Instrumental variables and the search for identification: from supply and demand to natural experiments', *Journal of Economic Perspectives*, 15 (4), pp.69-85
- Aquino, J.A., D.W. Russell, C.E. Cutrona and E.M. Altmaier (1996) 'Employment status, social support, and life satisfaction among the elderly', *Journal of Counseling Psychology*, 43 (4), p.480
- Bascand, G. (2012) *Planning for the Future: structural change in New Zealand's population, labour force and productivity*, Wellington: Statistics New Zealand
- Bell, M., G. Blick, O. Parkyn, P. Rodway and P. Vowles (2010) *Challenges and Choices: modelling New Zealand's long-term fiscal position*, working paper 10/01, Wellington: Treasury
- Bonsang, E. and T. Klein (2012) 'Retirement and subjective well-being', *Journal of Economic Behavior and Organization*, 83 (3), pp.311-29
- Buckle, R.A. and J. Creedy (2014) 'Population ageing and long-run fiscal sustainability in New Zealand', *New Zealand Economic Papers*, 48 (2), pp.105-10
- Cahill, K.E., M.D. Giandrea and J.F. Quinn (2005) *Are Traditional Retirements a Thing of the Past? New evidence on retirement patterns and bridge jobs*, working paper 384, Washington, D.C.: Bureau of Labor Statistics, Department of Labor
- Cameron, M.P. (2014) *Labour Force Participation Among Older New Zealanders, 1991-2013*, Hamilton: Department of Economics, University of Waikato
- Cameron, M.P. and C. Waldegrave (2009) 'Work, retirement and wellbeing among older New Zealanders', in P. Koopman-Boyden and C. Waldegrave (eds), *Enhancing Wellbeing in an Ageing Society: 65-84 year old New Zealanders in 2007*, Hamilton: Family Centre Social Policy Research Unit and Population Studies Centre, University of Waikato
- Chang, H.H. and S.T. Yen (2011) 'Full-time, part-time employment and life satisfaction of the elderly', *Journal of Socio-Economics*, 40 (6), pp.815-23
- Coile, C.C. and P.B. Levine (2011) 'Recessions, retirement, and social security', *American Economic Review*, 101 (3), pp.23-8
- Currie, J. and B. Madrian (1999) 'Health, health insurance and the labor market', in O. Ashenfelter and D. Card (eds), *Handbook of Labor Economics*, Amsterdam: Elsevier

- Davey, J. (2008) *Workforce Ageing: an issue for employers*, working paper 08/04, Wellington: Institute of Policy Studies, Victoria University of Wellington
- Dixon, S. and D. Hyslop (2008) *The Employment and Retirement Transitions of New Zealanders Aged in their 60s: evidence from LEED*, Wellington: Statistics New Zealand
- Feldman, D.C. (1994) 'The decision to retire early: a review and conceptualization', *Academy of Management Review*, 19 (2), pp.285-311
- Gorman, E., G.M. Scobie and A. Towers (2012) *Health and Retirement of Older New Zealanders*, working paper 12/02, Wellington: Treasury
- Helliwell, J.F. (2006) 'Well-being, social capital and public policy: what's new?', *Economic Journal*, 116 (510), pp.C34-45
- Herzog, A., J.S. House and J.N. Morgan (1991) 'Relation of work and retirement to health and well-being in older age', *Psychology and Aging*, 6 (2), pp.202-11
- Hotopp, U. (2007) 'The ageing workforce: a health issue?', *Economic and Labour Market Review*, 1 (2), pp.30-5
- Hurnard, R. (2005) *The effect of New Zealand Superannuation Eligibility Age on the Labour Force Participation of Older People*, working paper 05/09, Wellington: Treasury
- Jackson, N., B. Cochrane and R. McMillan (2013) *Workforce Participation of Older Workers as an Element of New Zealand's Retirement Income Framework: a review of existing knowledge and data*, Hamilton: National Institute of Demographic and Economic Analysis, University of Waikato
- Kendig, H., Y. Wells and K. O'Loughlin (2013) 'Australian baby boomers face retirement during the global financial crisis', *Journal of Aging and Social Policy*, 25 (3), pp.264-80
- Keyes, C.L.M., D. Shmotkin and C.D. Ryff (2002) 'Optimizing wellbeing: the empirical encounter of two traditions', *Journal of Personality and Social Psychology*, 82 (6), pp.1007-22
- Kim, S. and D.C. Feldman (2000) 'Working in retirement: the antecedents of bridge employment and its consequences for quality of life in retirement', *Academy of Management Journal*, 43 (6), pp.1195-210
- King, P. and C. Waldegrave, C (2009) 'Theoretical background', in P. Koopman-Boyden and C. Waldegrave (eds), *Enhancing Wellbeing in an Ageing Society: 65–84 year old New Zealanders in 2007*, Hamilton: Family Centre Social Policy Research Unit and Population Studies Centre, University of Waikato
- Kohli, M. and M. Rein (1991) 'The changing balance of work and retirement', in M. Kohli, M. Rein, A.-M. Guillemard and H. van Gunsteren (eds), *Time for Retirement: comparative studies of early exit from the labour force*, New York: Cambridge University Press
- Koopman-Boyden, P. and C. Waldegrave (eds) (2009) *Enhancing Wellbeing in an Ageing Society: 65–84 year old New Zealanders in 2007*, Hamilton: Family Centre Social Policy Research Unit and Population Studies Centre, University of Waikato
- Latif, E. (2011) 'The impact of retirement on psychological well-being in Canada', *Journal of Socio-Economics*, 40 (4), pp.373-80
- Longino, C.F., Jr and C.S. Kart (1982) 'Explicating activity theory: a formal replication', *Journal of Gerontology*, 37, pp.713–22
- Mein, G., P. Martikainen, H. Hemingway, S. Stansfeld and M. Marmot (2003) 'Is retirement good or bad for mental and physical health functioning? Whitehall II longitudinal study of civil servants', *Journal of Epidemiology and Community Health*, 57 (1), pp.46-9
- Ministry of Health (2013) *New Zealand Health Survey: annual update of key findings 2012/13*, Wellington: Ministry of Health
- Ministry of Social Development (2007) *Positive Ageing Indicators 2007*, Wellington: Ministry of Social Development
- Ministry of Social Development (2010) *The Social Report 2010*, Wellington: Ministry of Social Development
- Naegele, G. and A. Walker (2006) *A Guide to Good Practice in Age Management*, Luxembourg: Office for the Official Publications of the European Communities
- Noone, J., F. Alpass and C. Stephens (2010) 'Do men and women differ in their retirement planning? Testing a theoretical model of gendered pathways to retirement preparation', *Research on Aging*, 32 (6), pp.715-38
- Pearl, J. (2000) *Causality: models, reasoning, and inference*, New York: Cambridge University Press
- Pinquart, M. and I. Schindler (2007) 'Changes of life satisfaction in the transition to retirement: a latent-class approach', *Psychology and Aging*, 22 (3), pp.442-55
- Pond, R., C. Stephens and F. Alpass (2010) 'How health affects retirement decisions: three pathways taken by middle-older aged New Zealanders', *Ageing and Society*, 30 (3), pp.527-45
- Pool, I., B. Arney, M.P. Cameron and S. van der Pas (2009) 'Health, wellbeing, and "contentment" among older New Zealanders', in P. Koopman-Boyden and C. Waldegrave (eds), *Enhancing Wellbeing in an Ageing Society: 65–84 year old New Zealanders in 2007*, Hamilton: Family Centre Social Policy Research Unit and Population Studies Centre, University of Waikato
- Reitzes, D.C., E.J. Mutran and M.E. Fernandez (1996) 'Does retirement hurt well-being? Factors influencing self-esteem and depression among retirees and workers', *Gerontologist*, 36 (5), 649-56
- Robson, W.B.P. (2001) *Aging Populations and the Workforce: challenges for employers*, Winnipeg: British-North American Committee
- Statistics New Zealand (2006) *Demographic Aspects of New Zealand's Ageing Population*, Wellington: Statistics New Zealand
- Statistics New Zealand (2008) *Transitions from Work to Retirement*, Wellington: Statistics New Zealand
- Statistics New Zealand (2010) Projected population of New Zealand by age and sex, 2009 (base)–2061, retrieved 27 May 2013 from <http://nzdstats.stats.govt.nz/wbos/Index.asp>
- Temple, J. (2014) *Past, Present and Future of Mature Age Labour Force Participation in Australia: how do regions differ*, Melbourne: National Seniors Productive Ageing Centre
- Treasury (2013) *Affording Our Future: statement on New Zealand's long-term fiscal position*, Wellington: Treasury
- Waldegrave, C. and P. Koopman-Boyden (2009) 'Ageing and wellbeing in New Zealand – an overview', in P. Koopman-Boyden and C. Waldegrave (eds), *Enhancing Wellbeing in an Ageing Society: 65-84 year old New Zealanders in 2007*, Hamilton: Family Centre Social Policy Research Unit and Population Studies Centre, University of Waikato
- Wang, M. (2007) 'Profiling retirees in the retirement transition and adjustment process: examining the longitudinal change patterns of retirees' psychological well-being', *Journal of Applied Psychology*, 92 (2), pp.455-74
- Ware, J.J., M. Kosinski, D. Turner-Bowker and B. Gandek (2007) *Users' Manual for the SF-12 v2 Health Survey*, Lincoln, RI: Quality Metric Inc.
- Wilson, P. and P. Rodway (2006) 'Ageing and the long-term fiscal position', in J. Boston and J.A. Davey (eds), *Implications of Population Ageing: opportunities and risks*, Wellington: Institute of Policy Studies, Victoria University of Wellington

Judith Davey

# Age Discrimination in the Workplace

Age discrimination is often cited as a barrier to participation in work by older people, and the workplace provides the most common grounds for complaints of this nature. Age discrimination predominantly affects older rather than younger groups (although the latter are not exempt), and is often based on myths and stereotyped attitudes about older people and older workers which can be easily refuted (Davey, 2007; Alpass and Mortimer, 2007; Gray and McGregor, 2003). Age discrimination as an issue in the workplace is not new. It was well documented in Janice Burns' literature review on mature workers for the Department of Work and Income in 2001 (Burns, 2001) and by Justina Murray in her review of age discrimination in employment, commissioned by the New Zealand Human Rights Commission in 2002 (Murray, 2002). In 2006 the EEO Trust's *Work and Age Survey Report* showed that 31% of respondents had experienced age discrimination at work (EEO Trust, 2006).

Age discrimination pervades the entire employment relationship and can take a variety of forms. It occurs in relation to promotion, job allocation, salary differentials, access to training and staff benefits (for example, cut-off ages for life assurance cover and long service leave). General attitudes, as well as inter-staff action such as bullying and exclusion from social activities, can also disadvantage older workers (OGC Consulting, 2013). Age discrimination is noted particularly in recruitment (Australian Human Rights Commission, 2010). Recruitment agents have been shown to apply age biases in deciding who to put forward for jobs. Bennington and Wein (2003) talked about 'collusion' between recruitment agencies, human resource staff and managers in Australia, allowing discrimination to continue. Older workers may face particular difficulties when they seek to re-enter the workforce after redundancy or an absence for other reasons, including elder care (National Seniors Productive Ageing Centre, 2012).

---

Judith Davey is a Senior Associate of the Institute for Governance and Policy Studies and was formerly Director of the New Zealand Institute for Research on Ageing. Her main research focus is the policy implications of population ageing.

## Why does age discrimination happen?

Murray's review typified age discrimination in the workplace as the tendency to

stereotype and generalise about attributes, skills and abilities on the basis of age and to use these stereotypes and generalisations to inform human resources practice (Murray, 2002). Other explanations include the use of age as a quick and cheap proxy for merit assessments; remuneration practices based on seniority; social and corporate preference for youth; and a tendency for younger managers to recruit people like themselves. OGC Consulting (2013, p.31-2) asked candidates for employment in New Zealand: 'what do you think are the key causes of age-related discrimination?' The responses reflected Murray's list but also focused on interrelationships between age groups in the workplace, lack of understanding between generations, and a lack of exposure to or experience of working with different ages.

#### Is age discrimination in the workplace a problem?

As recognition of the challenges of population ageing and the benefits of prolonging workforce participation grows, governments in many developed countries are adopting policies to increase labour force participation by older people (Beard et al., 2012). This is on the basis of benefits for society and the economy. Demographic trends suggest that labour and skills shortages will become more pressing as younger people entering the workforce do not balance the numbers retiring. There are social and economic benefits from having an economically active older population. It will contribute to economic growth and the maintenance of living standards and also, through taxation, help to meet the costs of an ageing population. Prolonging workforce participation will also be good for business, which will face competition for skilled workers, raising the cost of labour. For individuals, longer lives and better health in later life provide opportunities for prolonging workforce participation. There is considerable evidence that participation in meaningful and appropriate work is beneficial to the physical, psychological and financial well-being of older people (Hinterlong, Morrow-Howell and Rozario, 2007; Ford and Orel, 2005; Jaworski, 2005). In other words, it is part of active ageing, and age discrimination is a barrier to achieving

these desirable objectives.

The New Zealand Positive Ageing Strategy further stresses these benefits, describes older people as a 'valuable resource' and endorses policies that support 'productive lives in the economy and society' (Dalziel, 2001). If older people are unable to contribute their full economic capacity due to discrimination, their productivity as workers will fall below potential; they will be contributing less as taxpayers and may be dependent on welfare benefits. At the personal level, they will be less able to set themselves up financially for their old age and they may lack the positive sense of social inclusion and contribution which can be derived from high-quality work.

and public sector organisations involved in labour market issues and policies.

Both groups were asked about age discrimination as a possible obstacle for older people in the workplace. The majority agreed that it can be a barrier, although some were unsure and some considered that it was less prevalent than previously. Some thought that discrimination would become less obvious as the labour market tightens due to demographic change or as 'the victims and perpetrators of age discrimination themselves age'.<sup>1</sup>

There was an impression that much age discrimination is not overt and may even be unrecognised. 'Sometimes people don't know they are doing it. They employ people like themselves who they

**... it is sometimes unclear whether there is real age discrimination or if decisions made by employers simply reflect the drawbacks of older workers in terms of their physical and mental capacities, outdated skills and lack of ability with new technology.**

#### Findings from the Active Ageing project

Making Active Ageing a Reality is a research project undertaken through the University of Waikato, funded by the Ministry of Business, Innovation and Employment. Objective 2 refers to the contribution of older people through participation in the paid workforce. The aim is to identify practices and policies which either encourage or discourage older people's participation in paid work, referring in particular to participation from age 65. It incorporates a review of relevant New Zealand and overseas academic, policy-related and business literature. In mid-2013 interviews were carried out with 33 employers and 26 key informants in Auckland, Hamilton, Wellington and Christchurch. The employers came from a range of industries, with workforces ranging from under ten to several thousand. The key informants represented professional, commercial, trade union

are comfortable with.' If discrimination is not overt then it is much more difficult to combat. 'Workplaces may be unwelcoming to older people, but not on purpose, they may also be unwelcoming to Māori, Pacific Islanders or women.' This suggests that ageism in the workplace is an extension of attitudes in the wider population and may need to be attacked on a wider basis. Negative attitudes may reflect outdated views. '[Employers] remember retirement at the age of 60 and have an unconscious bias about investment in older workers.'

The key informants and employers echoed findings from the literature, suggesting that the main area where discrimination against older workers exists is in recruitment, especially when they seek to re-enter the workforce. Several respondents laid the blame at the doors of recruitment agencies. One respondent referred to a discussion at a Human Resources Institute conference

at which recruitment firms replied that they simply offer what is palatable to employers.

The respondents suggested that it is sometimes unclear whether there is real age discrimination or if decisions made by employers simply reflect the drawbacks of older workers in terms of their physical and mental capacities, outdated skills and lack of ability with new technology. 'When you can't do things because of your age, the individual might see this as discrimination.' 'Stereotypes exist for a reason, as a result of people's negative experiences.' It is difficult to see what

Many employers are concerned about how to terminate the contracts of non-performing employees without risk, in the absence of compulsory retirement. Murray (2002, p.40) described compulsory retirement as one of the most institutionalised and prevalent forms of age discrimination. It was banned in New Zealand by legislation in 1993 which became effective from February 1999. This was supported by the New Zealand Employers' Federation: 'The demise of compulsory retirement should not be seen as a difficulty to be surmounted but as an opportunity to think again about how the

to discrimination on grounds of race or sex. Unfavourable treatment of the young and the old has been persistently justified by appeal to its social utility.

But now demographic and market trends, especially the tightening in labour supply, are forcing advanced economies to recognise that such attitudes threaten to undermine their sustainability. This has emerged from the dominance of economic rhetoric rather than any discussion of social or moral responsibility (Riach, 2006, p.553). However, it cannot be assumed that market forces by themselves will make the necessary adjustments. Legislation to ban age discrimination has been enacted in many countries, including the United States, Australia, Canada, New Zealand, Ireland, Finland, Germany, the Netherlands and Japan (Taylor, 2002). Under Council Directive 2000/78/EC of 27 November 2000, member states of the European Union were required to have legislation in place by the end of 2006 to make age discrimination in employment and vocational training unlawful.<sup>2</sup>

In the US, the federal Age Discrimination in Employment Act (ADEA) has been in effect since 1968 (OECD, 2006, p.108). The original act prohibited discrimination on the basis of age for those aged 40 to 65. Subsequent amendments raised the upper age limit to 70 and then eliminated it altogether, ending mandatory retirement for nearly all workers.

In Australia, compulsory retirement was abolished in the commonwealth public service in 2001. The federal Age Discrimination Act was passed in 2004, the Fair Work Act in 2009, and there are relevant provisions in the individual states. Early statements by the human rights and equal opportunity commissioner (FitzPatrick, 1999) on the valuing of older workers as not only a human rights issue but also part of good business practice were echoed in 2012 by the age discrimination commissioner, Susan Ryan (Ryan, 2012). She called age discrimination a waste of human resources and a threat to the competitiveness and growth of Australian business.

## Early statements by the [Australian] human rights and equal opportunity commissioner ... on the valuing of older workers as not only a human rights issue but also part of good business practice ...

proportion of this reflects preconceptions about older people as opposed to genuine performance concerns. Some thought that older workers may disadvantage themselves by their attitudes and by feeling that they should make way for younger workers.

A particular concern for employers is their need to start planning for the retention of skills or the phasing out of workers, according to their business requirements and the ease or otherwise of replacing skills and experience. To do this successfully and efficiently requires employers to know about the retirement intentions of their workers. This, in turn, needs 'honest conversations' between employers and employees – 'for the employee to sit down with their employer (to discuss retirement or "staying on" intentions) without feeling that their employment is put at risk – this can be an incentive not to have the conversation.' These conversations are often avoided by employers, on their part, for fear of opening themselves to an accusation of discrimination or constructive dismissal. There was clear recognition that such conversations could be tricky and potentially misunderstood by employees.

process of retirement can be managed' (New Zealand Employers' Federation, 1998, p.14). Some employers still suggest that a fixed retirement age would be beneficial to deal with difficult cases. 'It is tricky with under-performance. HR used to say – wait till they retire – but now this is not an option.' The process has to be done well to maintain the integrity and good name of the firm and to avoid accusations of discrimination. It may, however, involve challenges for managers and requires good performance reviews throughout the working life of each staff member. This may be difficult in small workplaces. But, as one respondent concluded, 'It would be a poor business if it waited for a specific age to rid itself of poor performing employees and it didn't manage poor performance.'

### So what can be done about age discrimination?

#### *Formal policy and legislation*

As Leeson (2006, p.12) said:

Liberal democracies have been much slower in acknowledging the unfairness of age discrimination than they have been in squaring up

In the UK the Equality Act 2010 codified numerous acts and regulations which formed the basis of anti-discrimination law. This legislation has the same goals as the EU directives, whose provisions it mirrors and implements. It requires equal treatment in access to employment as well as private and public services, regardless of the protected characteristics, which include age. Previously, regulations which came into effect in 2006 made it illegal for an employer to force anyone to retire on the grounds of age before they were 65 and gave employers a duty to consider requests from employees who wished to work after this age. So long as employers followed procedures for informing and consulting employees, they could compulsorily retire them at 65 on business grounds but not on the grounds of age alone (Metcalf and Meadows, 2010; CROW, 2005). This was seen as effectively giving employers a 'get out of jail free' card. The default retirement age in the UK was fully abolished under the Employment Equality (Repeal of Retirement Age Provisions) Regulations 2011.

In New Zealand the Human Rights Act (HRA) came into effect in February 1999. Section 22 forbids employers from discriminating against suitably qualified job applicants on a number of grounds, including age. Its provisions apply to all aspects of employment – recruitment, selection, remuneration, training, promotion, transfers, retirement and termination – and outlawed compulsory retirement.<sup>3</sup>

#### *How effective is legislation in combatting discrimination in the workforce?*

There is controversy in the literature about how effective the long-standing ADEA in the United States has been, with the conclusion that it has boosted employment rates for workers aged 60 plus by reducing unlawful terminations, but does not appear to have encouraged many employers to hire such workers (Johnson, 2008; Neumark, 2009). The enforcement of the ADEA has focused on terminations much more than hiring. There are often difficulties in establishing that age discrimination has occurred and evidence suggests continued discrimination against

older people in hiring and other employment-related decisions, such as promotions. Other criticisms of the ADEA are that it benefits older workers at the expense of other workers, and that it has unintended consequences, such as acting as a deterrent to employ older workers who cannot be fired without litigation.

In the UK, Metcalf and Meadows (2010) reported on surveys of employers before and after the new enactments. They found some progress, signalling a more objective approach, less explicit use of age in the recruitment process and less likelihood of discrimination. However,

(2001, p.40-41) found that 39% of 1012 employers did not believe that the HRA was working and most felt that the legislation was ineffective in preventing age discrimination in recruitment. Many believed that employers should have free choice in employing staff; that the labour market should be left to its own devices. Later, Wood, Harcourt and Harcourt (2004) reviewed the HRA and found widespread non-compliance. They linked ongoing age discrimination to labour legislation which relies on individual litigation for enforcement. In her submission to the retirement

## **Critics of anti-age discrimination legislation believe that it does not change employers' behaviour, but simply leads to more subtle and covert ways of discriminating, sending employment ageism 'underground'.**

the improvements for older workers were found mainly in larger establishments and the public sector. Flynn also found that employers were mainly guided by short-term market pressures, leaving aside equality goals (Flynn, 2010). Managers often spoke favourably about older workers and generally did not resist retaining workers aged 65 plus if they could contribute human capital and company-specific knowledge, but none had formalised a process of considering requests except for public sector organisations. Flynn concludes that the 'business case' approach in the UK had a limited impact on employers' practices and was a weak instrument for changing the retirement culture.

In New Zealand also, despite being effective in outlawing compulsory retirement the 1993 legislation did not appear to have an immediate effect on the prevalence of age discrimination. In EEO Trust research, 42% of employers said that the legislation had had no influence and 42% some or a little (White, 1999). The influence was more likely to have been felt in larger firms. McGregor

commissioner's 2007 review of retirement income policy, McGregor (2007) also found shortcomings, commenting that the legislation is predicated on individual complaints and this makes it harder to address systemic ageism.

Critics of anti-age discrimination legislation believe that it does not change employers' behaviour, but simply leads to more subtle and covert ways of discriminating, sending employment ageism 'underground'. In the international sphere, Leeson (2006) found that age accounts for only a small number of employment discrimination complaints and the majority of claims are dismissed. In many jurisdictions a higher prevalence of discrimination is found in population-based surveys than among formal complaints (McGregor, 2007). In recent years only 2% of complaints to the New Zealand Human Rights Commission on the basis of discrimination in employment have been made by people aged 65 plus (overall, around 38% of complaints are employment-related and 11% are on the grounds of age discrimination in all areas).<sup>4</sup> This is because of worker

ignorance of the complaints procedure and lack of trust, of feelings that the incidents are not serious enough and fears about job security, especially for lower-paid and lower-status workers. The bases for complaints in New Zealand have been: declined job due to age; detrimental treatment because of age; dismissed or threatened with dismissal because of age; and forced retirement at age 65. Thus, despite the passing of this legislation, there is evidence, from both the New Zealand and international evidence, that it has far from extinguished

something about it. Nevertheless, several felt that the HRA was too easy to get around. There were calls for the law to be brought up to date, to be clearer and more specific.

There may be scope for tightening up and clarifying anti-discrimination legislation and for using other employment law in this context. Suggestions arising in the interviews included use of the Employment Court and the inclusion of anti-discrimination measures in industrial agreements. Another suggestion was to add good

(FitzPatrick, 1999). Many of the Active Ageing interviewees agreed with this conclusion. They called for research to document discrimination and publicity to be given to age discrimination cases which have been successfully prosecuted. 'We almost need a court case to put the wind up employers.' Such information could be used by government, as well as other agencies, to advocate and educate employers and their organisations on the value of older workers and the benefits of employing them. To encourage less discriminatory thinking would require a concerted effort: 'Not just a couple of commercials.' Other agencies mentioned which might have a role included Age Concern, the Human Rights Commission,<sup>6</sup> the New Zealand Institute of Management, Business New Zealand, chambers of commerce, employers' associations and the Council of Trade Unions. But several felt that the movement to raise awareness of age discrimination and to seek change has to be led by government agencies. One respondent called for an age discrimination commissioner alongside the EEO commissioner, as there is in Australia.

## Legislation against age discrimination has been enacted in several countries but has had limited success because of the difficulty of identifying age discrimination, because much of it is not overt, and discriminatory practices are deepseated in business culture.

age discrimination in the workforce.

In the Active Ageing research, key informants and employers were asked how they thought the New Zealand anti-discrimination legislation was working and if they saw the need for any changes or improvements. Few of either group could suggest concrete improvements and there was a general view that the legislation is working well as far as it can, given the difficulty of defining age discrimination and the fact that much of it is covert. Several agreed that if penalties were increased, 'this would send the behaviour underground; it is very complex cultural and social behaviour'. 'We should make (the law) more consultative and participative and less regulatory. Law doesn't solve things; people need reasons for doing things.' They agreed that legislation is needed as a sanction and as a normative statement that age discrimination is not to be tolerated. 'Need traffic rules to deal with worst cases, but law is not a solution.' Many employers had no experience of using the HRA related to age, although most knew

employer and EEO requirements to the Employment Relations Act 2008.<sup>5</sup> Good employer provisions currently apply only in the state sector, through the Crown Entities Act 2004, the State Sector Act 1998 and the Local Government Act 2002, but these provisions do not encompass age (only women, Māori and people with disabilities are specifically mentioned) (McGregor, 2006). Could good employer provisions, including measures against age discrimination, be extended to the private sector in New Zealand? Should the onus be on employers to show that their hiring practices are not discriminatory? The counterargument, from business, suggests that further and tighter regulation would slow down the economy and overload employers with compliance costs.

### *What other measures are possible?*

Although legislation can have educative effects, the Australian Human Rights and Equal Opportunity Commissioner concluded that 'age-based stereotypes must be addressed by education and information as well as law and policy'

There was a call for 'champions' working against age discrimination within the business community, as well as in the older workforce itself. A role was seen for human resource managers (and the Human Resources Institute) as educators and enablers, with the potential to educate younger managers. The preponderance of businesses employing fewer than 25 people, often without professional HR services, increases the challenge. Public education could also help, with a role for government in this area, to educate employers on the benefits of non-discriminatory processes and to model such provisions in all public sector agencies.

There is no lack of good practice guides for employers relating to the employment of older workers, with case studies of employers who have harnessed business benefits in an age-diverse workforce. In New Zealand these have been produced by the Equal Employment Opportunities Trust (1999), the New Zealand Employers' Federation (1998) and the New Zealand Human Rights Commission (2008).

Overseas examples include publications by the UK Department of Work and Pensions (2013), Naegele and Walker (2006), Manpower Inc. (2007) and Finkelstein, Roher and Owusu (2013).

## Conclusion

Prolonging workforce participation by older people is supported for social, economic and business reasons and is becoming a policy objective in many developed countries. Increased participation, even at age 65 plus, is becoming a reality and this is reflected in the New Zealand trends, but there are still barriers. Age discrimination is one of these. Legislation against age discrimination has been enacted in several

countries but has had limited success because of the difficulty of identifying age discrimination, because much of it is not overt, and discriminatory practices are deep-seated in business culture. These issues apply also in wider society, which makes it even more difficult to combat discriminatory attitudes. Measures against age discrimination in the workplace will require more than legislation, although legislation has its place as a sanction and as a signal to society that such behaviour is not to be tolerated. Legislation must be supported by other policies – public education and information, aimed at employers but also at the rest of society, showing the benefits of prolonging workforce participation, providing it is

well planned, well managed and suits the needs of older people. In doing this there is a role for government, but also for the business community itself and for civil society.

## References

- Alpass, F. and R. Mortimer (2007) *Ageing Workforces and Ageing Occupations: a discussion paper*, Wellington: Department of Labour
- Australian Human Rights Commission (2010) *Age Discrimination: exposing the hidden barrier for mature age workers*, Sydney: Australian Human Rights Commission
- Beard, J.R., S. Biggs, D. Bloom, L. Fried, P. Hogan, A. Kalache and S.J. Olshansky (eds) (2012) *Population Ageing: peril or promise*, Geneva: World Economic Forum
- Bennington, L. and R. Wein (2003) 'Does the resume open the door to age discrimination for older workers?', *Australasian Journal of Ageing*, 22 (2), pp.70-5
- Burns, J. (2001) *Literature Review on Mature Workers Programme*, Wellington: Top Drawer Consultants for Department of Work and Income
- CROW (2005) *The New Law on Age Discrimination: how prepared are employers?*, Centre for Research into the Older Workforce briefing paper 5, Guildford: University of Surrey
- Dalziel, L. (2001) *The New Zealand Positive Ageing Strategy*, Wellington: Senior Citizen's Unit, Ministry of Social Policy
- Davey, J. (2007) *Maximising the Potential of Older Workers* (revised edn), Wellington: New Zealand Institute for Research on Ageing
- Department of Work and Pensions (2013) *Employing Older Workers: an employer's guide to today's multi-generational workforce*, London: Department of Work and Pensions
- EEO Trust (1999) *Benchmark Your Workplace Progress on Age*, Auckland: Equal Employment Opportunities Trust
- EEO Trust (2006) *EEO Trust Work and Age Survey Report*, Auckland: Equal Employment Opportunities Trust
- Finkelstein, R., S. Roher and S. Owusu (2013) *Age Smart Employer, NYC: compendium of strategies and practices*, New York: New York Academy of Medicine
- FitzPatrick, K. (1999) *Anti-discrimination Legislation and the Older Worker*, Sydney: Australian Human Rights Commission
- Flynn, M. (2010) 'The United Kingdom government's "business case" approach to the regulation of retirement', *Ageing and Society*, 30 (3), pp.421-43
- Ford, R. and N. Orel (2005) 'Older adult learners in the workforce', *Journal of Career Development*, 32 (2), pp.139-52
- Gray, L. and J. McGregor (2003) 'Human resource development and older workers: stereotypes in New Zealand', *Asia Pacific Journal of Human Resources*, 41 (3), pp.338-53
- Hinterlong, J., N. Morrow-Howell and P. Rozario (2007) 'Productive engagement and late life physical and mental health: findings from a nationally representative panel study', *Research on Aging*, 29 (4), pp.348-70
- Jaworski, B. (2005) 'Aging workers, changing value', *Journal of Employee Assistance*, 1st Quarter, pp.22-3
- Johnson, R. (2008) 'Employment opportunities at older ages: introduction to the special issue', *Research on Aging*, 31 (3), pp.3-16
- Leeson, G. (2006) 'The Employment Equality (Age) Regulations and beyond', *Ageing Horizons*, 5, pp.12-19
- McGregor, J. (2001) *Employment of the Older Worker*, Palmerston North: Massey University
- McGregor, J. (2006) *The Good Employer: getting it right: guidance from the equal employment opportunities commissioner*, Wellington: Human Rights Commission
- McGregor, J. (2007) *Employment of Older Workers: submission to the retirement commissioner's 2007 review of retirement income policy*, Wellington: Human Rights Commission
- Manpower Inc. (2007) *The New Agenda for an Older Workforce*, Milwaukee: Manpower Inc.
- Metcalfe, H. and P. Meadows (2010) *Second Survey of Employers' Policies, Practices and Preferences Relating to Age*, employment relations research series, 110, London: Department for Work and Pensions and Department for Business Innovation and Skills
- Murray, J. (2002) *Age Discrimination in Employment: a review*, Research and Information Manager, EEO Trust, for the New Zealand Human Rights Commission, Auckland: Equal Employment Opportunities Trust
- Naegele, G. and A. Walker (2006) *A Guide to Good Practice in Age Management*, Dublin: European Foundation for the Improvement of Living and Working Conditions
- National Seniors Productive Ageing Centre (2012) *Barriers to Mature Age Employment: final report of the consultative forum on mature age*

- 1 Quotations in the text are from the verbatim recordings of interviews, but are not attributed, to preserve confidentiality.
- 2 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32000L0078:EN:HTML>, accessed 12 March 2014.
- 3 In these areas age discrimination can affect younger workers. Between 2002 and 2006 nearly 40% of age discrimination enquiries and complaints to the Human Rights Commission were from employees aged 40 or under.
- 4 Recent data kindly provided by the New Zealand Human Rights Commission, Auckland.
- 5 The Employment Relations Act's good faith requirements are relevant to human resource strategic plans and bargaining strategies in particular, but not to EEO or good employer provisions. <http://live.isitesoftware.co.nz/neon2012/adviceandguidance/crownentitiesadvice/>, accessed 12 March 2014.
- 6 The Human Rights Commission has produced material for employers and workers which sets out the legal requirements and outlines best practice.

participation, report prepared on behalf of the Consultative Forum on Mature Age Participation, Canberra: National Seniors Productive Ageing Centre

Neumark, D. (2009) 'The Age Discrimination in Employment Act and the challenge of population aging', *Research on Aging*, 31 (1), pp.41-68

New Zealand Employers' Federation (1998) *Employment of Older Employees and Retirement: a guide for employers*, Wellington: New Zealand Employers' Federation

New Zealand Human Rights Commission (2008) *Valuing Experience: a practical guide to recruiting and retaining older workers*, Wellington: New Zealand Human Rights Commission

OECD (2006) *Live Longer, Work Longer*, Paris: OECD

OGC Consulting (2013) *Coming of Age: the impact of an ageing workforce on New Zealand business*, Wellington and Auckland: OGC Consulting

Riach, K. (2006) 'Older workers: learning from three international experiences', *Social Policy and Society*, 5 (4), pp.551-63

Ryan, S. (2012) *Age Discrimination: a waste of human resources*, speech to Human Resources Directors Networking Forum, March, retrieved from [www.humanrights.gov.au](http://www.humanrights.gov.au)

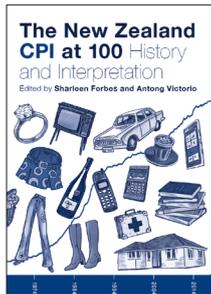
Taylor, P. (2002) *New Policies for Older Workers*, Joseph Rowntree Foundation, Transitions After 50 series, Bristol: Policy Press

White, J. (1999) *Midwinter Spring: smart business and older workers. New Zealand guide to best practice for employers in an ageing population*, Auckland: Equal Employment Opportunities Trust

Wood, G., M. Harcourt and S. Harcourt (2004) 'The effects of age discrimination on workplace practice: a New Zealand case study', *Industrial Relations Journal*, 35, pp.359-71

## IGPS and SoG Publications 2014

### The New Zealand CPI at 100: History and Interpretation



Edited by Sharleen Forbes and Antong Victorio

Very few New Zealanders have lives unaffected by the Consumers Price Index, or CPI. It is used by the New Zealand government to adjust student allowances, welfare benefits and superannuation; by the Reserve Bank to guide monetary policy; by the old Court of Arbitration, and also by employers and employees, to negotiate wages; and by the media to inform the public about the effects of price changes on their standard of living.

Some authors in this book document the New Zealand CPI as a history of conflicting machinations between unions, employers, public officials and lobby groups. Others view it as a mirror of domestic social norms and important international developments that eventually developed into a beacon with considerable public trust. Still others emphasise its technical evolution, from a crude selection of prices necessary for a just wage, to a modern indicator of consumer satisfaction and economic management.

A VUW Press Publication edited by Sharleen Forbes and Antong Victorio

Publication Date: July 2014. Format: A5 Paperback, pp 288

ISBN 978-0-864-73966-7 Price: \$40.00 (plus P&P)

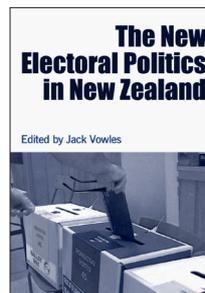
Place your order online at [vup.victoria.ac.nz](http://vup.victoria.ac.nz)

VUW Press

49 Rawhiti Tce, Kelburn, Wellington, New Zealand

Phone: + 64 4 463 6580 Fax: + 64 4 463 6581, Email: [victoria-press@vuw.ac.nz](mailto:victoria-press@vuw.ac.nz)

### The New Electoral Politics in New Zealand: The significance of the 2011 Election



Edited by Jack Vowles

Around the world there was unusual interest in New Zealand's electoral politics during the 1990's, because of the country's adoption of the Mixed Member Proportional (MMP) electoral system. Since then international interest has lapsed. Yet at the 2011 election and concurrent referendum, New Zealanders voted to retain the MMP system. Among other inquiries, this book asks the question: why?

Looking back to the 2011 election and before, this book lays out the current state of the play in New Zealand electoral politics. Despite its reservations about MMP, the National Party has done very well under that system, particularly since 2005, with a vote share and polling that brought it well within reach of a single party majority in 2014. For these reasons National appears unwilling to change the MMP system in ways recommended by an independent review conducted by the Electoral Commission. This book explores these questions, as well as others, including voter turnout decline, attitudes to welfare reform, women's representation, changes in Māori politics, and the growing importance of immigration on New Zealand politics and society.

An Institute for Governance and Policy Studies Publication edited by Jack Vowles

Publication Date: May 2014. Format: A5 Paperback, pp 276

ISBN 978-0-475-12414-2. Price: \$39.95 (including P&P within New Zealand)

Place your order by phone or email. Preference is for payment via credit card, but invoices can be issued on request

Institute for Governance and Policy Studies, Victoria University of Wellington

Email [igps@vuw.ac.nz](mailto:igps@vuw.ac.nz) Telephone +64 4 463 6588, PO Box 600, Wellington, New Zealand



Institute for Governance and Policy Studies

A research institute of the School of Government

# Later Life in Rental Housing

## current New Zealand issues

Historically, New Zealand has had relatively high rates of home ownership, with widely held aspirations for mortgage-free tenure in later life. As a consequence, examination of the small but growing numbers of older renters has been limited (Nana et al., 2009, p.20). This article draws together local research, commissioned policy development work and comparative evidence to identify the characteristics of older people in rental accommodation, current and projected issues and potential policy issues.

### Owners and renters

Housing tenure patterns in New Zealand have become increasingly complicated in the last 20 years through the growth of family trust ownership and the addition of options such as licence to occupy (LTO) arrangements in retirement

villages (Retirement Villages Association of New Zealand, 2014). Table 1 shows the percentage of household heads in various age groups over 60 whose home is owned, with or without a mortgage. This data is mostly constructed in a binary manner (home owned/not owned), with the 'not

owned' group dominated by those who rent (Statistics New Zealand, 2013b), but it also includes the even smaller minority of those in residential care.

In 2013 home ownership was highest for those aged 65–74, but rates have fallen since 2001 for age groups under 80. Releases from the 2013 census to date provide only a limited breakdown of the

**Table 1: Home ownership by age of household head, 2001, 2006, 2013**

	2001 %	2006 %	2013 %
60–64 years	79.3	79.1	74.9
65–69	80.2	79.3	77.3
70–74	80.6	79.5	77.5
75–79	78.7	78.4	75.9
80–84	72.6	74.5	73.1
85+	55.4	59	60.4

Source: based on Statistics New Zealand, 2013a and 2013c (Note: the time series is interrupted, because the 2011 census was cancelled after the Canterbury earthquakes. Statistics New Zealand advises caution, as changes between 2006 and 2013 took place over a period longer than the usual five-year gap between censuses.)

---

Sally Keeling is a Senior Lecturer in the Department of Medicine, University of Otago, Christchurch and former Director of the New Zealand Institute for Research on Ageing, Victoria University of Wellington. Her main interests are in the social context of ageing and health service development.

characteristics of rental households by age, meaning that detailed analysis must depend on 2006 data, which was presented in a BERL report to the then Department of Building and Housing (Nana et al., 2009). At that time, 19% of households which had a reference person aged 65 or over were renting, 54,220 households in total (ibid., p.19). Between 1996 and 2006 there had been a rise of nearly 30% in older renter households in private sector and central government housing. This was alongside a fall in the proportions with local authority landlords, as some major territorial authorities were reducing their commitment to housing. While increases in renting among older people were widespread, Auckland showed the

with the simple statement that 'housing serves many functions' (p.98), providing shelter, a store of wealth with both use and exchange value, and a place of safety and security, as well as psychological and physical well-being and health and a nexus of social relationships. Thorns makes it clear that gender and ethnic inequality in late-life housing tenure reflects lifetime experiences in the job and property markets.

The association of renting in later life with low income, social disadvantage, economic insecurity and housing mobility is noted in many housing reports (Davey et al., 2004; Howden-Chapman, Signal and Crane, 1999). Disadvantages for older renters include reduced security of tenure;

older people. *Enhancing Wellbeing in an Ageing Society* (Koopman-Boyden and Waldegrave, 2009) provided a nationally representative sample of independent-living adults in the 65–84 age band (King and Waldegrave, 2009). Housing tenure is here 'collapsed' into owners (over 76% of all participants), renters and others. Freehold home ownership was reported by 69.3% of participants (Waldegrave and Cameron, 2009, p.103). There were strong correlations between housing tenure and other assets: 70% of renters reported no other assets, compared to 37.3% of owners. Two-thirds of renters were satisfied with their economic standard of living, compared to over 90% of owners. Physical health scores were significantly higher for owners than for renters, but mental health levels showed no significant relationship with tenure (Waldegrave and Cameron, 2009, p.104).

Two waves of data on housing tenure (from 2010 and 2012) are available from the New Zealand Longitudinal Study of Ageing (NZLSA), based on a national sample of 3,317 participants aged between 50 and 84 years (Waldegrave, 2014). These showed rates of home ownership over 90%. The NZLSA study confirmed that those who rent have lower incomes and fewer assets, and score lower on quality of life and well-being scales.

Piecing together the situation of current and future older people in New Zealand who are renters shows that they are likely to be a growing minority, given the delayed entry to home ownership which is already evident. They can be expected to have lower incomes, and fewer assets, again following trends of life course patterns of socio-economic inequality (Povey and Harris, 2005). Unless there are significant shifts in public investment in social housing, their security of tenure, control over housing costs and the suitability of their housing to their needs are also likely to be limited when compared to home owners.

#### **Renting and housing security**

The association of renting with lower levels of 'housing security' has several components. The policy context is influential. In some European countries 'sitting tenants' are protected from

## **Piecing together the situation of current and future older people in New Zealand who are renters shows that they are likely to be a growing minority, given the delayed entry to home ownership which is already evident.**

highest numerical increase, followed by Bay of Plenty and Waikato.

The BERL report presented three scenarios based on population projections to 2051. They assumed only a moderate ongoing decline in home ownership, which could be considered as conservative (ibid., p.13). By 2051 the projected numbers of older renter households are estimated to rise (beyond the doubling of demand estimated by Davey et al. in 2004) to a range between 136,400 and 168,840 in the three scenarios (see Table 5.1 in Nana et al., 2009, p.57).

#### **Characteristics of older renters**

Home ownership has long been the preferred type of housing tenure for older New Zealanders, and most achieved it. In 1993 Peggy Koopman-Boyden's book exploring the implications of New Zealand's ageing society included housing tenure and wealth, income support and care services as the central areas for policy investigation (Koopman-Boyden, 1993). David Thorns' chapter in the book opens

less control over housing costs, repairs, maintenance and adaptations; and the lack of an asset against which funds may be borrowed for special needs. This can be summarised as the availability, affordability, suitability and quality of rental housing. Davey (2006, p.260) identified further issues for older renters, including the risk of a lower standard of accommodation and a reduced ability to adapt or modify housing to deal with changing health maintenance requirements. There are also concerns regarding the management of rental housing, with relatively limited development of a robust social housing sector in New Zealand which could promote choice and autonomy in rental housing, and improved and equitable access to care and support services for older renters. On the other hand, there are some advantages of renting: it can relieve older people of repair and maintenance costs, the upkeep of grounds and insurance payments.

For the period 2006–2013 relevant data is available from national studies of

eviction and price rises and in some cases offered lifetime tenancies. In contrast to New Zealand, renting in Europe is a statistical and cultural norm.

There are also subjective and psycho-social components of the relationship between housing tenure and family and household development (Hiscock et al., 2001). Keeling (1998) and Thorns (1993) discuss interpretative approaches to how older people understand the 'meaning of home' as distinct from a 'bricks and mortar' interpretation conjured by the use of the word 'house'.

In the same way, 'ageing in place' as a social and policy concept draws on theories of place attachment and ontological security, even though analysis rarely makes explicit comparisons between owners and renters (Schofield et al., 2006; Wiles et al., 2011). Decisions about moving house in later life are shown to involve highly complex processes of 'residential reasoning' (Granbom et al., 2014), within which tenure (owning or renting), location, household and social context are evaluated.

Qualitative explorations of 'ontological security' among older people (Mansveldt, Breheny and Stephens, 2013) make explicit distinctions between the circumstances of older renters and home owners. These draw on Sen's capability and functioning approach and include material and subjective evaluations of living conditions. This enabled Mansveldt, Breheny and Stephens to conclude: 'Surprisingly, those with most and least access to economic resources expressed the strongest sense of security, albeit in different ways, while those in the midrange of economic living standards expressed the highest sense of insecurity' (ibid., p.8). Thus, they argue that a high sense of security may be consistent with home ownership or, for renters, secure dwelling tenure. 'Our analysis suggests that what older people are seeking is not so much the purchasing power of economic resources, but the management of later life unpredictability' (p.17). Those who are lifetime renters, or have long experience in managing close to a poverty threshold, appear to derive security from their adaptive experience (see also Morris,

2009 and 2012 for comparisons with Australian older renters).

Although some older people are lifelong renters due to personal choice or socio-economic circumstances, others move from owning to renting following a change in personal circumstances. Such changes include the break-up of a family at the time of divorce, separation or bereavement; or an unplanned or radical change in employment status, such as redundancy or involuntary retirement. Even long-term renters are disadvantaged without a housing or other asset base to cushion such 'life shocks' (Fergusson et al., 2001).

Housing affordability cycles also influence housing career pathways and

## **Renters without a housing asset are typically well below the threshold for eligibility for the residential care subsidy, particularly as this has been raised significantly since 2005 ...**

tenure choices. For instance, relocation to an area with more expensive housing can result in a change from home ownership to renting that may not be quickly reversed (Nana et al., 2009, p.20).

Housing stability over time is a part of security, but is not synonymous with it. While older people who rent housing are outnumbered in the New Zealand context by home owners, and the preference for home ownership may partly relate to its association with well-being, there is some evidence (e.g. Jatrana and Blakely, 2008 and 2014) that renting cannot be simplistically linked to disadvantage.

### **Policy and politics**

An Office for Senior Citizens report subtitled *Healthy, independent, connected, respected* provides a framework for policies aimed at older New Zealanders. Housing options feature primarily in the section on independence (Office for Senior Citizens, 2013, pp.22-5). Approximately 20% of Housing New Zealand tenants are aged 65 and over, with almost half housed in Auckland. Most local authority rental

housing is occupied by older people. There has been some consideration of the relationship between rental housing and the delivery of community-based health and care services, in terms of design features, the feasibility of home modifications, and responsibility for 'healthy housing', including heating and insulation (Croucher, Hicks and Jackson, 2006; Howden-Chapman, Signal and Crane, 1999; Nana et al., 2009). If entry into residential care is discouraged through 'ageing in place' policy settings, then providers of rental housing (whether private, state or local authority landlords) need to recognise the need for home-based services and investment in appropriate housing to cater for growing numbers of

frail and disabled older people.

There is also a policy relationship between housing tenure and access to the residential care subsidy for those assessed as requiring admission to a rest home, hospital or specialist dementia care facility. For more than 20 years the asset and income test applied to the residential care subsidy has effectively favoured older renters (Ashton, 2000; Mays, Marney and King, 2013; Thorns, 1993). Renters without a housing asset are typically well below the threshold for eligibility for the residential care subsidy, particularly as this has been raised significantly since 2005 (see Work and Income New Zealand, 2014 and Ministry of Social Development, 2014).

Saville-Smith (2013) reviewed the intersection between housing assets and retirement income. She asserts that there are significant issues for health and well-being in later life arising from insecurity for those who are not home owners. Older renters are less able to keep housing costs under control in terms of rent rises. Growing numbers of very

low income older renters present policy challenges in their need for financial and practical support, including a more responsive housing benefit system and/or accommodation supplements.

Nana et al. (2009, pp.14-15) called for greater integration of social support, health care and housing, taking into account changing expectations, values and standards concerning the quality and appropriateness of housing. Innovative approaches to planning and design and increased engagement of users in the development of housing models and advocacy services are required for all sectors of the housing market, and it is vital that the needs of renters are not obscured by the needs of the majority home owners.

Regional issues relating to supply and demand in the rental market are dominated by current distortions arising in Auckland and Christchurch (Waldegrave, King and Rowe, 2012). The housing consequences for older people

in post-earthquake Christchurch have been illustrated by Davey and Neale (2013) and Keeling (2013), including the relocation of low-income renters outside greater Christchurch and pressure on the short-term rental market. Housing issues for older people in rural areas – whether owners or renters – are complex, and not unique to New Zealand (Keating, 2008).

The dominant policy position has been premised on the centrality of home ownership (both normative and aspirational) to support ageing in place, over at least the last 20 years. This dominance may have obscured policy awareness of the consequences for older people unable to attain or retain home ownership, who are accordingly subjected to the economic and social costs of the rental market. The empirical studies of older people in New Zealand emerging in the last decade, and reviewed here, support the projections and predictions presented in the report by Nana et al. (2009), that falling levels of home

ownership in New Zealand are already beginning to affect older people, and may well accelerate into the future. This will require policies to increase the supply of affordable rental housing designed with older households in mind, particularly single tenants. Innovative mixtures of private and public rental developments, including central and local government, private sector and ‘third sector’ landlords, have a role in this.

The inexorable ageing of New Zealand’s population has reached a critical point in terms of planning to match rental housing supply and demand. Policy settings surrounding entry to, security within and exit from home ownership in New Zealand have clearly dominated housing policy for many years. The predicted growing numbers of older renters suggests that more detailed policy attention should be given to this so-called ‘secondary sector’.

## References

- Ashton, T. (2000) ‘Long term care in a decade of change’, *Health Affairs*, 19 (3), pp.72-85
- Croucher, K., L. Hicks and K. Jackson (2006) *Housing with Care for Later Life: a literature review*, York: Joseph Rowntree Foundation
- Davey, J. (2006) ‘Housing’, in J. Boston and J. Davey (eds), *Implications of Population Ageing: opportunities and risks*, Wellington: Institute of Policy Studies, Victoria University of Wellington
- Davey, J. and J. Neale (2013) *Earthquake Preparedness in an Ageing Society: learning from the experience of the Canterbury earthquakes*, report prepared for the Earthquake Commission, <http://www.eqc.govt.nz/research/research-papers/earthquake-preparedness-ageing-society>, accessed 30 May 2014
- Davey, J., V. de Joux, G. Nana and M. Arcus (2004) *Accommodation Options for Older People in Aotearoa/New Zealand*, Wellington: New Zealand Institute for Research on Ageing and BERL
- Fergusson, D., B. Hong, J. Horwood, J. Jensen and P. Travers (2001) *Living Standards of Older New Zealanders: a technical account*, Wellington: Ministry of Social Policy, <http://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/monitoring/livingstandardsummary.pdf>, accessed 30 May 2014
- Granbom, M., I. Himmelsbach, M. Haak, C. Lofqvist, F. Oswald and S. Iwarsson (2014) ‘Residential normalcy and environmental experiences of very old people: changes in residential reasoning over time’, *Journal of Aging Studies*, 29, pp.9-19
- Hiscock, R., A. Kearns, S. Macintyre and A. Ellaway (2001) ‘Ontological security and psycho-social benefits from the home: qualitative evidence on issues of tenure’, *Housing Theory and Society*, 18 (1), pp.50-66
- Howden-Chapman, P., L. Signal and J. Crane (1999) ‘Housing and health in older people: ageing in place’, *Social Policy Journal of New Zealand*, 13, pp.14-30
- Jatrana, S. and T. Blakely (2008) ‘Ethnic inequalities in mortality among the elderly in New Zealand’, *Australian and New Zealand Journal of Public Health*, 5, pp.437-43
- Jatrana, S. and T. Blakely (2014) ‘Socio-economic inequalities in mortality persist into old age in New Zealand: study of all 65 years plus, 2001–04’, *Ageing and Society*, 34 (6), doi:10.1017/S0144686X12001195
- Jones, A., M. Bell, C. Tilse and G. Earl (2007) *Rental Housing Provision for Lower-Income Older Australians*, Melbourne: AHURI
- Keating N. (2008) *Rural Ageing: a good place to grow old*, Bristol: Policy Press
- Keeling, S. (1998) ‘Treasures on Earth: older people, housing assets and public policy in New Zealand’, in I. Edgar and A.J. Russell (eds), *The Anthropology of Welfare*, London: Routledge
- Keeling, S. (2013) ‘Risk, security, and uncertainty: personal reflections’, *Journal of Gerontological Social Work*, 56 (5), pp.383-7, <http://dx.doi.org/10.1080/01634372.2013.809299>
- King, P. and C. Waldegrave (2009) ‘Theoretical background’, in P. Koopman-Boyden and C. Waldegrave (eds), *Enhancing Wellbeing in an Ageing Society: 65–84 year old New Zealanders in 2007*, EWAS monograph 1, Population Studies Centre, University of Waikato, Hamilton, and Family Centre Social Policy Research Unit, Lower Hutt
- Koopman-Boyden, P. (ed.) (1993) *New Zealand’s Ageing Society: the implications*, Wellington: Daphne Brasell Associates

- Koopman-Boyden, P. and C. Waldegrave (2009) *Enhancing Wellbeing in an Ageing Society: 65–84 year old New Zealanders in 2007*, EWAS monograph 1, Population Studies Centre, University of Waikato, Hamilton, and Family Centre Social Policy Research Unit, Lower Hutt
- Mansvelt, J., M. Breheny and C. Stephens (2013) 'Pursuing security: economic resources and the ontological security of older New Zealanders', *Ageing and Society*, 1 (22), doi:10.1017/S0144686X13000342
- Mays, N., J. Marney and E. King (2013) 'Fiscal challenges and changing patterns of need for health and long-term care in New Zealand', *Policy Quarterly*, 9 (4), pp.35-46
- Ministry of Social Development (2014) 'Residential care subsidy', <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/statistical-report/statistical-report-2008/supplementary-benefits/residential.html>, accessed 30 May 2014
- Mitchell, I. (2013) *Greater Christchurch Housing Market Assessment*, Livingston and Associates Ltd for Greater Christchurch Recovery Strategic Partners and Ministry of Business, Innovation and Employment, <http://www.greaterchristchurch.org.nz/News/PDF/chchHousingMarketAssessment27August2013.pdf>
- Morris, A. (2009) 'Living on the margins: comparing older private renters and older public housing tenants in Sydney, Australia', *Housing Studies*, 24 (5), pp.693-707
- Morris, A. (2012) 'Older social and private renters, the neighbourhood, and social connections and activity', *Urban Policy and Research*, 30 (1), pp.43-58
- Nana, G., F. Stokes, S. Keeling, J. Davey and K. Glasgow (2009) *Trends, Projections, Issues and Challenges: older renters 1996 to 2051*, report to the Department of Building and Housing, Wellington: BERL
- Office for Senior Citizens (2013) *Older New Zealanders: healthy, independent, connected and respected*, Wellington: New Zealand Government
- Povey, D.M. and U. Harris (2005) *Old, Cold, and Costly? A survey of low income private rental housing in Dunedin*, 2004, Dunedin: Presbyterian Support Otago
- Retirement Villages Association of New Zealand (2014), <http://www.retirementvillages.org.nz/>, accessed 30 May 2014
- Saville-Smith, K. (2013) *Housing Assets: a paper for the 2013 Review of Retirement Income*, Centre for Research, Evaluation and Social Assessment for the Commission for Financial Literacy and Retirement Income
- Schofield, V., J. Davey, S. Keeling and M. Parsons (2006) 'Ageing in place', in J. Boston and J. Davey (eds), *Implications of Population Ageing: opportunities and risks*, Wellington: Institute of Policy Studies, Victoria University of Wellington
- Statistics New Zealand (2013a) Census 2013 QuickStats about housing, <http://www.stats.govt.nz/Census/2013-census/profile-and-summary-reports/quickstats-about-housing/home-ownership-individuals.aspx>
- Statistics New Zealand (2013b) Census 2013 QuickStats about housing, <http://www.stats.govt.nz/Census/2013-census/profile-and-summary-reports/quickstats-about-housing/households-who-rent.aspx>
- Statistics New Zealand (2013c) Census 2013 Quickstats about national highlights, <http://www.stats.govt.nz/Census/2013-census/profile-and-summary-reports/quickstats-about-national-highlights/home-ownership.aspx>
- Thorns, D. (1993) 'Tenure and wealth accumulation: implications for housing policy', in P. Koopman-Boyden (ed.), *New Zealand's Ageing Society: the implications*, Wellington: Daphne Brasell Associates
- Waldegrave, C. (2014) *Income, Assets, Poverty and Housing Tenure: summary report for the New Zealand Longitudinal Study of Ageing*, Family Centre Social Policy Research Unit, *Income\_Poverty\_Assets\_and\_Housing\_NZLSA\_2014.pdf*
- Waldegrave, C. and M. Cameron (2009) 'Income, assets, living standards and housing', in P. Koopman-Boyden and C. Waldegrave (eds), *Enhancing Wellbeing in an Ageing Society: 65–84 year old New Zealanders in 2007*, EWAS monograph 1, Population Studies Centre, University of Waikato, Hamilton, and Family Centre Social Policy Research Unit, Lower Hutt
- Waldegrave, C., P. King and E. Rowe (2012) *Aucklanders 50 and Over: a health, social, economic and demographic summary analysis of the life experiences of older Aucklanders*, report prepared for the Auckland Council, Research, Investigations and Monitoring Unit, Wellington: Family Centre Social Policy Research Unit and Elizabeth Rowe, Elizabeth Rowe Consulting, <http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/reports/technicalpublications/Documents/aucklanders50andoverfullreport.pdf>
- Wiles, J.L., A. Leibing, N. Guberman, J. Reeve and R.E.S. Allen (2011) 'The meaning of ageing in place to older people', *Gerontologist*, 52 (3), pp.357-66
- Work and Income New Zealand (2014) <http://www.workandincome.govt.nz/individuals/brochures/residential-care-subsidy.html>, accessed 30 May 2014

# Living Alone as a Lifestyle of Older People in New Zealand policy implications

## Introduction

In many societies adults of various ages are adopting a new lifestyle of living alone which is often characterised by independence, self-sufficiency, freedom and alternative living, yet is also seen as hedonistic, selfish and individualistic. No previous societies have supported so many people living alone, for living alone may not be a desired survival goal at societal level (Roseneil, 2006). In many modern societies a significant number of middle-aged and older people are living alone as a result of smaller families, relationship break-ups or the death of a spouse or partner. This article examines the development of this phenomenon, including the possibility of it becoming a more dominant lifestyle for *older* people, while exploring

the motivations of older New Zealanders (aged 65 and over) who live alone, and the strategies they adopt to make their solo lifestyle meaningful.

Living alone is usually referred to as residing in a 'single-person household' as a 'solo dweller' (Dickens et al., 2011; Klinenberg, 2012). While living in this way is often seen as contributing to social isolation and loneliness, it does not necessarily mean that the person is socially alone. Research in the United Kingdom and elsewhere has found that, while nearly everyone who was isolated lived alone, not everyone who lived alone was isolated (Rolls et al., 2010). In modern societies we now have people living alone (physically) but with a spouse or partner residing elsewhere with whom they have social contact (living apart together or LAT) (Reimondos, Evans and Gray, 2011). Similarly, there are singletons who live alone but have many social contacts and activities and are not lonely (Birnholtz and Jones-Rounds, 2010). Thus, in studying the phenomenon of living alone

---

Peggy Koopman-Boyden is currently Senior Fellow in Social Gerontology at the National Institute of Demographic and Economic Analysis at the University of Waikato, working on research programmes related to ageing.

Sheena Moosa is a PhD student.

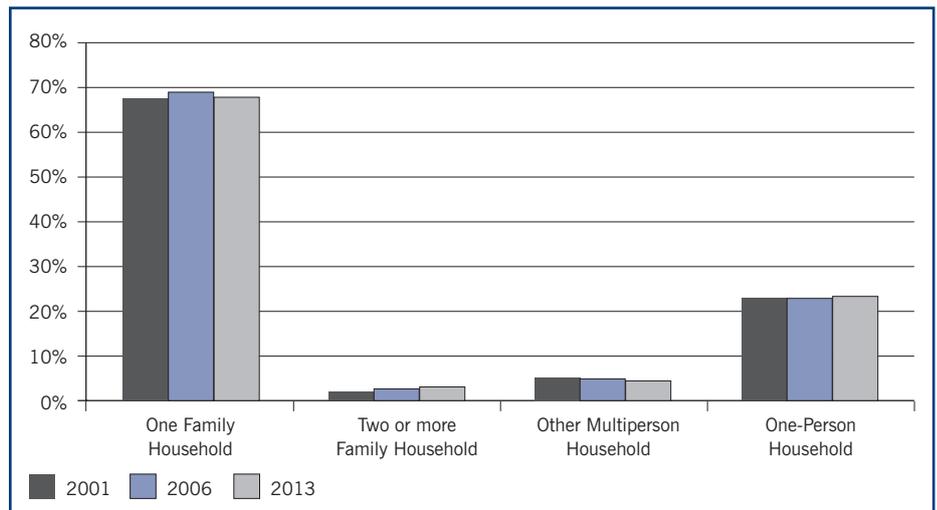
a distinction must be made between living alone *physically* and living alone *socially*, which makes the reasons for living alone more plausible and acceptable to the proponents of the ideal of ‘man as a social being’. Furthermore, Klinenberg notes that those who live alone ‘compensate for lowered social contact in the household by being more socially active, and cities with high numbers of singletons enjoy a thriving public culture’ (Klinenberg, 2012, p.9). As well, a number of people living alone enjoy the at-home companionship of a pet or, in a technologically-wired world, a robot (Melson et al., 2009). In this article the focus is on living alone physically without any other person, but allowing the presence of pets or other forms of companionship devices, and where the older person is not necessarily socially alone.

#### Trends in living alone

Demographic trends and changes in household composition indicate that there is a growing proportion of people living alone in adulthood in Europe, the UK and the United States. In these and other developed countries, living alone among the middle-aged is on the rise (Falkingham et al., 2012; Klinenberg, 2012; Sobotka and Toulemon, 2008). In New Zealand, single-person households formed 23.5% of all households in 2013 (Figure 1) and are the fastest growing household type, expected to reach 29% in 2031 (Statistics New Zealand, 2013; Bascand, 2010).

In New Zealand in 2013, 44% of older people (aged 65 and over) lived in one-person households, a small increase from 2006 (see Figure 2a). Living alone as an older person is a prevalent lifestyle not only because there are more people surviving into their older years, but also because, despite some narrowing, there continues to be a longevity gap between men and women. Most older women can expect to outlive their husbands (having married older men), which results in older women disproportionately populating one-person households. Examination of 2013 census data for older people living alone shows that 69% of them are women. This gender difference is wider in the oldest age groups. At 85 and over,

Figure 1: Household composition in New Zealand, 2001, 2006, 2013



Source: Statistics New Zealand, 2013

74% of those living alone are women (Figure 2c).

#### Reasons for living alone

At the societal level, living alone can be seen as a sign of individualism encouraged by industrialisation, mass urbanisation and the empowerment of women. Furthermore, advances in communication and the technological revolution have made contact easier through social media and networking. Hence, living alone is not necessarily as isolating as in previous times. Although the nuclear family is still the norm in Western culture (de Vaus, 2009; Fokkema and Liefbroer, 2008), since the beginning of the 21st century individualistic activities have been encouraged from childhood and throughout adulthood. In today’s family households children spend a considerable portion of their time alone, engaged in exploring entertainment and social media that does not require face-to-face contact. The concept of ‘being alone’ in earlier life may become a forerunner to ‘living alone’ in later years.

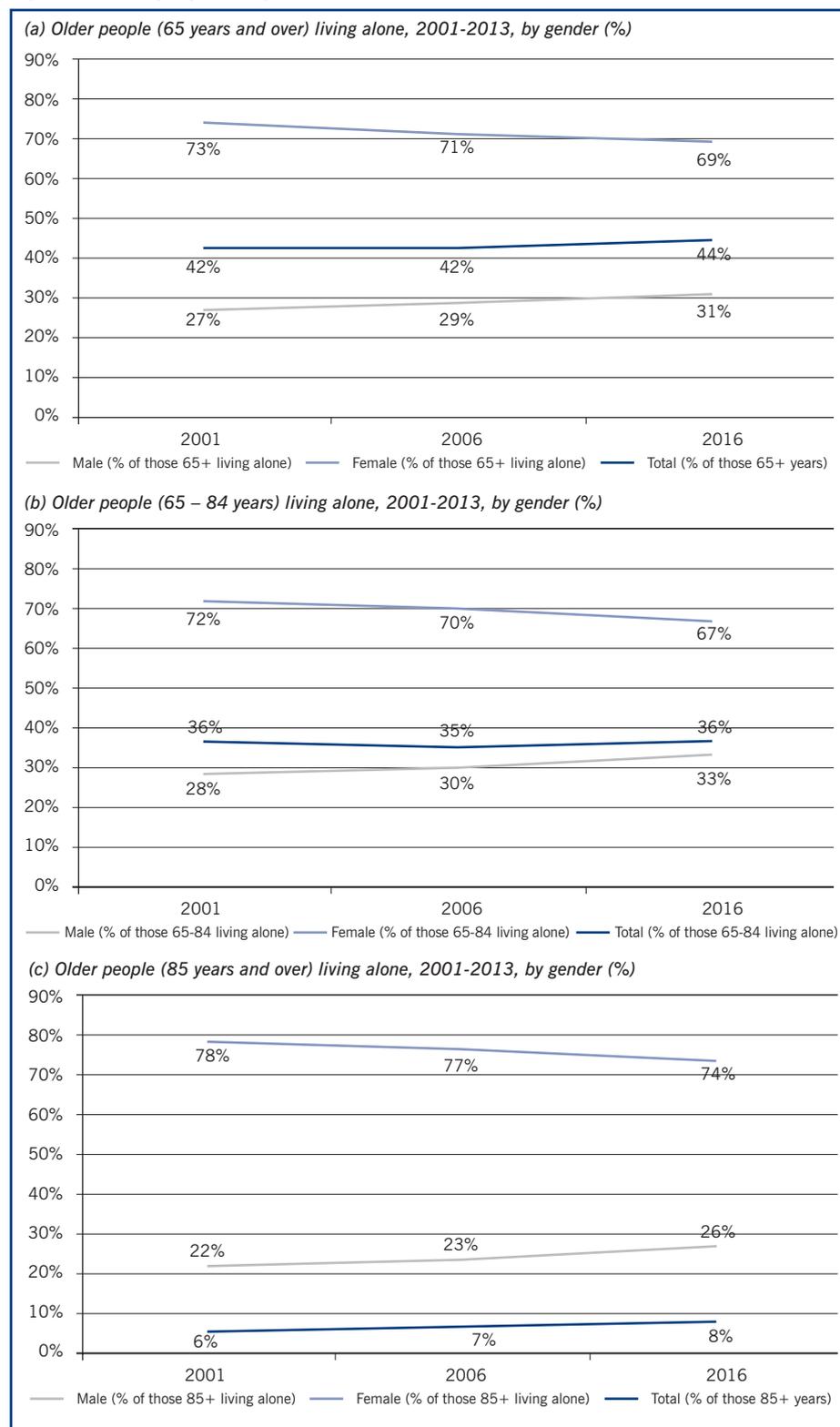
Living alone for younger adults is usually by choice, as they leave the parental home to seek independence and explore their own pathways in life. In Europe, changes in family and marriage values and individualisation of the life course have led to adults retreating from marriage (Sobotka and Toulemon, 2008; Daly, 2005), thereby contributing to the rise of living alone. Falkingham et al. (2012) found that in the UK the reasons for living alone among middle-aged adults arise

from situations where people have never cohabited or there has been a dissolution of a marriage or co-habitation.

Unlike young and middle-aged adults, the current cohort of older people in New Zealand have usually been married. For them living alone is often not by choice, but rather due to the loss of a spouse through death or a dependent family member ‘moving on’. There are, however, an increasing number of older people living alone through choice (after divorce or remaining single), and this number is likely to increase with the ageing of younger cohorts who have experience of living alone. It has also been found that while most older people do not choose to live alone to start with, they choose to *continue* to live alone, this having become a ‘natural part of their identity, or something inevitable’ (Portacolone, 2011, p.824).

In New Zealand it is possible that the policy of ‘ageing in place’ is one of the determinants of older people being able to live alone and stay living alone – i.e. not moving in with the family or into residential care. For older people, ageing in place may mean ageing ‘in your own place’ or ‘being able to stay living in an environment of their choice’ (Robinson, 2007, p.3), with support measures to ‘ensure that housing is adequate and appropriate to enhance the wellbeing and health of older people, while also promoting independence, choice and social contact’ (Davey et al., 2004, p.13). Thus, health, disability and social support

Figure 2: Older people living alone in New Zealand, 2001, 2006, 2013 censuses



Source: Statistics New Zealand, 2014a

needs of older people are assessed and provided for through a mix of public, community and family-based care. Nevertheless, the choice of a place to live alone may differ according to health status, financial situation or cultural background. For Māori the preference may be to live alone close to a marae

where they can mix with other Māori of different ages and undertake cultural activities (Kēpa, Wiles and Wild, 2011).

**Are older people living alone satisfied with their life and having a meaningful life?**

While older people have similar human needs to those in middle age,

they can be distinguished by two unique characteristics: maturity and diminishing reserve (Koopman-Boyden, 1988, p.699). It is these characteristics that determine their motivations and strategies to adopt a particular lifestyle, be it living alone, with family members or in group housing. The concept of ‘maturity’ relates to the person’s life experiences through work and family life, which provide them with wisdom and skills to adapt to life situations. Along with possessing maturity, older people have to cope with ‘diminishing reserve’ – biological, social, economic and political. Older people have different abilities (or inabilities) to cope with changes in their health, social engagement, living arrangements, paid and unpaid work, financial situations and civic participation. Within the cohort of older people there is huge diversity in these characteristics which differentiate them from other age groups (Gaymu and Springer, 2010; Kēpa, Wiles and Wild, 2011; O’Sullivan and Ashton, 2012).

Such diversity could well obscure the levels of satisfaction, well-being and meaningful life that are currently being explored internationally and in New Zealand. Findings show that people who live alone as a group are not as happy or as satisfied with their lives as those who live with a partner or with others (Merz and Huxhold, 2010; Netuveli et al., 2006). This also applies to older people. A 2007 survey of New Zealanders aged 65–84 showed higher overall levels of satisfaction with life for couples than for people who lived alone or with others (van der Pas, 2009). Even so, a 2012 survey showed that 72% of older people living alone never feel isolated (Statistics New Zealand, 2014b).

Older people who live alone can nevertheless live a meaningful life, even though ‘meaningful life’ is difficult (impossible?) to measure and to assess, given its qualitative and subjective nature. In the Active Ageing research project (Koopman-Boyden, 2014),<sup>1</sup> the concept of a ‘meaningful life’ for an older person is ‘a life where the person living it has a sense of purpose or motivation, and a feeling of significance’. Among research

participants in this project who lived alone, almost all agreed that their life had 'meaning'. They may not have been totally satisfied with getting older or with living alone, with their housing or mobility, but they were adamant that their life was meaningful in this sense.

Many of the older people noted that a solo lifestyle gave them freedom, which allowed them considerable choice and control in the use of time, resources (personal and economic) and social engagement. Living alone also provided them with the *motivation* to 'do what we want, when we want, and how we want', and they 'wouldn't have it any other way', or had 'got used to it' and would 'not change now'. Studies in the US and European countries (such as Sweden and Norway) also support this conclusion that freedom and independence are the key motivators for continuing to adopt a solo lifestyle (Gillsjö, Schwartz-Barcott and von Post, 2011; Portacolone, 2011; Sundsli, Espnes and Söderhamn, 2013).

Living alone also gave the older people a 'feeling of significance', including an identity characterised by being able to manage their life on their own and engage in activities of their choice, leading to achievement, belonging and being valued. While some drew significance from past achievements, others drew significance from their current activities when they led to achievements such as a productive garden or learning to use a new skill (Yetter, 2003; Reichstadt et al., 2010; Lundman et al., 2012). Furthermore, engaging in paid or voluntary work gives older people living alone a sense of belonging (Tsang, Liamputtong and Pierson, 2004), being seen as contributing to the community and rewarded with appreciation, along with the feeling of being valued (Dale, Söderhamn and Söderhamn, 2012; Rolls et al., 2010).

#### **Strategies for living alone as an older person and achieving a meaningful life**

Thus, for some older people, living alone can be a way of achieving independence. Having attained this, they often establish strategies to enable them to achieve a meaningful life (especially at the 'maturity' level). The solo lifestyle allows the development of relationships at three levels:

*Personal activities (self-relationship):* self-care – doing things by/for themselves; personal care, exercise; learning new skills; hobbies or sports; household tasks – housework, gardening, cooking; managing daily routine.

*Social interaction (interpersonal relationship):* contact with family and friends, especially grandchildren; social clubs/groups; marae involvement.

*Public/community (public relationship):* paid work; volunteering and unpaid work; intergenerational activities.

In the pursuit of a meaningful life, older people living alone engage in strategies to maintain social connectedness through established interpersonal relationships with family and friends. Having grandchildren provides a family role and a reason for regular visits. Some choose to live close to a family member or close friend, providing the security that someone is available to help them and stay overnight. It also allows for companionship and having meals together. This arrangement was observed in the Active Ageing interviews, especially among older Māori living alone. Many join clubs that allow them to pursue their hobbies in a social environment.

Older people living alone continue to have a relationship with the public through voluntary work. People aged 65 and over constituted 16% of volunteers in 2010, and this grew to 19% in 2012 (Statistics New Zealand, 2014c). Older Māori expect to be involved in intergenerational activities on the marae, passing on their cultural practices to younger people. As well, many older people continue in the labour force, with participation rates for older men increasing from 21.3% in December 2009 to 27.9% in December 2013, and for women from 11.6% to 15.2% in the same time period (Statistics New Zealand, 2014d).

Although older people may have diminishing reserves, at the level of self-relationships (personal activities) most still do things by and for themselves with a sense of purpose and achievement and with self-determination. This includes managing a daily routine of personal care, maintaining health, household tasks and activities of leisure and pleasure. For

older people living alone can provide the opportunity and freedom to learn a new skill or sport, and to engage in meaningful social activities with other people (Yetter, 2010). Maintaining control over their lives contributes to the older person's sense of self-esteem and helps to preserve their identity, autonomy and dignity (Gillsjö, Schwartz-Barcott and von Post, 2011; Petry, 2008).

#### **Current and suggested policies for supporting older people living alone**

In societies with a large proportion of older people, many of whom are living alone, policies may be developed to enable a lifestyle of independent and active living. In New Zealand such policies include New Zealand Superannuation, allowing for financial independence; ageing-in-place policies providing support for older people to live in their own homes as long as possible; access to public transport through the SuperGold card; and health and housing subsidies. Such policies recognise both the maturity and diminishing reserve of older people.

The Active Ageing research asked older people who lived alone to suggest improvements to existing policies and new policies (at all levels). The following are some of their suggestions.

##### *Support for financial independence*

While most participants did not have an absolute lack of money, several of them (especially women) expressed the need to be able to better manage financial matters and/or deal with possible financial abuse. Policy suggestions included advice on budgeting and managing finances and assets; assistance with preparing enduring power of attorney papers; and simpler procedures for reporting financial abuse.

##### *Support for health independence*

While older people benefit from a diverse set of health programmes, policy suggestions from the interviews included basic hearing and eye tests in regular health checks; doctors who communicate clearly; and wider access to fall prevention tools/measures and appropriate installation.

##### *Supporting emergency preparedness*

Interviews with older people living alone revealed that while they were taking steps to prepare for personal health emergencies,

many were rather complacent about community emergencies such as burglaries or natural disasters, with the attitude 'I have coped before, I can again'. Policy suggestions from the interviews included encouragement to use personal health alarms (for example, St. John's medical alarms, Age Concern life tubes, Eco Lite Dynamo emergency kits) and house alarms (burglar and smoke alarms, temperature and flood detectors); regular fire/smoke alarm compliance checks; and greater recognition of older people as a resource in emergencies.

#### *Supporting housing maintenance*

Older people living alone clearly identified household maintenance as an area that needed further policy intervention. While a number had downsized their houses, many were in need of assistance with relatively small tasks such as changing a light bulb or plumbing maintenance. Policy suggestions included greater availability of single-person, low-maintenance houses with small garden plots, and maintenance volunteers (e.g. 'make-over groups' or housekeeper robots); an assessment service for maintenance needs, coordinated with service providers; and integration of new technology in housing units – e.g. alarms, lighting and heating – and support for universal design.

#### *Supporting social connectedness*

While those living alone may have a reasonable level of social connectedness, maintaining contact and engagement are extremely important for achieving a meaningful life. Policy suggestions included support in building social

networks by delivering information about social clubs, interest groups, volunteering activities etc., and assisting people to make contact with such groups; programmes/courses for those starting to live alone (such as the church-sponsored Widowed, Separated and Divorced programme); a regular weekly 'senior's hour' for morning tea/brunch at local cafés; community-based courses for skill-building in internet use, Skype and other new technologies. Many of these suggestions could be initiated through websites, illustrating the need for older people to embrace the new technologies, especially when they live alone.

#### **Conclusion**

The increasing trend in modern society for adults to live alone arises from greater longevity and changes in familial and marital values, and is supported by structural changes to housing, transport and social networking, along with public policies to encourage ageing in place. A significant proportion of older people are in one-person households, and with the increasing trend for the middle-aged to live alone this could become an even more dominant lifestyle.

While levels of life satisfaction among people living alone (at all ages) are generally lower than among people who are partnered or living with others, this does not necessarily mean that older people are unhappy with their solo status. Their lives spent living alone can be 'meaningful' (Koopman-Boyden, 2014) and many choose to continue living alone despite the possible alternatives of being with family or in group housing.

Meaningful life for older people is attained through their freedom and independence, allowing for the pursuit of active ageing and participation.

As the numbers of older people living alone continue to increase, policy responses are called for. In New Zealand the 'ageing in place' policy has meant that living alone is possible and a viable option even for older people who need support, but the margin of cost-effectiveness between this policy and a policy of institutional care will have to be closely monitored. The introduction of an array of assessment tools (interRAI, Casemix) should help to ensure this.

While the aim of New Zealand's public policy for older people is for them to be 'healthy, independent, connected and respected' (Office for Senior Citizens, 2013), policies need to recognise the heterogeneity of current cohorts and match their different expectations of life. A longer life expectancy free of disabilities, with the maturity of older age and the desire for freedom is resulting in a variety of different lifestyles. Public, private and community infrastructures may need to be strengthened to enhance meaningful life for those living alone. Policies need to recognise both the maturity and experience of older people by allowing continuity of their chosen lifestyles, while providing care opportunities for those with diminishing reserve.

<sup>1</sup> This paper draws on findings on aspirations for a meaningful life among older people living independently from a project on Active Ageing funded by the Ministry of Business, Innovation and Employment. In 2013–2014, 43 people aged 65 and over who live alone were interviewed in focus groups and individual interviews conducted in the Waikato region. The participants ranged in age from 69 to 92, including six men and 37 women; four people identified as Māori.

#### **References**

- Bascand, G. (2010) *National Family and Household Projections: 2006 (base)–2031 update*, Wellington: Statistics New Zealand
- Birnholtz, J. and M. Jones-Rounds (2010) 'Independence and interaction: understanding seniors' privacy and awareness needs for aging in place', paper presented at the CHI 2010 conference, Atlanta, Georgia, 10–15 April
- Dale, B., U. Söderhamn and O. Söderhamn (2012) 'Life situation and identity among single older home-living people: a phenomenological-hermeneutic study', *International Journal of Qualitative Studies on Health and Well-being*, 7, doi:10.3402/qhw.v7i0.18456
- Daly, M. (2005) 'Changing family life in Europe: significance for state and society', *European Societies*, 7 (3), pp.379-98, doi:10.1080/14616690500194001
- Davey, L., V. de Joux, G. Nana and M. Arcus (2004) *Accommodation Options for Older People in Aotearoa/New Zealand*, Wellington: New Zealand Institute for Research on Ageing/BERL for the Centre for Housing Research and Evaluation, Ministry of Social Development
- de Vaus, D. (2009) *Diversity and Change in Australian Families: statistical profiles*, Melbourne: Australian institute of Family Studies

- Dickens, A.P., H.S. Richards, C.J. Greaves and J.L. Campbell (2011) 'Interventions targeting social isolation in older people: a systemic review', *BMC Public Health*, 11, <http://www.biomedcentral.com/1471-2458/11/647>
- Falkingham, J., D. Demey, A. Berrington and M. Evandrou (2012) 'The demography of living alone in mid-life: a typology of solo living in the United Kingdom', paper presented at the European Population Conference, Stockholm, 13–16 June, [http://eprints.soton.ac.uk/340401/1/Falkingham\\_et\\_al.\\_-\\_The\\_Demography\\_of\\_Living\\_Alone\\_in\\_Mid-life.pdf](http://eprints.soton.ac.uk/340401/1/Falkingham_et_al._-_The_Demography_of_Living_Alone_in_Mid-life.pdf).
- Fokkema, T. and A.C. Liefbroer (2008) 'Trends in living arrangements in Europe: convergence and divergence', *Demographic Research*, 19, pp.1351-418
- Gaymu, J and S. Springer (2010) 'Living conditions and life satisfaction of older Europeans living alone: a gender and cross-country analysis', *Ageing and Society*, 30 (7), pp.1153-75, doi:10.1017/S0144686X10000231
- Gillsjö, C, D. Schwartz-Barcott and I. von Post (2011) 'Home: the place the older adult cannot imagine living without', *BMC Geriatrics*, 11, <http://www.biomedcentral.com/1471-2318/11/10>
- Kēpa, M., J. Wiles and K. Wild (2011) *Resilient Ageing in Place Older Māori: report and recommendations*, Auckland: University of Auckland
- Klinenberg, E. (2012) *Going Solo: the extraordinary rise and surprising appeal of living alone*, New York: Penguin
- Koopman-Boyden, P.G. (1988) 'Perspectives on the elderly in New Zealand', in *The April Report*, Wellington: Royal Commission on Social Policy
- Koopman-Boyden, P.G. (2014) *Aspirations for a Meaningful Life of Older People Living Alone*, Active Ageing project, University of Waikato, report to the Ministry of Business, Innovation and Employment (forthcoming)
- Lundman, B., L. Aléx, E. Jonsén, H. Lövhelm, B. Nygren, R.S. Fischer, G. Strandberg and A. Norberg (2012) 'Inner strength in relation to functional status, disease, living arrangements, and social relationships among people aged 85 years and older', *Geriatric Nursing*, 33 (3), pp.167-76
- Melson, G. F., P.H. Kahn Jr, A. Beck and B. Friedman (2009) 'Robotic pets in human lives: implications for human-animal bond and for human relationships with personified technologies', *Journal of Social Issues*, 6 (3), pp.545-67
- Mertz, E.M. and O. Huxhold (2010) 'Wellbeing depends on social relationship characteristics: comparing different types and providers of support to older adults', *Ageing and Society*, 30 (5), pp.843-57
- Netuveli, G., R.D. Wiggins, Z. Hildon, S.M. Montgomery and D. Blane (2006) 'Quality of life at older ages: evidence from English Longitudinal Study of Ageing (Wave 1)', *Journal of Epidemiology and Community Health*, 60 (4), pp.357-63
- Office for Senior Citizens (2013) *Older New Zealanders: healthy, independent, connected and respected*, Wellington: Ministry of Social Development
- O'Sullivan, J and T. Ashton (2012) 'A minimum income for healthy living (MIHL) – older New Zealanders', *Ageing and Society*, 32, pp.747-68, doi:10.1017/S0144686X11000559
- Petry, H. (2008) 'Aging happens: experiences of Swiss women living alone', *Journal of Women and Ageing*, 15 (4) pp.51-68, doi:10.1300/J074v15n04\_05
- Portacolone, E. (2011) 'The myth of independence for older Americans living alone in the Bay area of San Francisco: a critical reflection', *Ageing and Society*, 31 (5), pp.803-28
- Reichstadt, J., G. Sengupta, C.A. Depp, L.A. Palinkas and D.V. Jeste (2010) 'Older adults' perspectives on successful aging: qualitative interviews', *American Journal of Geriatric Psychiatry*, 18 (7), pp.567-75
- Reimondos, A., A. Evans and E. Gray (2011) 'Living-apart-together (LAT) relationships in Australia', *Family Matters*, 87, pp.43-55
- Robinson, B. (2007) *Ageing in Place: making it real*, Auckland: Presbyterian Support Northern
- Rolls, L., J.E. Seymour, K.A. Froggatt and B. Hanratty (2010) 'Older people living alone at the end of life in the UK: research and policy challenges', *Palliative Medicine*, 25 (6), pp.650-7
- Roseneil, S. (2006) 'On not living with a partner: unpacking coupledom and cohabitation', *Sociological Research Online*, 11 (3), doi:10.5153/sro.1413
- Sobotka, T. and L. Toulemon (2008) 'Changing family and partnership behaviour: common trends and persistent diversity across Europe', *Demographic Research*, 19 (6), pp.85-138, doi:10.4054/DemRes.2008.19.6
- Statistics New Zealand (2013) 2013 Census quick stats about national highlights, [www.stats.govt.nz](http://www.stats.govt.nz)
- Statistics New Zealand (2014a) 2013 Census of population and dwellings: census night areas (2013) and ethnic group (total responses) by age and sex for the number of usual residents in one person households, aged 15 years and over, customised data, job-05278
- Statistics New Zealand (2014b) Safety and loneliness by gender age and family type, 2012, <http://nzdotstats.stats.govt.nz/wbos>
- Statistics New Zealand (2014c) Civic participation by family type, age and strength of feeling of belonging to New Zealand, 2010, 2012 NZGS <http://nzdotstats.stats.govt.nz/wbos>
- Statistics New Zealand (2014d) Household Labour Force Survey: March 2014 quarter, [http://www.stats.govt.nz/browse\\_for\\_stats/income-and-work/employment\\_and\\_unemployment/HouseholdLabourForceSurvey\\_HOTPMar14qtr.aspx](http://www.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/HouseholdLabourForceSurvey_HOTPMar14qtr.aspx)
- Sundli, K., G.A. Espnes and O. Söderhamn (2013) 'Being old and living alone in urban areas: the meaning of self-care and health on the perception of life situation and identity', *Psychology Research and Behavior Management*, 6, pp.21-7
- Tsang, E.Y.L., P. Liamputtong and J. Pierson (2004) 'The views of older Chinese people in Melbourne about their quality of life', *Ageing and Society*, 24, 51-74, doi: 10.1017/S0144686X03001375
- van der Pas, S. (2009) 'Living arrangements, ageing in place and well-being among older New Zealanders', in P. Koopman-Boyden and C. Waldegrave (eds), *Enhancing Wellbeing in an Ageing Society*, Lower Hutt: Population Studies Centre, University of Waikato, and Family Centre Social Research Unit
- Yetter, L.S. (2003) 'The experience of older men living alone', *Geriatric Nursing*, 31 (6), pp.412-8

# Old and Poor or Old and Cared for?

## Some policy reflections on data from the first two waves of NZLSA

### Introduction

It is customary in New Zealand policy circles to assume that older citizens are financially protected by New Zealand Superannuation (NZS) and their high rates of home ownership. Furthermore, it is assumed that families with children are much more at risk of living below one or more of the various poverty thresholds. The evidence supports this belief and there is, of course, an urgent need to address child poverty. However, the status of NZS and home ownership as protective factors for older people in the years

ahead is not guaranteed. They could both be substantially eroded, turning two of New Zealand's fine policy achievements into a disaster if they are not properly attended to. So the critical policy challenge is to eliminate child poverty, while preserving the gains achieved for older New Zealanders. This requires considerable policy focus, given the demographic changes that New Zealand is currently undergoing.

Ageing is a critical driver of the demographic changes taking place in New Zealand, as the post-war baby boomers populate the 65-plus age group in large numbers. Projections from Statistics New Zealand (middle series) indicate that 100,000 people aged 65 and over will be added to the population every five years from 2011 to 2036 (Statistics New Zealand, 2007). The 2013 census

---

Charles Waldegrave is the leader of the Family Centre Social Policy Research Unit in Lower Hutt, Wellington and coordinator of the Family Centre Pākehā (European) section. He is a principal investigator in the New Zealand Longitudinal Study of Ageing (NZLSA) research project.

has shown that that process has well and truly begun. During the intercensal period 2006–2013 the population aged 60–64 increased by 30%, those aged 65–69 by 32% and those 85 years and over by 29% (Statistics New Zealand, 2013a). The largest increase is expected to take place in the decade 2021–2031, when an extra 276,000 people are projected to move into the older age group (Statistics New Zealand, 2005, 2007). The percentage of those aged 65 and over has increased from 12% in 2006 to 14% in 2013, and is expected to comprise a quarter of the population by 2051.

This extraordinary demographic shift is largely driven by post-war fertility rates, advances in medical science, and people living in healthier ways and consequently living longer. Life expectancy at birth in New Zealand for women is 83 years and for men 79 years. This represents an increase of seven years for women and nine years for men over the three decades 1980–82 to 2010–12 (Statistics New Zealand, 2014). Policy experts have had a field day talking up the threats to the New Zealand economy and our way of life, characterising the population changes as a silver tsunami. The fears have centred largely on the cost of NZS and health costs, as there will be fewer people of working age to support a larger number of older citizens.

It is not the purpose of this article to evaluate these arguments, but suffice to say that a number of the assumptions of the gloom merchants fail to take into account a range of other factors, including the increasing numbers of people 65 and over in the labour market and paying taxes; the fact that the big spend on health tends to be at the end of life, and this has been delayed rather than elongated; the substantial contribution in family care and voluntary hours made by older citizens; and the simple matter that many of the risks can be planned for and mitigated.

A tsunami implies a natural disaster with profoundly destructive consequences. But need we look at it that way? The wave is growing but it stretches over many years. It can be planned for and it will create its own opportunities. As the *Economist* so cleverly put it, smart policy

may enable us to ride the silver wave with all the agility of bronzed surfers.

The purpose of this article is to present an analysis of the income, poverty, asset accumulation, housing tenure and well-being data in the first two waves of the New Zealand Longitudinal Study of Ageing (NZLSA) in order to better understand the living standards and experience of well-being for the total sample 50 years and over, and separately for those 65 years and over.

#### **Income, poverty and housing**

Older people in New Zealand are generally considered to have an adequate, if not a high, standard of living when compared with those living in similar countries. This is largely because of a universal pension policy, a history of home ownership, and a reasonably accessible, though by no means perfect, health service. NZS is universal and indexed to movements of the average wage. Hovering around 50% of median disposable household income, it currently sits very close to the OECD poverty line and is usually just above it. It is, however, well below the European Union income indicator of social exclusion, which is 60% of median household disposable income.

NZS is the right of New Zealand citizens and permanent residents (certain residential criteria apply) on reaching 65 years of age, and is gender neutral in the sense that work history and the level of

income and contributions do not apply as they do in most other countries. Until recently New Zealand has had a high level of home ownership, which has allowed the vast majority of older people to live in mortgage-free houses.

When non-income indicators of material living standards are used in surveys, a picture of New Zealanders' material circumstances emerges alongside income circumstances. These surveys include questions about ownership of household durables and their quality, the ability to keep the house warm and to pay the bills, to afford fruit and vegetables, adequate clothing, to pay for a night out, and so on. Interestingly, older New Zealanders (aged 65 plus) have the most favourable distribution of living standards of all age groups. In the most recent survey carried out by the Ministry of Social Development, applying the Economic Living Standards Index (ELSI), the older population has the highest mean score and the lowest hardship rate (Perry, 2009). This probably reflects the combined effect of NZS and their asset accumulation, including their home and other savings. The positive impact of NZS is demonstrated by hardship figures: for the 45–64-year-olds the hardship rate is 23%, higher than that of the 65-plus group (4%), despite the fact the 45–64-year-olds have the highest overall incomes.



4 Feb 2010 | From the *Economist* print edition

**Table 1: Gross personal and household median income by age bracket waves 1 & 2**

Median Income	2010	2012
50–87 years Personal	\$40,232	\$34,183
65–87 years Personal	\$24,025	\$26,000
50–87 years Household	\$67,600	\$62,980
65–87 years Household	\$39,634	\$46,000

Source: New Zealand Longitudinal Study of Ageing

It is of considerable interest to policy makers, and of great concern to older people and their families, that they have sufficient economic resources to maintain a reasonable standard of living. Poverty studies have demonstrated that the older population are better protected from poverty and hardship than other population groups (Waldegrave, Stephens and King, 2003; Perry, 2013). This does not mean they are well off by comparison, but that there are fewer people in serious poverty at the lower income end. These same poverty studies also demonstrate the impact of housing tenure. The numbers of households with older people living below the poverty threshold drops considerably when housing costs are taken into account. This is largely due to the lower housing costs for the vast majority who are mortgage-free. Renters are much more likely to be in poverty than home owners for all age groups.

In New Zealand Waldegrave and Cameron (2007) reported positive associations between income and well-being among older people. Research in countries similar to New Zealand, including Australia (Headley and Wooden, 2004), the UK (Netuveli et al., 2006; Gabriel and Bowling, 2004) and Sweden (Pinquart and Sorensen, 2000; Borg, Hallberg and Blomqvist, 2006; Berg et al., 2009), has found similar results, as has a Taiwan study (Hsu, 2010). Higher levels of income, financial satisfaction and wealth were associated with a better quality of life in old age. Netuveli et al. noted that 'perceiving financial circumstances to be poor had a very high effect on lowering quality of life scores ... while owning cars and being on the high end of income distribution improved quality of life scores' (Netuveli et al., 2006, p.360). However, they also found that this association changed over time and was less significant for those 75 years and older. Worrying about finances

may reduce quality of life among older people, as can financial restrictions on activities or access to basic resources and necessities, such as medication or medical appointments (Gabriel and Bowling, 2004; Pinquart and Sorensen, 2000).

Other researchers have found a less clear relationship between quality of life and financial security, satisfaction or income. Wilhelmson et al. (2005), in a Swedish study, found that finances and worrying about finances were the least mentioned factors in a quality of life survey among the elderly, and were cited by only 5% of men and 10% of women in response to an open-ended question 'what is quality of life?' Similarly, Depp and Jeste (2006), in a review of 28 studies of successful ageing, found that income and education were not consistently associated with successful ageing.

As with income studies, Kohli, Künemund and Zähle (2005) in their analysis of the Survey of Health, Ageing and Retirement in Europe (SHARE) database noted that home ownership was associated with larger and better homes, and, because mortgage payments usually decrease over time, it contributed to economic and emotional security. Similarly, in a large British study of the association of quality of life in old age with socio-economic position, Breeze et al. (2004) found that, among respondents who lived independently, owner-occupiers were less likely to have poor quality of life. Changing tenure to renting in later years, after most of one's adult life had involved owner-occupation, carried significantly greater chances for three out of five bad quality of life outcomes, while movement from renting to ownership, by contrast, reduced the chances of two of the bad quality of life outcomes.

In this study we wanted to see: if the same patterns of income and asset accumulation noted above occurred in the NZLSA database; how extensive poverty

is among those aged 50 years and over; the extent of housing tenure differences; and the relationship of all these to older people's experience of well-being and quality of life. Furthermore, what are the implications of these results for future well-being?

### Methodology

The New Zealand Longitudinal Study of Ageing began wave 1 with a national random sample of 3,317 New Zealanders aged between 50 and 84 in 2010, and retained 3,015 participants for the second wave in 2012. A comprehensive postal questionnaire containing scales and questions on general health, social support, care-giving roles, financial well-being, neighbourhood characteristics and demographic information was sent to all participants. Among the sets of questions used in this study were two well-being (quality of life) scales, a health scale with physical and mental health components, and a depression scale. These were WHOQoL-8,<sup>1</sup> CASP-12,<sup>2</sup> SF-12<sup>3</sup> and the CES-D-10<sup>4</sup> scales. Questions concerning income and housing tenure were asked,<sup>5</sup> and three poverty measures were used.

### Income

The results in Table 1 show median personal and household incomes for people 65–87 to be much lower in both waves 1 and 2 than for the total sample (50–87 years). In 2012 nearly 80% of median personal income for the 65–87 group was derived from NZS, which demonstrates how much the older population depends on it. Around 60% of household income was derived from NZS.

The cushioning effect of NZS is also demonstrated in Table 1. The total sample lost income over the two waves, probably because of the ongoing impact of the global financial crisis. However, it is interesting to note that if the age 65–87 sub-sample is looked at independently the trend runs in the opposite direction, as their incomes increased. This is probably because a substantial amount of their income derives from NZS, which is benchmarked to wage rises and protected from most of the impact of market fluctuations.

### Poverty

Three income poverty thresholds were applied to the data in order to determine how many households were experiencing hardship. These were:

- the OECD 50% of median, equivalent, disposable household income measure;
- the European Union 60% of median, equivalent, disposable household income as applied in the EU as the income indicator of social exclusion;
- the New Zealand constant value threshold benchmarked to 60% of the 2007 median, adjusted for the cost of living for each subsequent year. Housing costs are estimated to be 25% of household income (Perry, 2013).

For people aged 65–87, the NZLSA data show a decrease in poverty between 2010 and 2012 on the two totally relative measures, and an increase in the constant value after-housing-costs measure. Table 2 shows that for the 50% of median household disposable income threshold, poverty decreased from 14.5% to 11.8%, and for the 60% measure poverty decreased from 36.7% to 30.1% over the two-year period. The constant value measure that takes housing costs into account demonstrated an increase in poverty over the same period from 17.5% to 21.1%.

The impact of high home ownership and consequent lower housing costs among the older population is illustrated in the third measure. The poverty levels are considerably lower than for the second measure, which is simply based on 60% of median household income, without adjusting for housing costs. For the total sample of ages 50–87 years, households below the 50% of median poverty threshold decreased between 2010 and 2012 from 12.5% to 11.2%. However, for the 60% mark the proportion of households in poverty increased (22.6% to 26.2%), and for the third measure the proportion also increased, from 16.3% to 19.7%.

The poverty rates of the sub-sample of 65-plus years were higher than for the total sample on every measure, although in some instances the differences were small. Despite this, as noted above the

**Table 2: percentage of 50- to 87-year-olds below different poverty thresholds**

	2010		2012	
	50–87	65–87	50–87	65–87
Equivalent, disposable, household income				
50% of median	12.5	14.5	11.2	11.8
60% of median	22.6	36.7	26.2	30.1
60% of constant value threshold after housing costs estimated at 25% of income	16.3	17.6	19.7	21.1

Source: New Zealand Longitudinal Study of Ageing

incidence of poverty for this older group actually decreased on the straight income measures between the two waves. It was the third measure, which takes housing costs into account, that increased, probably reflecting a proportional climb in housing costs in 2012.

### Housing tenure

Home ownership for the total sample of 50–87-year-olds was very high in both waves, as the owned with and without a mortgage and the family trust categories in Figure 1 show. These three categories totalled 90% in 2010 and 91% in 2012. Only 8.5% were renting or boarding in 2010 and 7.7% in 2012.

### Well-being and health

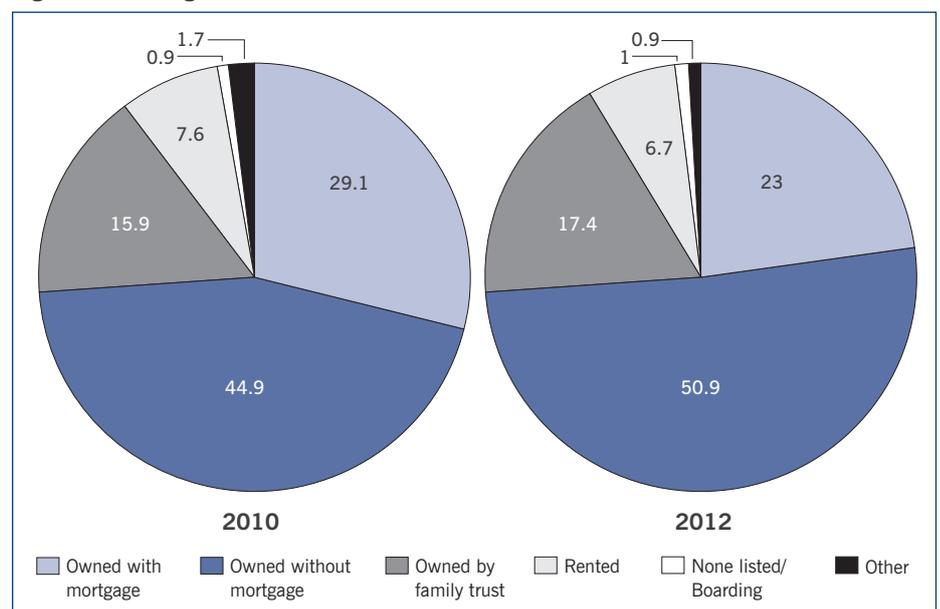
We tested the relationships for the total sample between those above and below all three poverty thresholds in waves 1 and 2 with well-being and quality of life measures, applying two well-used, internationally-applied scales, WHOQoL-8 and CASP-12. WHOQoL-8 focused primarily on

questions of satisfaction, whereas CASP-12 identifies broader areas relating to control, autonomy, self-actualisation and pleasure. We found significant relationships in both waves between all three poverty measures and the well-being scales, with substantially lower well-being scores for those below the poverty threshold.<sup>6</sup> Interestingly, the WHOQoL-8 and CASP-12 well-being responses both produced similar results.

We then went on to test the relationship of those above and below the 60% constant value poverty threshold applying the SF-12 physical and mental health scales and the CES-D-10 depression scale for both waves 1 and 2. Again, we found significant relationships between the poverty threshold and both the health and depression scales, with substantially lower health and higher depression scores for those below the poverty threshold.<sup>7</sup>

We decided to further investigate the impact of poverty on well-being by estimating a linear regression, using well-being as the dependent variable and data

**Figure 1: Housing tenure in 2010 and 2012**



Source: New Zealand Longitudinal Study of Ageing

**Table 3: Private dwelling by household tenure (%)**

Census	Owner-occupied <sup>11</sup>	Rented
1991	73.6	23.1
1996	70.5	25.6
2001	67.8	29.0
2006	66.9	28.9
2013	64.8	31.2

Source: Statistics New Zealand, 2013b

we had on poverty, asset accumulation and housing tenure as the three independent variables, for waves 1 and 2. The results applying the CASP-12 scale showed a significant negative association between poverty and well-being and a significant positive association between asset accumulation and well-being.<sup>8</sup> Those below the poverty threshold and those with fewer assets had lower well-being scores.

Finally, we estimated two linear regressions using physical health as the dependent variable for the first and the depression scale for the second, and the three factors as the independent variables, for waves 1 and 2. The results applying the SF-12 physical component and CES-D-10 scales showed similar significant associations with poverty and asset accumulation. The association with housing tenure was not significant for physical health,<sup>9</sup> and significant, but not strong, for depression.<sup>10</sup>

### Discussion and policy implications

The well-being or quality of life of citizens is a primary goal of social and economic policy. In this study two quite different well-being/quality of life scales were applied and both demonstrated similar results, showing that when older people drop below a recognised poverty threshold their quality of life reduces.

Good health is another major goal of social policy, and ill-health impacts severely on fiscal policy and government costs. Likewise, depression is a state of mind that leaves people more susceptible to mental and physical ill-health and a negative view of their quality of life. These results reveal the negative impact of poverty on health status.

There are consistent, statistically significant relationships between

being below a poverty threshold and the reduction of well-being/quality of life, physical and mental health and depression. Low incomes and low asset accumulation were consistently associated with low levels of well-being, low levels of physical and mental health and higher levels of depression. The housing tenure variable was not as consistent, but it did show an association with depression.

The income and poverty results in this study show that a not insubstantial number of older citizens drop below each of the standard poverty thresholds. The numbers below the threshold range from 12% to around a third depending which measure is applied. Furthermore, the median income results demonstrate how reliant many of those above the lines are on NZS for their current living standards. Given the substantial demographic shift that New Zealand and most countries are currently undergoing, there is cause for concern. By 2050 around a quarter of the population are expected to be 65 years or older. Questions concerning the savings behaviour of New Zealanders and the sustainability of NZS are being raised (Stroombergen, 2013; Commission for Financial Literacy and Retirement Income, 2013). There are some serious threats and challenges for the 'baby boomers' as they age, and it is not a good omen that the New Zealand government has taken a six-year holiday from contributing to the New Zealand Superannuation Fund. The fund was designed specifically to enable a smoother transition to a time when a greater proportion of GDP will have to be set aside to support a vastly increased number of superannuitants.

Nor does the trend of reducing home ownership, as displayed in Table 3, offer any comfort. Mortgage-free homes have been critical to preventing many older New Zealanders from dipping below the poverty threshold when they cluster so close to the internationally-set poverty lines.

The census housing tenure data demonstrate the emerging problem. In future a larger number of older people will not own their own home and are likely to be much more subject to rental market prices and fluctuations than older citizens today. Table 3 demonstrates a decrease

of almost 10% in home ownership over the last 22 years. There is no sign that this trend is arresting. Furthermore, the current provision of social housing in New Zealand is not adequate to protect the numbers of older people expected to be renting in their later years (Housing Shareholders Advisory Group, 2010).

If older people drop below the poverty threshold in larger numbers in the future, it can be expected that their quality of life will reduce and their health will deteriorate. Currently we have a very serious problem with the levels of child poverty in New Zealand, and every effort needs to be made to address it. It is important, though, that the quality of life older people have experienced in New Zealand is not compromised by neglect of the threats that lie ahead. People at both ends of the life cycle require attention because they are so much more vulnerable than most of the population between them. Policies for older New Zealanders need to focus on income stability through a combination of saving incentives and ensuring NZS maintains its value relative to average earnings. Policies also need to focus on future housing need as home ownership declines. KiwiSaver is making an important contribution to savings. Attention could also be given to making NZS sustainable by a resumption of contributions to the New Zealand Superannuation Fund. Finally, the stock of social housing will need to be built up substantially if it is to have the capacity to provide adequate accommodation for older people who can be expected to require it in the future.

- 1 WHOQoL-8 is a World Health Organisation quality of life instrument that assesses subjective well-being. Eight questions inquire into participants' satisfaction with various aspects of their health and physical and social lives. A five-point scale is used, ranging from very satisfied to very dissatisfied.
- 2 CASP-12 is a quality of life measure of well-being developed for older people which spans four domains of control, autonomy, self-realisation and pleasure (hence CASP). Twelve questions inquire into the four domains, using a four-point scale ranging from often to never.
- 3 The SF-12 is a generic health status measure of health outcome in a wide variety of patient groups and social surveys. It was developed from the SF-36 to enhance response rates by reducing patient burden without decreasing reliability. The 12-item questionnaire has two components: a physical component summary score (PCS) and a mental health component summary score (MCS).
- 4 The CES-D-10 scale is a short, self-report scale designed to measure depressive symptomatology in the general population. The items of the scale are symptoms associated with depression which have been used in previously-validated longer scales.
- 5 Care was taken to separate pre- and post-tax incomes, and individual and household incomes. A question on

- the composition of each household was asked, enabling equivalence scales to be used. The scale applied to the household income data was the Jensen Revised Equivalence Scales (Jensen, 1988), which are the most commonly used in New Zealand. The question on housing tenure offered three ownership options (owned without a mortgage, owned with a mortgage and owned by a family trust) and three non-ownership options (renters, boarders and other).
- 6 50% of median, equivalent, disposable household income – T-test statistic had a p-value of <0.001, as did the other two measures for both well-being scales.
- 7 SF-12 physical health – T-test statistic had a p-value of <0.001, as did the SF-12 mental health and the CES-D-10 depression scores.
- 8 The F-test statistic had a p-value of <0.001 for both waves. This tested the whole model. The T-test of significance of the poverty and asset accumulation tenure coefficients in front of each variable had a p-value of <0.001 for both waves. However, the housing tenure coefficient showed no significant relationship in 2010 and 2012.
- 9 The F-test statistic had a p-value of <0.001 for both waves testing the whole model. The T-test of significance of the poverty and asset accumulation coefficients in front of each variable had a p-value of <0.001 for both waves. However, the housing tenure coefficient showed no significant relationship in 2010 and 2012.
- 10 The F-test statistic had a p-value of <0.001 for both waves testing the whole model. The T-test of significance of the poverty and asset accumulation coefficients in front of each variable had a p-value of <0.001 for both waves. The housing tenure coefficient showed a p-value of 0.001 in 2010 and 0.036 in 2012.
- 11 Includes dwellings owned by individuals or held in a family trust (from 2006).

## References

- Berg, A.I., L. Hoffman, L.B. Hassing, G.E. McClearn and B. Johansson (2009) 'What matters, and what matters most, for change in life satisfaction in the oldest-old? A study over 6 years among individuals 80+', *Aging and Mental Health*, 13 (2), pp.191-201, doi: 10.1080/13607860802342227
- Borg, C., I. Hallberg and K. Blomqvist (2006) 'Life satisfaction among older people (65+) with reduced self-care capacity: the relationship to social, health and financial aspects', *Journal of Clinical Nursing*, 15, pp.607-18
- Breeze, E., D.A. Jones, P. Wilkinson, A.M. Latif, A. Bulpitt, A. and E. Fletcher (2004) 'Association of quality of life in old age in Britain with socioeconomic position: baseline data from a randomised controlled trial', *Journal of Epidemiology and Community Health*, 58, pp.667-3
- Casey, B. and A. Yamada (2002) *Getting Older, Getting Poorer? A study of the earnings, pensions, assets and living arrangements of older people in nine countries*, OECD Labour market and social policy occasional paper 60, Paris: OECD
- Commission for Financial Literacy and Retirement Income (2013) *Focusing on the Future: report to Government*, Wellington: Commission for Financial Literacy and Retirement Income
- Department of the Prime Minister and Cabinet (2008) *Families in Australia 2008*, Canberra: Department of the Prime Minister and Cabinet
- Depp, C.A. and D.V. Jeste (2006) 'Definitions and predictors of successful aging: a comprehensive review of larger quantitative studies', *American Journal of Geriatric Psychiatry*, 14, pp.6-20
- Gabriel, Z. and A. Bowling (2004) 'Quality of life from the perspectives of older people', *Ageing and Society*, 24 (5), pp.675-91, doi:10.1017/S0144686X03001582
- Headley, B. and M. Wooden (2004) 'The effects of wealth and income on subjective well-being and ill-being', *Economic Record*, 80 (special issue, September), pp.S24-33
- Housing Shareholders Advisory Group (2010) *Home and Housed: a vision for social housing in New Zealand*, Wellington: Housing Shareholders Advisory Group
- Hsu, H-C. (2010) 'Trajectory of life satisfaction and its relationship with subjective economic status and successful aging', *Social Indices Research*, 99, pp.455-68, doi 10.1007/s11205-010-9593-8
- Kohli, M., H. Künemund and T. Zähle (2005) 'Housing and living arrangements', in A. Borsch-Supan et al., *Health, Ageing and Retirement in Europe: first results from SHARE*, Mannheim: Mannheim Research Institute for the Economics of Aging
- Netuveli, G., R.D. Wiggins, Z. Hildon, S.M. Montgomery and D. Blane (2006) 'Quality of life at older ages: evidence from the English longitudinal study of aging (wave 1)', *Journal of Epidemiology Community Health*, 60, pp.357-63, doi: 10.1136/jech.2005.040071
- Perry, B. (2009) *Non-income Measures of Material Wellbeing and Hardship: first results from the 2008 New Zealand Living Standards Survey, with international comparisons*, working paper 01/09, Wellington: Ministry of Social Development
- Perry, B. (2013) *Household Incomes in New Zealand: trends in indicators of inequality and hardship 1982 to 2012*, Wellington: Ministry of Social Development
- Pinquart, M. and S. Sorensen (2000) 'Influences of socioeconomic status, social network, and competence on subjective well-being in later life: a meta-analysis', *Psychology and Ageing*, 15 (2), pp.187-224, doi: 10.1037//0882-7974.15.2.187
- Statistics New Zealand (2006) *Demographic Trends 2005*, Wellington: Statistics New Zealand
- Statistics New Zealand (2007) *National Population Projections: 2006 (base)–2061*, Wellington: Statistics New Zealand
- Statistics New Zealand (2013a) Census QuickStats about national highlights: age and sex, <http://www.stats.govt.nz/Census/2013-census/profile-and-summary-reports/quickstats-about-national-highlights/age-and-sex.aspx>
- Statistics New Zealand (2013b) QuickStats about housing, <http://www.stats.govt.nz/Census/2013-census/profile-and-summary-reports/quickstats-about-housing.aspx>
- Statistics New Zealand (2014) New Zealand period life tables: 2010–12, [http://www.stats.govt.nz/browse\\_for\\_stats/health/life\\_expectancy/nz-period-life-tables-info-releases.aspx](http://www.stats.govt.nz/browse_for_stats/health/life_expectancy/nz-period-life-tables-info-releases.aspx)
- Stroombergen, A. (2013) *The Sustainability of New Zealand Superannuation: getting the starting point right*, Wellington: Infometrics Ltd for Financial Services Council
- Waldegrave, C. and M. Cameron (2009) 'Income, assets, living standards and housing', in P. Koopman-Boyden and C. Waldegrave (eds), *Enhancing Well-being in an Ageing Society*, Lower Hutt: Population Studies Centre, University of Waikato, and Family Centre Social Research Unit
- Waldegrave, C., R. Stephens and P. King (2003) 'Assessing the progress on poverty reduction', *Social Policy Journal of New Zealand*, 20 (June)
- Wilhelmson, K., C. Andersson, M. Waern and P. Allebeck (2005) 'Elderly people's perspectives on quality of life', *Ageing and Society*, 25, pp.585-600

Elizabeth Eppel

# Improving New Zealand Water Governance challenges and recommendations

*Water permeates ecosystems, jurisdictions, and communities, linking complex and emergent social, cultural, technological and economic systems.*

*– Russell, Frame and Lennox (2011), Old Problems, New Solutions*

Our lives and our livelihoods depend on fresh water. Our cities and the appeal of our countryside to New Zealanders and tourists alike are based on plentiful supplies of fresh water. The overwhelming majority of New Zealand's exports – not least agricultural and horticultural – require water, and in large quantities. Indeed, in many respects water is New Zealand's largest export. Yet the management of our fresh water has not been ideal. We have over-allocated,

and badly polluted some of our water resources. Such problems point to significant weaknesses in the governance of fresh water in this country. This article explores these governance issues through a complex adaptive systems lens and outlines some possible solutions.

---

Elizabeth Eppel is a Senior Research Fellow in the School of Government, Victoria University of Wellington with a research interest in complex policy processes and collaborative governance.

## What is water governance?

Water governance refers to the processes through which government and non-government actors and citizens interact repeatedly to produce a pattern of rules, practices and behaviours through which water is managed and outcomes are achieved (Russell, Frame and Lennox, 2011). Good governance and effective governance are not the same thing: good governance has its focus on doing particular things; effective governance has its focus on achieving the best outcomes for all over time (Perry, 2013). Effective and sustainable water governance needs to be purposeful and adaptive (Foerster, 2011) if it is to achieve the outcome of sustainable practices for use and conservation of fresh water for subsequent generations. It recognises that there are biophysical limits beyond which the natural systems cannot be self-sustaining. We seem to treat these limits as trivial matters, though there is not a ready replacement for our natural freshwater systems. Without fresh water life cannot exist – like a rubber band stretched till it breaks and is never again able to function as it did before, no matter how we try to mend it.

The following sections identify the components of New Zealand's water governance system and how well they are currently functioning. Using a complex system lens (Eppel, 2012, 2014), I note areas which need more attention from policy makers, implementers and all New Zealanders interested in the quality of our water now and for generations ahead. Our current rate of policy progress is too slow to keep up with the rate of change in water quality, which presents an effective water governance challenge. This article points to areas where accelerated efforts are needed.

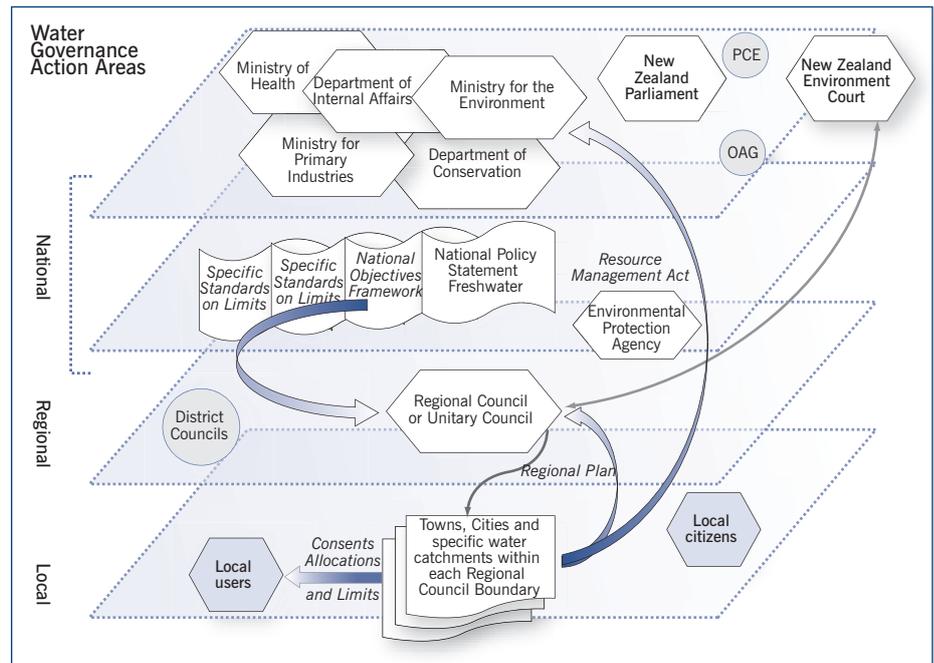
### Components of the complex water governance system

The institutional context in which water governance takes place in New Zealand is complicated, having a number of action arenas, which I describe below and provisionally summarise in Figure 1.

#### *Multi-layered and complex institutional arenas for decision-making*

At the national level there are a number of organisational entities of diverse

Figure 1: New Zealand's water governance regime



types, each with a specific or general legal mandate conveying responsibility for some aspect of the regulatory regime applying to the governance of water. The New Zealand Parliament and government agencies such as the Ministry for the Environment, Department of Conservation, Ministry for Primary Industries, Ministry of Health and Department of Internal Affairs, set the policy frameworks within which governance of fresh water occurs. While Parliament has established the Resource Management Act 1991 (RMA) as the principal legislation for water governance, there are also requirements in other legislation.<sup>1</sup>

The Environmental Protection Authority adjudicates on the application of the policy frameworks for national projects, and the Environment Court provides a forum in which decisions made might be challenged. The Parliamentary Commissioner for the Environment and the Office of the Auditor-General may investigate how well these arrangements are working and how effective (or not) other agencies are in carrying out their responsibilities under the act, and advise the Parliament. The former has explained the science which affects the quality of our fresh water (Parliamentary Commissioner for the Environment, 2012) and drawn attention to the implications of continuing intensification

of farming activities on the demand for fresh water and the negative effects on human health and livelihoods through increased nutrient run-off into our rivers and lakes (Parliamentary Commissioner for the Environment, 2013).

In specific regional geographic contexts, the prime responsibility for achieving the water governance outcomes specified by the RMA rests with regional councils. The auditor-general has called councils to account for their efficiency and effectiveness in executing this role over the life of the RMA (Controller and Auditor-General, 2005, 2011): an example is how they monitor the effectiveness of their policies. These elected councils must work with a variety of individual and organisational actors (users, those affected by use and regulators at various levels) to achieve a water governance regime which is consistent with the roles, purposes and limits specified by the act. The Environmental Protection Authority fulfils this consenting role in respect of what the minister deems 'nationally significant projects'. The RMA therefore shapes and constrains the interactions between the actors in the different arenas. Matters of contention between the various actors become the points on which the Environment Court may be asked to adjudicate, although clearly not all who are dissatisfied with decisions have deep enough pockets to pursue this

route. There is also a problem with access to expert technical advice because often this relatively scarce resource is tied to the action of the council or the better-resourced advocates for a particular decision.<sup>2</sup>

Water governance also has a Māori dimension, deriving from the articles of the Treaty of Waitangi which guaranteed the Māori chiefs 'full exclusive and undisturbed possession of their Lands and Estates Forests Fisheries and other properties which they may collectively or individually possess so long as it is their wish and desire to retain the same in their possession'.<sup>3</sup> As well as the duty to protect and consult with Māori, the Crown has agreed as part of the settlement of

an integral part of this constraining and enabling environment. Each actor takes into account the institutional constraints and the actions of others, and how they will position themselves in the consumption of water.

This means that we need to understand the consequences of a complex adaptive system<sup>4</sup> at work and the implications for how government agencies (and other actors) might work in such a system (Room, 2011). In this conceptualisation, the human actors are part of a series of nested systems that make up a governance regime. In a complex adaptive system the individual actors are constantly responding to each other and their institutional settings in

are consistently encountered in reviews of academic literature:

1. They adopt a *systemic perspective*: that is, the governance regime links ecological, social, economic, technical, legal, cultural and other aspects of the local or regional water system to assist understanding of the ubiquity and complexity of water resource challenges.
2. They *focus on the social actors*: in order to understand the governance system it is necessary to know who is causing or contributing to the problems and who is willing or ought to be doing what to mitigate and solve problems.
3. They encourage a *transparent and accessible discourse on values and goals*: the governance regime adopts processes to specify, reveal and negotiate tangible needs, preferences and visions among regional and local stakeholders and discover their implications for water systems governance.
4. They adopt a *comprehensive perspective*: the governance regime aims to account for social-ecological integrity, sufficient livelihoods, social justice, intergenerational equity, and any other factors which might affect the sustainability of the governance regime over time. (Wiek and Larson, 2012)

Therefore, to assess the sustainability of a water governance regime a comprehensive, dynamic picture is needed, built up from the above core information elements.

First, the boundaries of the social-ecological and hydrologic systems to be governed must be mapped in ways that do not lose sight of 'the interactions between political units of decision making, where power and authority to implement societal actions and policies typically resides, and the biophysical interfaces of hydro-ecological resources and processes' (ibid., p.3156).

Second, there needs to be a focus on people's actions and activities related to water resources: where water comes from; how supplies are accessed and managed; where water goes – i.e. how it is distributed to users, whether by

## Internationally, people studying water governance agree that an effective water governance regime needs to be sustainable.

historical grievances that some tribes will have a more active guardianship role for rivers in their rohe (tribal area). For example, the Waikato–Tainui tribes now have a co-management role in respect of the Waikato River. Even where there is no specific agreement as in this instance, there is more general acceptance by government agencies that Māori tribal authorities and hapū will play a more active role in the governance of traditional water resources, and examples of this can be seen in various local water governance arrangements.

### *Interacting, interdependent complex systems*

An institutional analysis alone is inadequate for understanding the complex interactions between individual actors and the institutional environment that constrains them (Room, 2011). In the multi-actor decision-making arenas New Zealand has created, the rational actions of individual actors (users, those affected by use and regulators) are constrained by the institutional rules and processes which shape the interactions between them (Ostrom, 2005; Room, 2011). Political and economic power in this analysis are

not completely predictable sequences of action, reaction and counteraction (see, for example, Innes and Booher, 2010).

### *Adaptive and sustainable*

New Zealand's fresh water is largely a free good from which some can obtain significant private benefits without bearing the costs of their use, or the risks to the sustainability of freshwater systems for the use of others in the future. Internationally, people studying water governance agree that an effective water governance regime needs to be sustainable. That means it must be able to operate within environmental limits and deliver an environmentally self-sustaining result trajectory over time (Rau and Edmondson, 2013).

Given the complex interactions between people and natural systems, water governance also needs to be adaptive. This means that the governance process, in order to be able to produce an environmentally sustainable result over time, must be able to adjust in response to changes in the other nested systems (economic or social) affecting the water governance system. Four characteristics of sustainable water governance regimes

engineered or natural means, and how people use and conserve water for various purposes, 'including human, economic, and ecological needs and wants' (ibid., p.3157); outflows – i.e. what happens to water after it has been used; and cross-cutting activities that affect the former domains, such as planning, monitoring, deliberation and advocacy. The result of this activity would be a comprehensive water governance information system.

Third, a dynamic systems view of the interactions between the two sets of systems described above needs to be built. This would map the dynamic exchanges between the biophysical and human systems. It would include the interactions between actors and the rules that influence them, and the interfaces between these systems and any factors beyond the boundaries which influence the regional water system or its governance regime. Political power influences the regime through the rules that are set, although not always in the ways intended. This dynamic model represents the governance regime, and repeated iterations of interaction between the systems described are the mechanisms of the governance regime.

The information generated by such a model over time, as well as driving the day-to-day process of water management, might also be used to assess and evaluate the effectiveness of a particular governance regime through the longitudinal picture it forms. Analysis of a water governance regime in operation in a particular context along the lines outlined above would be accompanied by judgement about the sustainability of the regime by all who might have a stake in its effectiveness. I will return to who judges the effectiveness of a water governance regime in the next section.

Wiek and Larson (2012) suggest a set of seven principles as a starting point for judging a governance regime for its sustainability (see Figure 2). Their principles allow for multiple interests in water governance (see principles 4 and 5: socio-ecological civility and democratic governance, and inter- and intra-generational equity) and the changing risks to sustainability that arise from the impacts of the effects of climate change

on hydrological systems (principle 7: precaution, mitigation and adaptability), but do not emphasise these sufficiently in the light of emerging knowledge, such as the latest reports of the Intergovernmental Panel on Climate Change on mitigation and adaptation (see, for example, Hollis, 2014). The application of such a set of principles in practice would be dependent upon open access to a very rich information system, containing not just data about a few physical parameters but also relevant biological ecosystem, economic and social data, and visual tools for displaying that information in ways that might be understood easily by a large segment of the population. It also assumes that monitoring is active and

the Land and Water Forum (2010, 2012a, 2012b) has pointed to the need to improve the effectiveness of the water governance process to limit the decline in water quality. Modelling shows that the rate of nutrient addition from land use run-off, principally from dairy farming but from all forms of land use change, is increasing and can be expected to continue to do so (Parliamentary Commissioner for the Environment, 2013) – in some regions dramatically so. For instance, the nitrogen load in Canterbury, which has the highest increase in land use for dairying, is predicted to have increased by 50% between 1996 and 2020, resulting in increasing toxicity of many aquifers, rivers and streams in lowland areas.

## **Dramatic changes in land use in some regions and increasing population have brought about some rapid declines in fresh water quality in New Zealand.**

continual and that the economic, social, regulatory and political systems are responsive, so that any lags in the system do not reward those abusing the consents granted under the regime.

### **Water governance in New Zealand now**

Dramatic changes in land use in some regions and increasing population have brought about some rapid declines in fresh water quality in New Zealand. Voluntary agreements such as the Dairy and Clean Streams Accord (2003) and its successor, the Sustainable Dairying: Water Accord (2013), while recognising some aspects of the problem have been ineffective in bringing about change. They advocated voluntary mitigation strategies incumbent on individual farmers, which clearly have not worked because on the whole water quality in areas of intensive and increasing dairying has continued to decline. Expert scrutiny of water quality trends and the operation of current governance arrangements undertaken by the Parliamentary Commissioner for the Environment (2012, 2013), the Office of the Auditor-General (2005, 2011) and

Access to information about the state of water quality and changes in quality is improving. We have seen regional councils collaborate with each other, with research institutions and the Ministry for the Environment and invest in sophisticated water quality monitoring regimes, and make results from these monitoring sites available to the public.<sup>5</sup> Recent policy progress, enabled in part by a more constructive dialogue among elite policy stakeholders<sup>6</sup> through participation in the Land and Water Forum (see, for example, Eppel, 2013), includes two new policy instruments: the National Policy Statement for Fresh Water (2011), and a requirement for regional councils to set water quality standards to maintain or improve the quality of the freshwater bodies in their area. Both these steps were welcomed by most as long overdue. They address gaps in the policy framework that has been in place since 1991 by giving more national guidance to the work of regional councils. That only three of the 16 regional councils reported that they would be able to complete their implementation programme to give effect

Figure 2: Principles for assessment of sustainability (Wiek and Larson, 2012)

Sustainability Principle	Key Features	Domain of Activities
1. Social-ecological system integrity	a. Maintain minimum flows in surface water	Supplies
	b. Maintain or enhance the quality of water resources	Deliveries
	c. Ensure aquifers are not over-taxed to points of instability	Supplies/Uses
	d. Recognize and co-ordinate resource uses and impacts within appropriate physical units	
2. Resource efficiency and maintenance	a. Reduce water use or enhance water-use efficiency	Uses
	b. Reuse water or recycle wastewater for various uses	Uses/Outflows
	c. Eliminate water losses	Supplies/Deliveries
	d. The groundwater extraction rate should not exceed the groundwater regeneration and recharge rate	Supplies/Uses
3. Livelihood Sufficiency and opportunity	a. All people pursuing livelihood activities have access to sufficient quality and quantity of water	Supplies/Uses
	b. All people pursuing activities enhancing their psycho-physical well-being have access to water	Supplies/Uses
	c. All people pursuing economic activities have access to sufficient quality and quantity of water	Supplies/Uses
4. Socio-ecological civility and democratic governance	a. Involve all groups who affect or are affected by water governance efforts into decision making	Cross-cutting
	b. Elicit the full array of interests and perspectives through various stages of governance	Cross-cutting
	c. Establish collaborative endeavors for water governance	All/Cross-cutting
5. Inter-generational and Intra-generational equity	a. Ensure a fair distribution of benefits and costs among all actors and stakeholders	All/Cross-cutting
	b. Facilitate stakeholder representation based on demography, geography, and interest	Cross-cutting
	c. Ensure representation of future generations (e.g., via guardians who defend their interests)	All/Cross-cutting
6. Interconnectivity from local to regional to global scales	a. Reduce or eliminate negative impacts on other regions	Supplies/Uses/Outflows
	b. Plan within the watershed or groundwater basin context	Supplies/Uses
	c. Recognize and coordinate between local actors and broader scale stakeholders	All/Cross-cutting
7. Precaution (mitigation) and adaptability	a. Anticipate potential water shortages and water quality problems	Cross-cutting
	b. Mitigate potential water shortages and water quality problems	All/Cross-cutting
	c. Adapt to water shortages and water quality problems	All

to these changes by the end of 2014 speaks of how little real progress has been made on the ground under the current regime. The remainder have taken advantage of the very long timeline the National government allowed under the regulation: for example, Canterbury taking up to 2020 to set limits and publish data on quality. This step is also a long way short of actually meeting or exceeding a minimum quality standard which can maintain the natural ecosystems across the country.

In 2013 the government proposed an amendment to the National Policy Statement for Fresh Water to add a National Objectives Framework which would require councils to establish a set of values and objectives for each 'fresh water unit',<sup>7</sup> consistent with national

objectives. The proposed amendment would also impose a set of national water quality 'bottom lines' which locally-set objectives cannot exceed. Two compulsory national values are proposed: Te Hauora o te Wai/the health and mauri of the water (ecosystem health) and Te Hauora o te Tangata/the health and mauri of the people (health risks to people boating or wading). A further eight national values are identified, which might be applied to a particular water unit, such as its natural form and character, food gathering, or swimming and recreational qualities. This remains a work in progress.<sup>8</sup> Some experts view the quality standards the government proposes as not tough enough to preserve fresh water quality against a trend of intensifying agricultural activity, and

when these new proposed limits will be operative is currently unknown. They also leave a gap in areas where remediation might be required. The replacement of the elected Canterbury Regional Council (ECan) by appointed commissioners in 2010 because of 'lack of progress on a regional water plan', and the decision not to hold an election in 2013 despite progress in the meantime on the Canterbury Water Management Strategy under the collaborative leadership of the Canterbury Mayoral Forum,<sup>9</sup> demonstrates how politicised water governance has become in some regions, and how difficult it might be to achieve real results in areas where likely bottom lines have in all likelihood already been exceeded.

Proposed amendments to the RMA to permit more collaborative and local approaches as envisaged and recommended by the Land and Water Forum have yet to be passed into law. This delay highlights one of the major tensions, between the sustainability of the natural biophysical systems and the desire for economic development, at the heart of the water governance problem. The government's proposal to also include changes to the principles of the RMA to prioritise economic development over environmental quality led to withdrawal of support from its minor party allies. In March 2014 the government introduced an Environmental Reporting Bill to establish more comprehensive, 'independent' environmental reporting every three years by Statistics New Zealand and the Ministry for the Environment. The bill was welcomed by most parties for its general intent, but was also criticised for undermining the stated objective of independent reporting by making it possible for the government to control through regulation the matters to be reported on. This much-needed legislation, allowing for true independence of reporting, will not be passed in this term of government.

*Local water governance experiments*

While policy on fresh water at the national level has at times been stalled or has been making very slow progress (Logan, 2013), some very interesting, and potentially informative, innovation in

water governance has been emerging in communities around New Zealand. These practices amount to 'experiments' (Eppel, 2014) in the sense that, in each instance, what is happening to bring about water governance is a highly contingent set of interactions between a large number of interdependent actors particular to the specific context. I have described six of these experiments in detail in a Policy Studies working paper (Eppel, 2014). The examples I draw from include the Land and Water Forum (Eppel, 2013), Lake Taupo, the Canterbury Water Management Strategy, Te Waihora/Lake Ellesmere, and Horizons Regional Council and the Manawatu River Leaders Accord. They are only five of the more prominent and better documented examples of water governance experimentation going on around the country.

Each experiment varies in the context of its initiation, the actors involved and the approach to water governance which has evolved. These practices are being designed largely from the ground up, or the middle out, rather than the top down, and are sometimes supported by government funding.<sup>10</sup> They are drawing on practical and Māori cultural wisdom of local iwi or hapū and their knowledge of specific contexts, as well as traditional scientific knowledge, and are using processes that are outside, or are working around, the planning and consenting parameters of the RMA. They involve active collaboration between the actors involved to frame the governance problem and design the steps forward to some agreed improved outcome.

The Treaty of Waitangi and settlements made through the Waitangi Tribunal process have had an effect on the willingness of government and its various agencies to work with iwi and hapū in co-management arrangements. Māori involvement brings a diverse set of perspectives into play, which include traditional spiritual and cultural values but also, more recently, following historical Treaty settlements, values associated with ownership and economic development. Advocates for economic development, spanning interests in the maintenance or enhancement of natural water qualities such as for tourism and

water recreation and sporting activities, and those who would like to reshape the natural environment to suit a different economic purpose, such as more intensive agricultural and horticultural production, bring another set of perspectives. Scientists and technicians with knowledge of how natural systems function and remain self-sustaining remain an integral part of the mix. The collaborative process is requiring people with these diverse perspectives to learn more about what they each know and understand about the biophysical, social and economic systems affecting water governance, and to use the process to generate new understanding and workable governance solutions for both the shorter and longer term.

## **The Treaty of Waitangi and settlements made through the Waitangi Tribunal process have had an effect on the willingness of government and its various agencies to work with iwi and hapū in co-management arrangements.**

In all of these experiments the natural, social and economic systems are constantly undergoing changes in response to each other, as well as to systems outside the current consideration, such as changes in local weather systems producing extreme weather events, the global climate system and the global financial system. Understanding the dynamics at work needs both hard factual knowledge from scientific monitoring programmes and softer social knowledge and values. Most of the areas involved are facing increasing economic use of water in agriculture, which is altering the natural system, and also altering societal patterns in the water use through changes in lifestyles and pressures for further intensification of economic activities which make high demands on fresh water. In each of these experimental sites there appears to be an acceptance that a government body alone cannot have sufficient knowledge or resources for the effective governance of fresh water and that a more participative process is needed.

The Canterbury Water Management Strategy (CWMS) is a particularly complex example because of the physical area it covers, the extensive changes being made to the natural water system and the magnitude of the changes in economic use (Canterbury Mayoral Forum, 2009; Russell, Frame and Lennox, 2011; Salmon, 2012; Eppel, 2014). The strategy came about through the collaborative efforts of a large number of stakeholders and all the local body mayors in the region covered by the regional council, Environment Canterbury (ECan), who saw that their collective and individual interests would be better served by a common strategy. As part of the implementation Ecan has appointed ten zone committees, one for

each water unit, overseen by a regional zone committee, as a way of introducing collaborative learning processes for understanding the complexity of the changes these local systems are undergoing and how they might best be accommodated by the regional council in its planning and management decisions. Ideally, the collaborative processes bring the knowledge, values and resources of all of the actors involved into play. Collaboration done well allows mutual learning (Emerson, Nabatchi and Balogh, 2011; Gerlak and Heikkila, 2011), adaptation and the emergence of creative and sustainable solutions to occur. Currently the recommendations of these zone committees are advisory only, and the regional council must take responsibility for the final decisions within their legal mandate.

While ECan and the CWMS have made good progress in setting up the zone committees, progress towards real results in terms of water management is slow and the success of this strategy to

date is therefore difficult to judge. The picture is further obscured by consents granted by ECan prior to the adoption of the CWMS and the establishment of the committees still being acted upon. The most important question ECan and the Mayoral Forum responsible for CWMS need to address is whether the zone processes can move speedily and effectively enough to keep up with intensifying agricultural activity and land use change in the fastest-changing area of the country, and begin to remediate it where necessary. And the country should demand more assurance on this question sooner rather than later.

While each of these experiments is at a different stage of maturity, it is clear

the country, and particularly in the most intensive-use areas such as Canterbury and Southland, is yet to be seen.

In a practical sense these experiments are providing new knowledge about alternative approaches to water governance which could prove effective in the locations where they occurring. At the national level we need a deliberate plan to evaluate these experiments for what we might learn about how to do effective water governance systemically in New Zealand. We need to ensure collection of and ready access to a rich data picture of the changes that are occurring and a developmental evaluation methodology (Patton, 2011) to tell us about how these processes are working and how

#### *More accessible, transparent and comprehensive water quality information*

Effective governance needs continuing sense-making (Weick, 1995; Weick and Sutcliffe, 2007) and adaption to changes in all of the systems that make up the water governance regime. I would argue that the more open and accessible are the information systems which tell us how effective the governance process has been in maintaining or improving water quality, the more inclusive and therefore sustainable and effective the governance regime. That is, a common resource like water is more likely to be governed effectively when it is also able to be monitored by all of us who make up the commons.

The accessibility and ease of interpretation of huge amounts of monitoring data is a necessary precursor to a wider segment of the population being in a position to assess the effectiveness of the governance regime and influence changes in it where necessary. The investment that the regional councils and their collaborators have made in Land, Air, Water Aotearoa (see note 5) is a good first step. Ongoing effort and investment is needed to create more data points and more accessible and visually-informative displays of increasingly sophisticated and complex data. We also need more information about who uses water and the effects of that use, and a truly independent Environmental Reporting Act.

#### **Set bottom lines**

The water governance regime operating today has resulted from the repeated interactions between complex human and natural systems during nearly 200 years since first European settlement, and in parts of the country there may well be patterns that persist from before that time. Most recently the processes and institutions imposed and used by the RMA have simply built on the processes that preceded them through the water catchment boards and their predecessors, and some will not have changed. Farming and land use practices, perceptions of water 'ownership' and our values concerning fresh water, all of which affect how the governance regime works in practice, have created today's pattern.

## **The water governance regime operating today has resulted from the repeated interactions between complex human and natural systems over nearly 200 years since first European settlement ...**

that New Zealand is still learning how to do collaborative governance well. Also, we are not monitoring the product of these processes comprehensively at the national level to ensure that they do achieve a trajectory that New Zealanders think is desirable in terms of water quality for both current and future generations. The Environmental Reporting Bill, if and when it becomes law, might be too little and too late to stimulate the remediation needed. Research would suggest that we should focus on both the process outcomes and the substantive outcomes for the environment, the society and the economy (see, for example, Innes and Booher, 2010). Process outcomes are about the capacity and the capability of the processes to continue to deliver results. The substantive outcomes are much more incremental and long-term in their production and therefore difficult to detect initially. Whether these experimental practices are able to result in hard decisions to bring about long-term maintenance, and in some cases needed improvements, in water quality across

they might be improved. Thus far there is no Ministry for the Environment-led research of this breadth.

#### **Towards an effective water governance regime**

Returning to the distinction made between good governance and effective governance, a further distinction is to be made between what *must* be done (according to the law or policy) and what *ought* to be done (for the sustainability of the resource for future generations) (Perry, 2013). In New Zealand (and probably also in other jurisdictions) the incentives for governments to adequately weigh intergenerational trade-offs are weak. The multiple governmental agencies with jurisdictional responsibility also contribute to bounded, and not always consistent, institutional framings of the issues and solutions. We need, therefore, to work on how effectively the parts of the whole work together, because the sum of the parts, as for all complex systems, is less than the whole.

If we want to change the trajectory of the governance regime to get a different outcome we first need to be clear about what the outcome looks like, and then concentrate on how to change some of the patterns (feedback loops) that are supporting that current trajectory. The new National Policy Statement and the proposed National Objectives Framework and national standards for fresh water are small steps in the right direction because they set some boundaries and rules to guide the decisions made at the local level; but the bottom lines need to be high enough for ongoing ecosystem health.<sup>11</sup> They are also novel in their attempt to recognise a plurality of values which come into play in decisions about water allocation and use. While the government delays passing the necessary regulation to give effect to ecosystem-sustainable bottom lines, water quality in some areas, such as Canterbury and Southland, will continue to deteriorate. Also, without adequate monitoring of the application of limits and standards by councils, the public of New Zealand will have no way of judging their impact. Therefore, regional councils should be required to accelerate their programmes to set standards and introduce monitoring and remediation programmes where needed.

*Facilitate more participatory water governance processes*

Giving effect to the Land and Water Forum's recommendations in the way foreshadowed in the government's policy document *Fresh Water Reform 2013 and Beyond* (Ministry for the Environment, 2013), to allow a more collaborative process, seems desirable given the complex systems which interact to create water governance. Rather than the current top-down, council-led process of plan formation and approval, with disagreements resolved through the Environment Court, there is an opportunity to get a different result by bringing new information and currently unrecognised values about a particular water unit to bear.

*Recognise and resource the need for changed capacities and capabilities in regional councils*

Legislation to enable collaborative

processes would also change the repertoire of roles required from regional government actors. As well as planning, measurement and monitoring expertise, regional councils will need greater facilitative and collaborative leadership expertise, all rather more difficult to quantify and measure. Rather than measure, plan, command and control, regional councils will also need to be able to listen, communicate large amounts of technically-complicated information to a non-technical public, and interpret, reflect and translate what they hear into coherent planning and action that can deliver on expectations over time.

Councils will need to be stewards of

have perverse incentives should not be underestimated.<sup>12</sup>

*Be clearer about what an effective water governance regime looks like*

New Zealand is familiar with governance regimes that are top-down. When it comes to governance of complex systems, power and top-down decision-making do not have the direct and predictable outcome that some might expect. This is because other actors will adapt the rules as part of their implementation. The institutional capabilities in the current system are bounded within traditional, and artificially segmented roles. For example ministers influence by structural

## **Collaborative processes take time and there is not yet a history of successful collaborative governance in New Zealand, as is more typical of other jurisdictions, such as the Scandinavian countries ...**

the longer-term trajectory and outcome. They will need to be energisers who facilitate the marshalling of information; encourage conversations with diverse stakeholders to understand the larger governance pattern and results; and obtain and shepherd resources (human and material) to monitor progress. Councils will also need to pay attention to the micro-changes that might signal changes in the feedback loops which are affecting the overall trajectory, and be able to identify tipping points at which small changes begin to manifest as something new or unexpected. This change of role is consistent with governing a complex system, but that does not make it any less challenging for human capability or for recognising when a governance regime is working well and when it is not.

One of the options for paying for this increase in the capacity and capability of regional councils is to ensure that the risks and benefits of water use are more fairly shared by those who stand to gain economically. This is not currently the case; but the difficulties of creating pricing schemes that do not

and instrumental rule changes. Regional councils have traditionally been decision-makers responsible for producing long-term plans which are promulgated for consultation before being put into practice. Stakeholders are consulted, and unresolved objections might end up in the Environment Court for further mediation or a ruling. Regional council expertise in that governance system has been in the information-gathering and synthesis tasks involved in planning, consultation and plan implementation.

A more collaborative, effective governance regime would require: new types of knowledge about water users, the effects of water use, values, and other information that regional councils do not currently have nor have the means and capability to generate; innovative, participatory processes to enable those with different knowledge and perspectives to share them; capability to facilitate collaborative engagement and learning processes; capability to make large amounts of water quality information accessible to the public; and capability to translate the outcome of collaborative processes into artifacts (documents,

process guidance and the like) that trigger wide ownership and selective action. The process has to be effective in preserving the quality of fresh water for future generations, in some places undoing the poor decisions of the current regime. That may require future decisions that will be highly unpopular with some who may seek political influence to overturn processes and decisions in order to maintain the status quo.

Given the variation in context and actors of each water governance site, centrally-prescribed and controlled processes are unlikely to lead to effective governance which is adaptive to changes taking place at the local level over time. In the experiments referred to above, a wide variety of governance structures and processes have brought about a series of new framings of water governance, which have advanced water outcomes in a positive way beyond the status quo (Lake Taupo and Te Waihora/Lake Ellesmere, for instance). The combination of clearer national expectations about the outcomes, bottom lines, and investment in improved information and monitoring systems and collaborative capability are effective ways in which government can influence the outcome from a governance approach, while leaving room for water-unit specific history, knowledge and values to play a part.

#### *Learn from early adopters*

Collaborative processes take time and there is not yet a history of successful collaborative governance in New Zealand, as is more typical of other jurisdictions, such as the Scandinavian countries (see, for example, Salmon, 2008). Each site needs to build its collaborative capacity for effective operation and understand what enables and blocks its effectiveness. A downside of collaborative processes is that they may not initially appear as quick or timely as more structured, segmented or closed processes, but the results in the longer term are likely to be more resilient and sustainable if they have been well conducted. A further consequence of the dynamism inherent in complex systems is that they will continue to change, and therefore any water governance solutions reached can only be an ongoing set of

approximations or clumsy solutions (Verweij and Thompson, 2006), which might nevertheless be effective. So there must also be ongoing adaptive learning which takes into account changes in the systems, especially those changes which might appear 'not to fit' the present understanding of how things are working. There must also be adaptive capacities built into the creation and execution of plans developed as part of water governance.

The temptation for central government to intervene in collaborative governance processes which, from the outside, may at first appear messy and inconclusive is strong, but such intervention comes at the price of lost collaborative capital, and also the loss of potentially more innovative, sustainable and lasting solutions. If the default response of central government, the media and the public is to compare what they see and experience with traditional, linear, top-down governance, there is potential for constant disruption of these processes and loss of the opportunities for more creative governance solutions. For this reason alone the current experiments need to be documented and learned from in a developmental way. They are creating new knowledge of how successful sustainable and adaptive water governance is done, and we need to systematically collect data from these experiments and search for the regularities that might lead to new understanding of the mechanisms through which effective governance of water occurs.

For New Zealanders to develop confidence in the effectiveness of the country's water governance regime we all need to see more information about the results from what is currently happening. We also need unequivocal bottom lines for all aspects of water quality affecting ecosystem sustainability, and shorter implementation timelines. And we need to have confidence that we are getting the right results. This means: more accessible, transparent and comprehensive data on water quality and more visually-communicative ways of displaying data trends; more participatory processes that engage with a wider range of values and perspectives on water quality; and new capacities and capabilities in the regional

councils to support these processes. While the plurality of values and perspectives on fresh water is what makes its governance inherently complex and difficult, ignoring these aspects has not delivered outcomes acceptable to many in the population. We need to accept that the fresh water problem demands governance processes compatible with its complexity.

- 1 For example, for drinking water quality in the Health Act administered by the Ministry of Health and the district health boards, and requirements in the Conservation Act and the Reserves Act administered by the Department of Conservation.
- 2 This appeared to be the case in the recent Ruataniwha dam application process.
- 3 For a description of the treaty and its articles in English and Māori see <http://www.waitangi-tribunal.govt.nz/treaty/default.asp>.
- 4 Complex adaptive systems consist of many interdependent parts which interact reflexively and nonlinearly over time to create patterns of change or stagnation, depending on whether the interactions between the parts reinforce each other or cancel each other out.
- 5 Land, Air, Water Aotearoa (LAWA) reports data in a comparative and trend format from water monitoring sites on rivers throughout New Zealand. It also has a facility for crowd-sourcing information from the public about water quality. See <http://www.lawa.org.nz/>.
- 6 Representatives of a core of 12 environmental, land and water use and conservation bodies, later expanded to a total of 58 such organisations with an interest in fresh water governance, made up the Land and Water Forum.
- 7 This unlovely term is used because of the different ways various regions have drawn boundaries around their natural water catchments and human-adapted freshwater systems.
- 8 See postscript.
- 9 A forum consisting of all the mayors of local bodies in the Canterbury region and Canterbury Regional Council.
- 10 Both the Ministry for the Environment and individual regional councils have supported these initiatives in a variety of ways.
- 11 See postscript.
- 12 The technical and social complexity of designing effective pricing regimes for fresh and waste water generation and use requires further exploration, but is beyond the scope of this article.

#### **Postscript**

On 4 July, after this article had been submitted, the government gazetted its amendment of the 2011 National Policy Statement for Freshwater New Policy. The 2014 regulation came into effect on 1 August 2014. Regional councils have until December 2025 to fully implement the requirements. As with the 2011 National Policy Statement, it can be expected that few councils will meet the earlier deadline of December 2015 and most will take advantage of implementation in stages out to 2025. The bottom lines the government has chosen are very low indeed, only slightly above that at which water is toxic to all life. In the words adopted in the regulation itself, the standards allow for a moderate impact on plant and animal life, and are only marginally above the level at which rivers and lakes will undergo a regime shift to a persistent degraded state.

The adoption of such low bottom lines will make it very difficult for regional councils and communities wanting to adopt higher standards against the will of deep-pocketed commercial interests who do not face the full social and economic costs of their water use.

Interestingly, the announcement of these changes came just days after the board appointed to provide the necessary

consents for the Tukituki Water Scheme (which includes the Ruataniwha dam proposal) agreed that the scheme could proceed only if the levels of nutrient run-off were managed so that in-stream dissolved inorganic nitrogen, as well as on-land leaching rates for nitrogen, which come from mainly from agricultural activity, would not rise above the level which endangers the water ecosystem.

## Acknowledgements

The author would like to thank the reviewers who provided comment on the working paper on which this article is based, and especially Professor Jonathan Boston for his constructive comments on earlier drafts of this article.

## References

- Canterbury Mayoral Forum (2009) *Canterbury Water Management Strategy*, Environment Canterbury (ECan), <http://ecan.govt.nz/get-involved/canterburywater/Pages/Default.aspx>
- Controller and Auditor-General (2005) *Horizons and Otago Regional Councils: management of freshwater resources*, Wellington: Office of the Auditor-General
- Controller and Auditor-General (2011) *Managing Freshwater Quality: challenges for regional councils*, Wellington: Office of the Auditor-General
- Emerson, K., T. Nabatchi and S. Balogh (2011) 'An integrative framework for collaborative governance', *Journal of Public Administration Research and Theory*, 22 (1), pp.1-29
- Eppel, E. (2012) 'What does it take to make surprises less surprising? The contribution of complexity theory to anticipation in public management', *Public Management Review*, 14 (7), pp.881-902
- Eppel, E. (2013) *Collaborative Governance Case studies: the Land and Water Forum*, working paper 13/05, Wellington: Institute for Governance and Policy Studies, <http://igps.victoria.ac.nz/publications/publications/show/300>
- Eppel, E. (2014) *Governance of a Complex System: water*, working paper 14/01, Wellington: Institute for Governance and Policy Studies, <http://igps.victoria.ac.nz/publications/publications/show/351>
- Fenemor, A., D. Neilan, W. Allen and S. Russell (2011) 'Improving water governance in New Zealand: stakeholder views of catchment management processes and plans', *Policy Quarterly*, 7 (4), pp.10-19
- Foerster, A. (2011) 'Developing purposeful and adaptive institutions for effective environmental water governance', *Water Resources Management*, 25, pp.4005-18
- Gerlak, A.K. and T. Heikkila (2011) 'Building a theory of learning collaboratives: evidence from the Everglades restoration program', *Journal of Public Administration Research and Theory*, 21 (4), pp.619-44
- Hollis, M. (2014) *Climate Change. IPCC Fifth Assessment Report: New Zealand findings*, Wellington: New Zealand Centre for Climate Change, <http://www.nzclimatechangecentre.org/research/ipcc-fifth-assessment-report-new-zealand-findings>
- Innes, J.E. and D.E. Booher (2010) *Planning with Complexity*, Abingdon: Routledge
- Land and Water Forum (2010) *Report of the Land and Water Forum: a fresh start for freshwater*, Wellington: Land and Water Forum
- Land and Water Forum (2012a) *Second Report of the Land and Water Forum: setting limits for water quality and quantity a freshwater policy- and plan-making through collaboration*, Wellington: Land and Water Trust
- Land and Water Forum (2012b) *Third Report of the Land and Water Forum: managing water quality and allocating water cover*, Wellington: Land and Water Trust
- Logan, H. (2013) 'Inside the Black Box: the influence of Government executive forces on environmental policy effectiveness in New Zealand', PhD thesis, Lincoln University
- Ministry for the Environment (2013) *Freshwater Reform 2013 and Beyond*, Wellington: Ministry for the Environment
- Ostrom, E. (2005) *Understanding Institutional Diversity*, Princeton: Princeton University Press
- Parliamentary Commissioner for the Environment (2012) *Water Quality in New Zealand: understanding the science*, Wellington: Parliamentary Commissioner for the Environment, [www.pce.parliament.nz](http://www.pce.parliament.nz)
- Parliamentary Commissioner for the Environment (2013) *Water Quality in New Zealand: land use and nutrient pollution*, Wellington: Parliamentary Commissioner for the Environment, <http://www.pce.parliament.nz/assets/Uploads/PCE-Water-quality-land-use-website.pdf>
- Patton, M.Q. (2011) *Developmental Evaluation: applying complexity concepts to enhance innovation and use*, New York: Guilford Publications
- Perry, C. (2013) 'ABCDE+ F: A framework for thinking about water resources management', *Water International*, 38 (1), pp.95-107
- Rau, H. and R. Edmondson (2013) 'Time and sustainability', in F. Fahy and H. Rau (eds), *Methods of Sustainability Research in the Social Sciences*, Sage
- Room, G. (2011) *Complexity, Institutions and Public Policy*, Cheltenham: Edward Elgar
- Russell, S., B. Frame and J. Lennox (eds) (2011) *Old Problems, New Solutions: integrative research supporting natural governance*, Lincoln NZ: Manaaki Whenua Press
- Salmon, G. (2008) 'Governance of the rural environment: are existing approaches working?', paper presented at the Conflict in Paradise: the transformation of rural New Zealand conference, Environmental Defence Society, Auckland, 11-12 June
- Salmon, G. (2012) *Canterbury Water Management Strategy: a case study in collaborative governance*, Wellington: Ministry for the Environment
- Verweij, M. and M. Thompson (2006) *Clumsy Solutions for a Complex World: governance, politics and plural perceptions*, Houndmills: Palgrave
- Weick, K.E. (1995) *Sense Making in Organisations*, London: Sage
- Weick, K.E. and K.M. Sutcliffe (2007) *Managing the Unexpected: resilient performance in an age of uncertainty* (2nd edn), San Francisco: Jossey-Bass
- Wiek, A. and K.I. Larson (2012) 'Water, people and sustainability: a systems framework for analysing and assessing water governance regimes', *Water Resources Management*, 26, pp.3153-71



# Shape the debate

When you're ready to make the world stop and think, contact the Victoria University School of Government. 2015 Trimester 1 online enrolments open 1 October 2014.

We're the only school of government in New Zealand. Located in the heart of government, we have access to the people, places and policy makers that will shape your future.

Our staff have extensive public sector experience and your study will be applied through relevant case studies.

Our courses are flexible to accommodate your work schedule. We also offer a range of study options to suit your needs and experience. Choose from Certificate or Diploma Courses that will take your career to the next level and open the door to a Masters Degree in Public Management, Public Policy or e-Government.

Whatever level you study, you'll find our courses and those who take them are highly sought after.

To find out more and to enrol, contact the School of Government now.

You can email [sog-info@vuw.ac.nz](mailto:sog-info@vuw.ac.nz), call 04-463 5453 or visit [www.victoria.ac.nz/sog](http://www.victoria.ac.nz/sog)