

# Is New Zealand a good place to age?

An international comparison of preparedness for population ageing

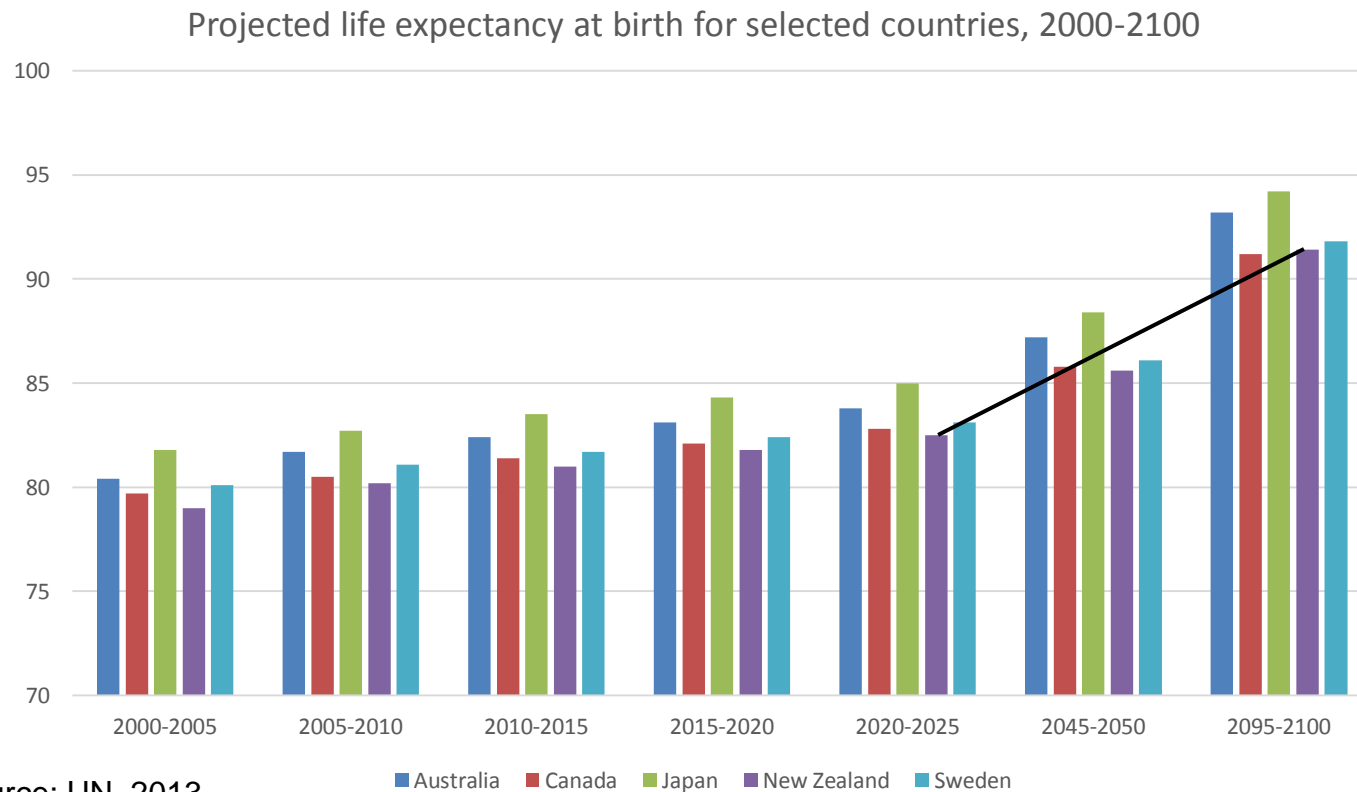
Satya Brink, Ph.D.



**The Next Stretch**

NZCCSS Conference, Dunedin, 8-9 May 2014

# Population aging has been recognized since the 1980s but policy reform has been slow for three decades!



Source: UN, 2013

- The leading edge of the baby boomers turn 65 in 2011.
- **The Next Stretch** – The peak in the percentage of older people in the population will be beyond the 2030s
- There are financial, human and social costs related to the delay in the policy response.

To successfully benefit a country, policy reform should not pit generation against generation, public against private or economy against society.

# Is New Zealand a good place to age?

An international comparison of preparedness for population ageing

Comparisons are made with Australia, Canada, Japan. New Zealand and Sweden

## Yes! But...

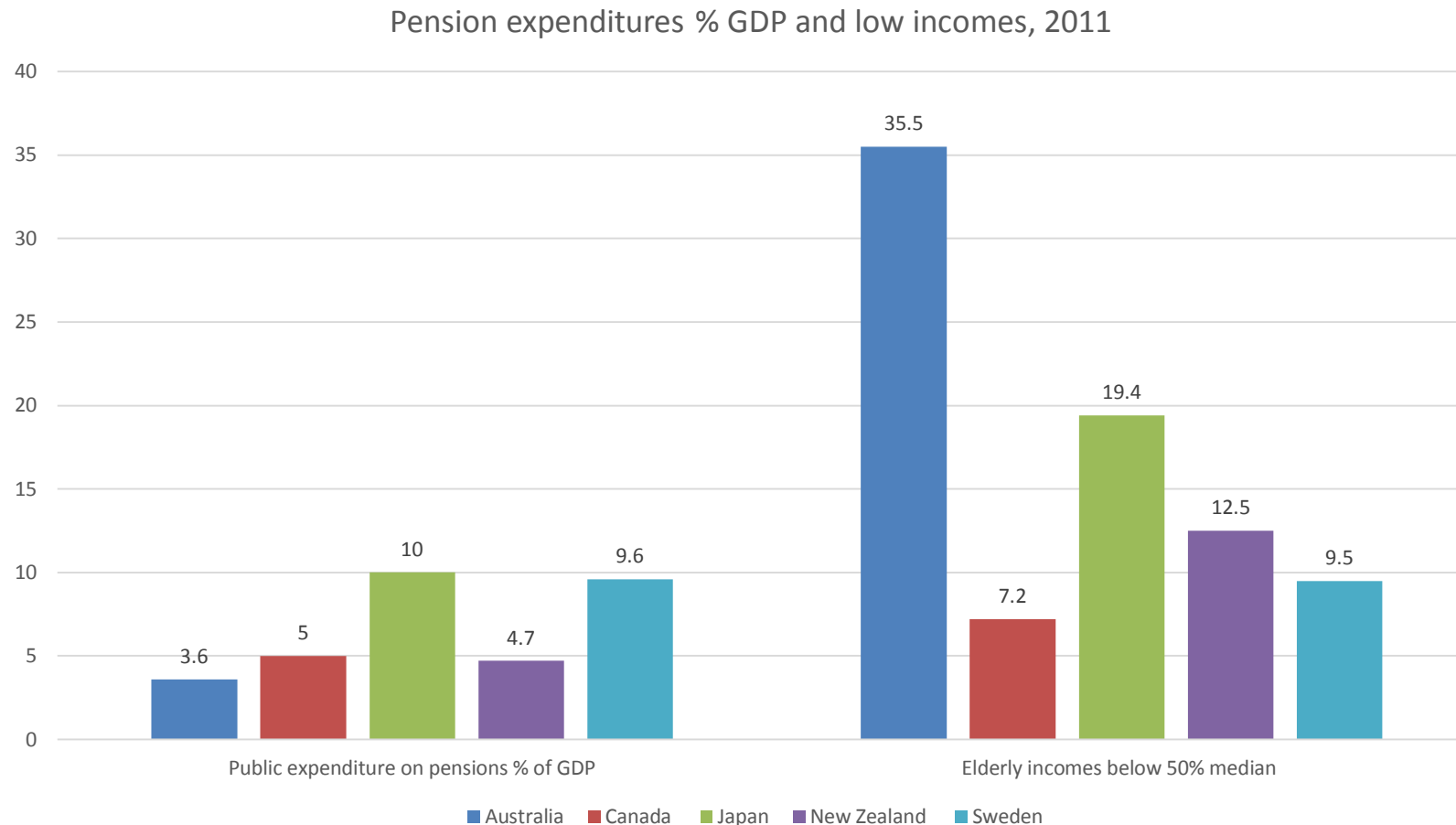
- New Zealand ranked seventh among 91 countries in the Global Age Watch Index.
- The Global Age Watch Index ranks countries “according to the social and economic wellbeing of older people”.
- It is constructed using 13 indicators in four domains: Income security, Health status, Employment and Education and Enabling Environment.
- Sweden ranked first and Canada, fifth, ahead of New Zealand, while Japan ranked tenth and Australia, fourteenth, behind New Zealand.
- New Zealand does better than would be predicted based on its national Gross Domestic Product or national wealth. Japan for instance, has higher GDP but it ranked lower.
- New Zealand had the lowest ranking for Income Security, coming forty-third.

Global Aging Index overall and domain ranking

	Overall rank and value		Income security		Health status		Employment and education		Enabling environment	
	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value
Sweden	1	89.9	8	87.0	7	74.8	5	74.3	5	83.3
Norway	2	89.8	3	91.4	13	73.5	1	85.4	22	76.2
Germany	3	89.3	9	86.1	6	75.2	6	73.7	6	82.8
Netherlands	4	88.2	4	90.9	18	71.3	11	66.2	1	85.6
Canada	5	88.0	26	81.1	2	80.3	9	69.6	9	82.3
Switzerland	6	87.9	28	80.6	1	81.3	12	66.1	4	84.0
New Zealand	7	84.5	43	72.7	3	78.7	7	71.1	13	80.2
USA	8	83.8	36	77.9	24	70.1	2	76.6	16	78.2
Iceland	9	83.4	15	84.7	9	74.2	18	58.5	7	82.5
Japan	10	83.1	27	80.7	5	76.9	10	66.2	19	77.2
Austria	11	79.8	5	88.2	17	72.7	42	45.5	2	85.3
Ireland	12	79.5	24	81.9	14	73.1	32	49.4	3	84.0
United Kingdom	13	78.7	10	85.8	19	71.0	24	53.8	17	78.1
Australia	14	77.2	57	57.2	4	78.2	4	76.3	25	73.5

Source: HelpAge International, 2013.

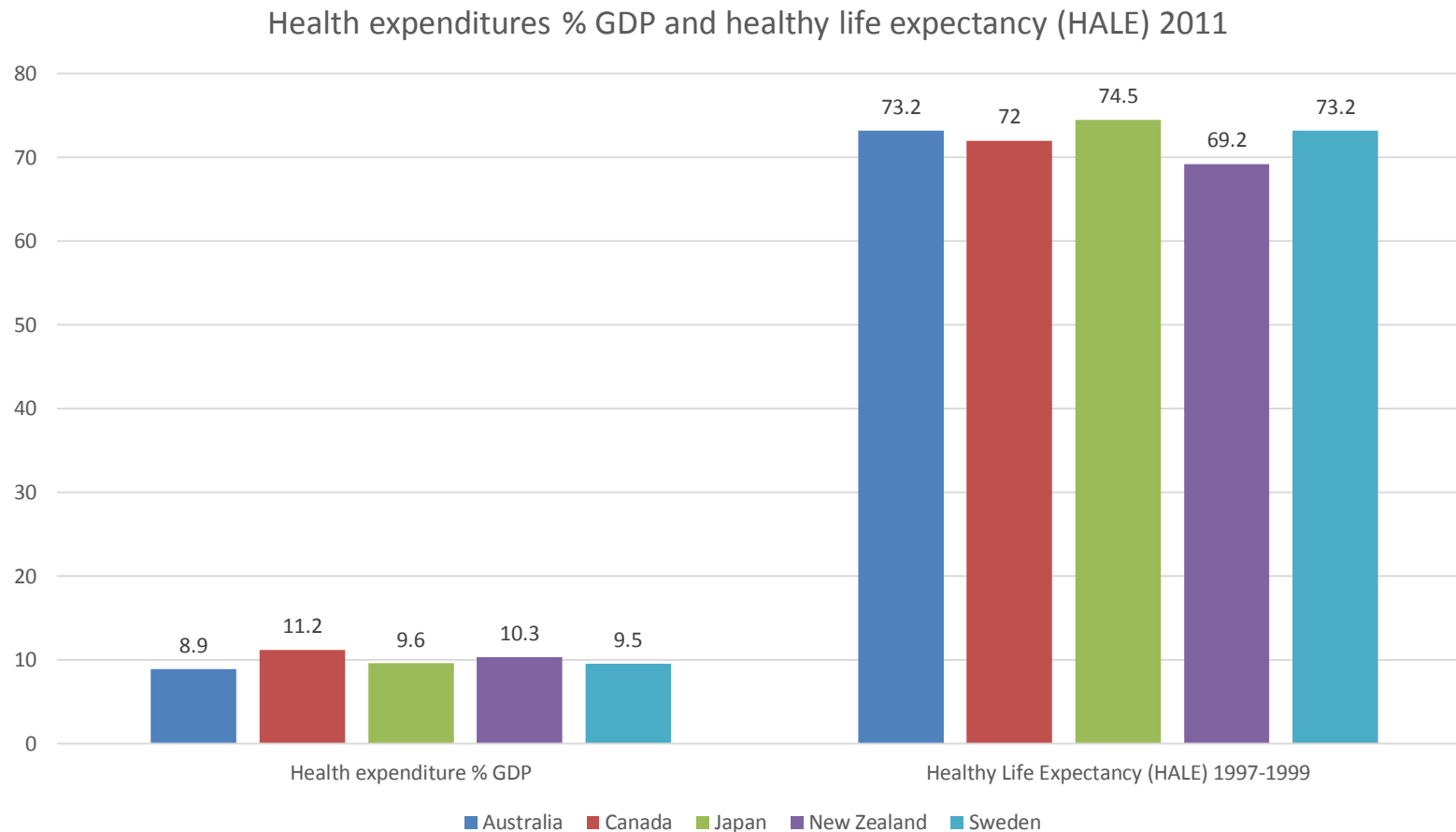
# How does New Zealand compare on an outcome indicator for public pension expenditures?



- New Zealand spends less than Canada but more than Australia on pensions as a share of GDP.
- Canada has a better result on this measure of poverty than New Zealand.
- New Zealand has a much better result than Australia.

Source: OECD Pensions outlook 2012. OECD Pensions at a glance, 2013

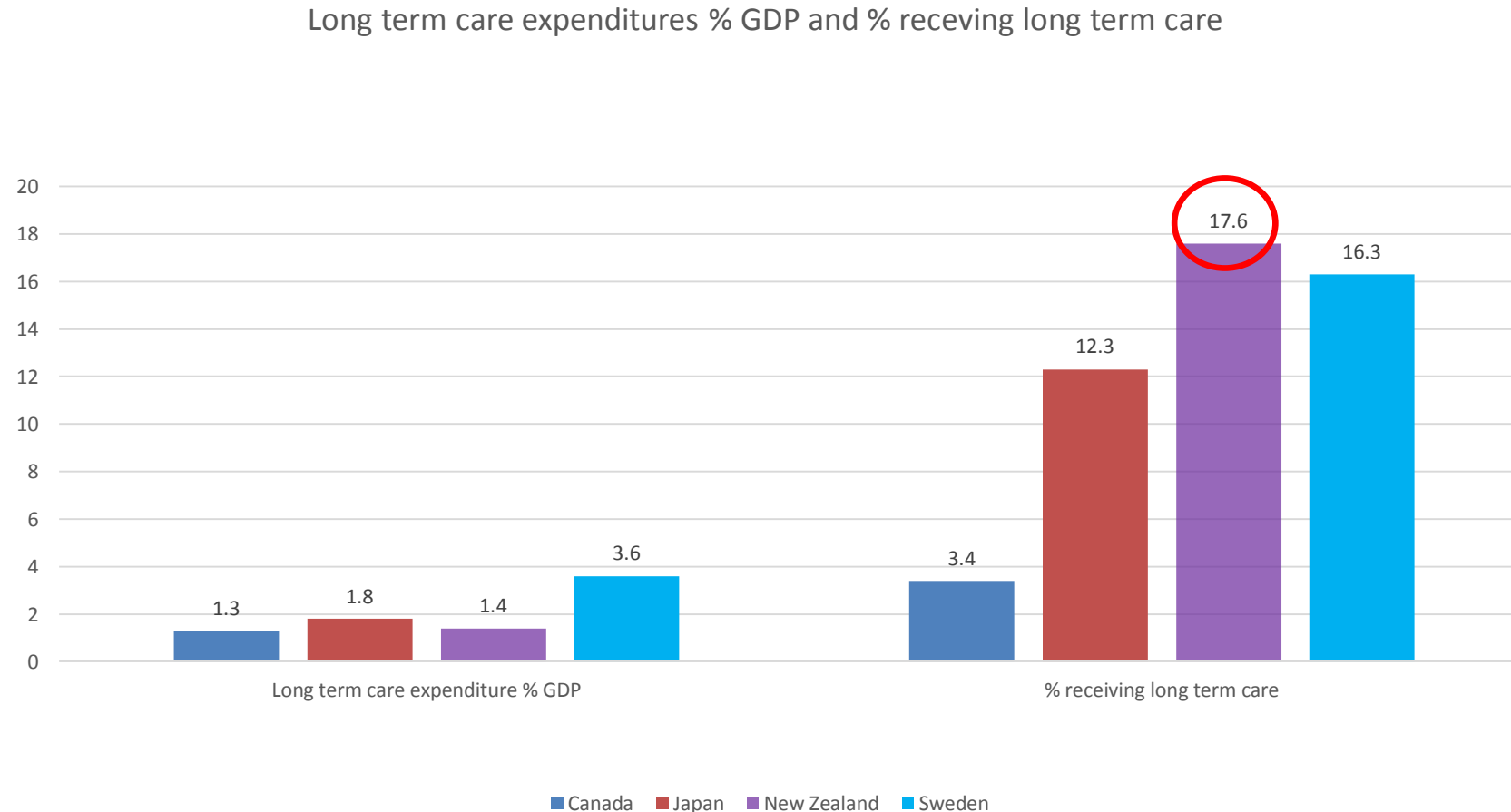
# How does New Zealand compare on an outcome indicator for health expenditures?



Source: OECD Health at a glance; HALE, Photius.com

- New Zealand spends less than Canada but more than Australia on health as a share of GDP.
- Sweden spends less than all of the countries and has a good outcome measured as HALE.
- New Zealand has a slightly lower HALE than the other countries.

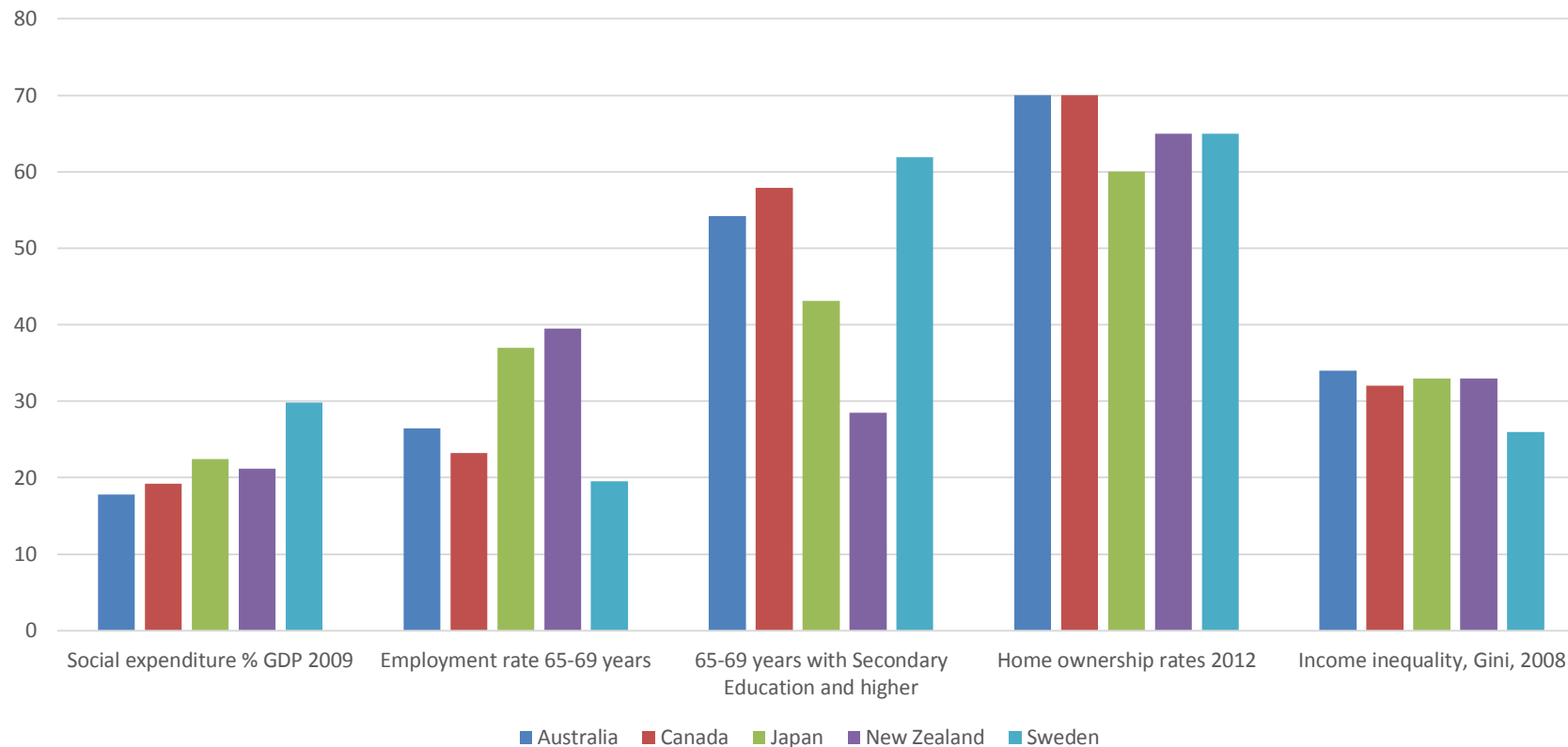
# How does New Zealand compare on an outcome indicator for long term care expenditures?



- New Zealand spends about the same as Australia and less than Canada for long term care as a share of GDP.
- New Zealand provides long term care to a higher percentage than other countries.

# How does New Zealand compare on selected outcomes indicators for social expenditures?

Social expenditure % GDP 2009 and elderly employment, elderly education attainment, home ownership and income inequality

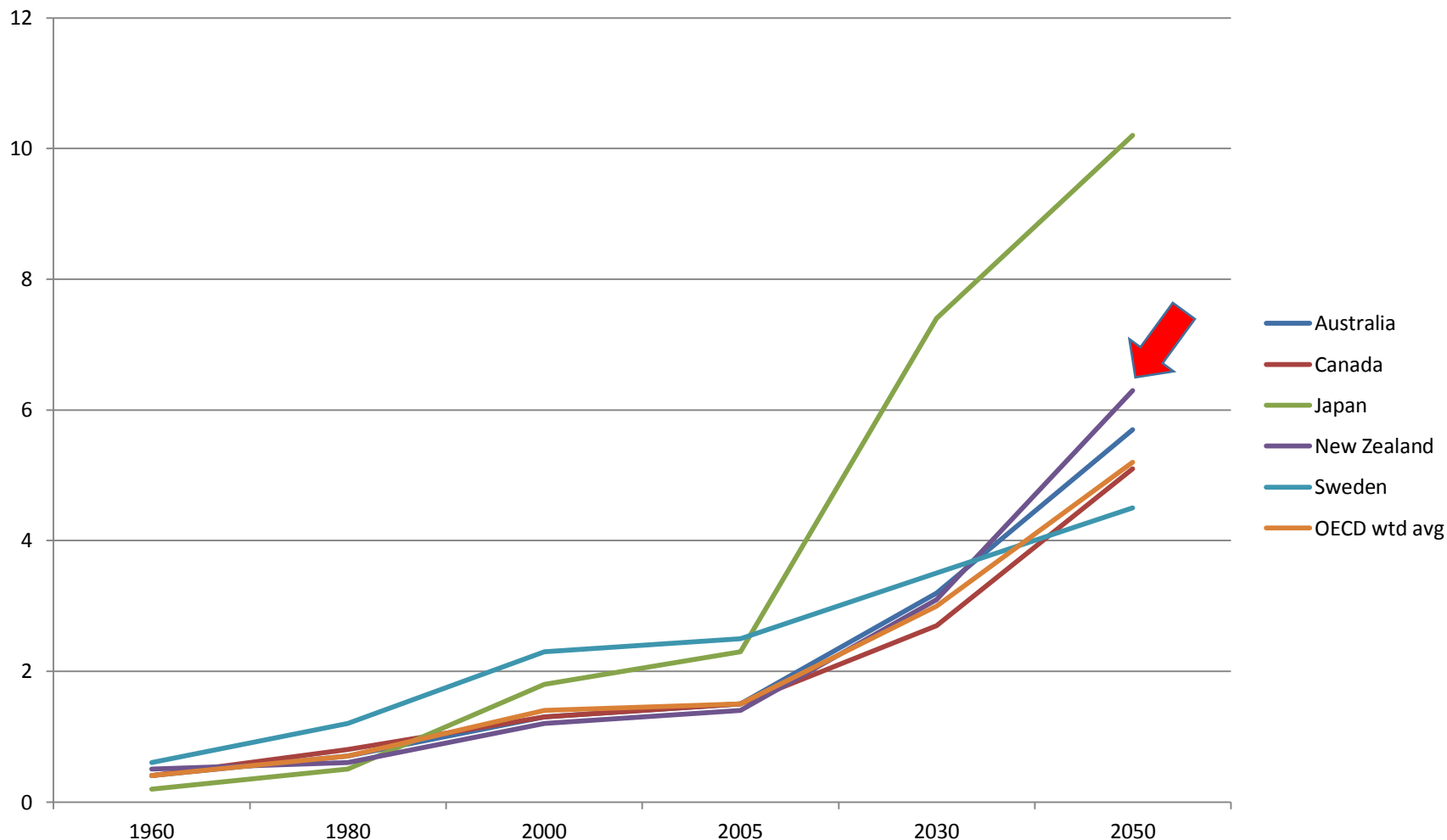


- New Zealand has a lower share of GDP as social expenditures than Japan and Sweden but higher than Canada and Australia.
- New Zealand has the highest employment rate for those 65-69 than other countries.
- Fewer New Zealanders aged 65-69 have Secondary education than other countries.
- Home ownership rates are as high as Australia in New Zealand.
- Sweden has the least income disparities. New Zealand is similar to the other countries.

Sources: OECD social expenditure data base. Baro and Lee, 2013; Gini OECD divided we stand, 2011; OECD, Stat extracts, Labour; New Zealand productivity Commission, 2012, Housing Key Facts; Statistics Canada, 2012; Australian Bureau of Statistics, Year Book of Australia, 2012, Housing; Japan Ministry of Land, Infrastructure, Transport and Tourism, 2012, White paper on Home Ownership; Sweden, Financial Overview Feb 2014, Swedish House Prices Continue to Rise.

# Will New Zealand remain a good place to age?

Projected percentage of the population 85 and over in selected countries, 1960 to 2050



Source: Lafortune and Balestat, 2007

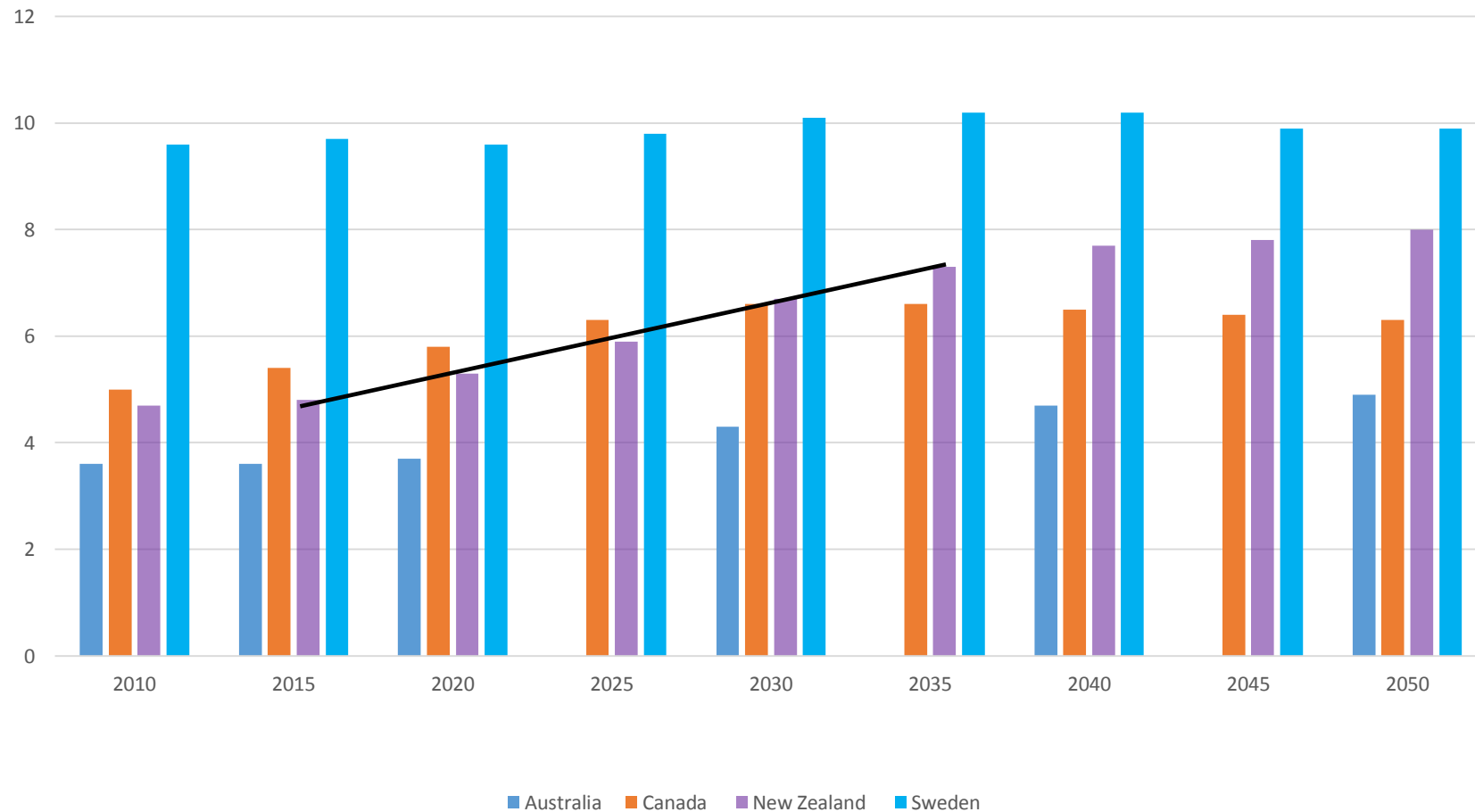
- The growth in the percentage of the population 85 and over in New Zealand is second only to Japan.
- The rate of growth is much steeper between 2005 and 2030 and steeper still between 2030 and 2050 compared to between 2000 and 2005.
- Will policy reform be ready for this change?



# Challenges for policy reform: Pensions

## Growth rate of pension expenditures

Projections of public expenditure on pensions, % of GDP



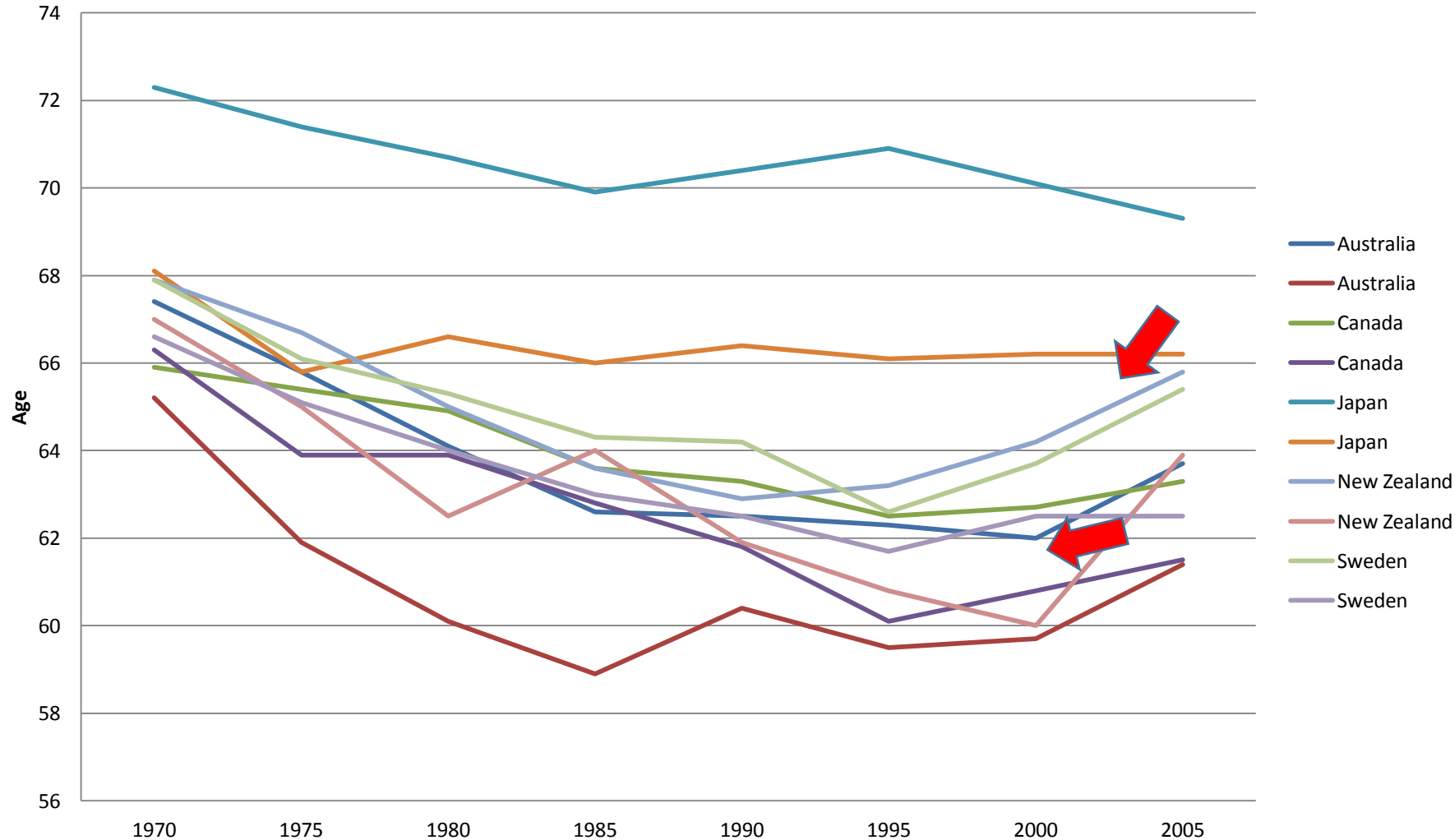
Source: OECD, Pensions at a glance, 2013

- Rapid increase in pension spending between 2005 and 2035 as share of GDP before it levels off.
- Sweden has a much higher but stable pension expenditure rate as it aged earlier and faster.
- Both Canada and New Zealand have looked to other forms of private saving programs to complete public pensions.

# Challenges for policy reform: Pensions

## Effective age of retirement

Trends in the effective age of retirement



Source: OECD, Society at a glance, 2009

- Rates of early retirement were growing until the late 1990s at the same time as the increase in life expectancy.
- This meant lower years of contributions to pensions but more years of benefits.
- Furthermore, because of greater education, working years started later.
- Since health has improved, working longer is becoming more common since 2000.
- Reform in many countries has raised the age of eligibility for public pensions and removed mandatory retirement

# Challenges for policy reform: Pensions

## Rising old age dependency ratio



Source: Population Division, DESA, United Nations: World Population Ageing 1950-2050, 2002

- No country has experience with such high levels of old age dependency but it has to be accommodated.
- Even if public pensions were actuarially sound based on larger or longer contributions, other social programs such as income security will be affected.
- There is also likely to be a shortage of workers in the labour market which can affect tax revenue and economic growth.

# Challenges for policy reform: Pensions

## Sources of income, public and private



Source: OECD Pensions at a glance, 2011

- Sweden and New Zealand provide higher proportions of public transfers than the other countries.
- Canada and Australia have higher rates of private income.

# Challenges for policy reform: Pensions

## Income in old age and standard of living

Country	Incomes of persons 65 and over as % of population incomes, late 2000s		
	65 – 75 years	75 and over	All 65 and over
Australia	69.3	60.0	65.4
Canada	95.8	89.1	93.3
Japan	89.0	86.1	87.7
New Zealand	97.8	69.2	86.2
Sweden	94.8	86.1	83.2

Note: PPP: Purchasing power parities exchange rates are based on cross national comparisons of actual consumption.

Source: OECD Pensions at a glance, 2013

- If incomes are similar before and after retirement, standards of living can be maintained even if there are changed patterns of consumption.
- Income (as separate from wealth such as housing) can decrease rapidly as savings are used to top up income.

# Pension reform today

Reform strategies for pensions	Positive/negative for future elderly
<i>Sustainable progressive contribution rates</i>	+ Equitable
<i>Change in balancing mechanisms or use of automatic mechanisms</i>	- No impact evaluation
<i>Rise in retirement age</i>	+/- Not for all
<i>Increased coverage</i>	+ Less poverty
<i>Accommodating retirement transition</i>	+ Sustainable
<i>Increased use of private pension plans</i>	- Slow growth
<i>Incentives for private savings</i>	- Risk exposure
<i>Changes in targeting for low income elderly</i>	+/- if not adequate
<i>Changes in indexation</i>	+/- if reduced
<i>Changes in taxation</i>	+ if used to reduce burden

## Alerts:

- Rise in poverty rate of the elderly
- Increase in taxes or contributions specifically to address aging policies
- Government borrowing to afford pensions and income security programs

# Desirable pension reforms for the future

## Policy relevant questions:

- Does the public pension and transfers provide an income above the poverty standard?
- Is there a difference in the standard of living between the elderly and the non-elderly?
- Is there a shift between the proportion of income from public and private pensions?

Potential reforms	Desirable outcomes
Stable and fully funded program recognizing that it is one of the highest public expenditures but also that it is a contributory system	Affordable contributions and decent replacement rate
Extend the age for pension eligibility and allow flexible transition to retirement.	Longer years of contribution to public pensions and to private saving and lower number of years of pension dependence.
Support complementary voluntary saving or pension plans with generous incentives and automatic enrolment.	Income security should be based on continuous evaluation of replacement share of income and number and socioeconomic status of beneficiaries of these programs
Better balance between pooled risk public pensions and un-pooled risk of private savings.	Reasonable share of pensions that are vulnerable to the effect of the volatility of markets
Maintain redistributive elements of income security to keep beneficiaries above poverty line	Support to low income or those who end up poor in old age.

# Challenges for policy reform: Health

## Public expenditure and its growth

Country	Total health expenditure as a share of GDP, 2011 or nearest year	Average annual growth rate per capital in real terms 2000-2011 (national currency units at 2005 GDP price level)
Australia	8.9	2.9
Canada	11.2	3.0
Japan	9.6	3.2
New Zealand	10.3	4.4
Sweden	9.5	2.7

Source: OECD, Health at a glance, 2013

- Public expenditures for health is generally one of the highest as a share of GDP.
- New Zealand has high expenditures as well as a high rate of growth up to 2011.
- According to the OECD(2013) Health expenditure growth have three components: aging demand, income effects and residual costs which consists of technology, prices and institutions. The residual costs are the main reason for growth but also offer the best opportunities for control.

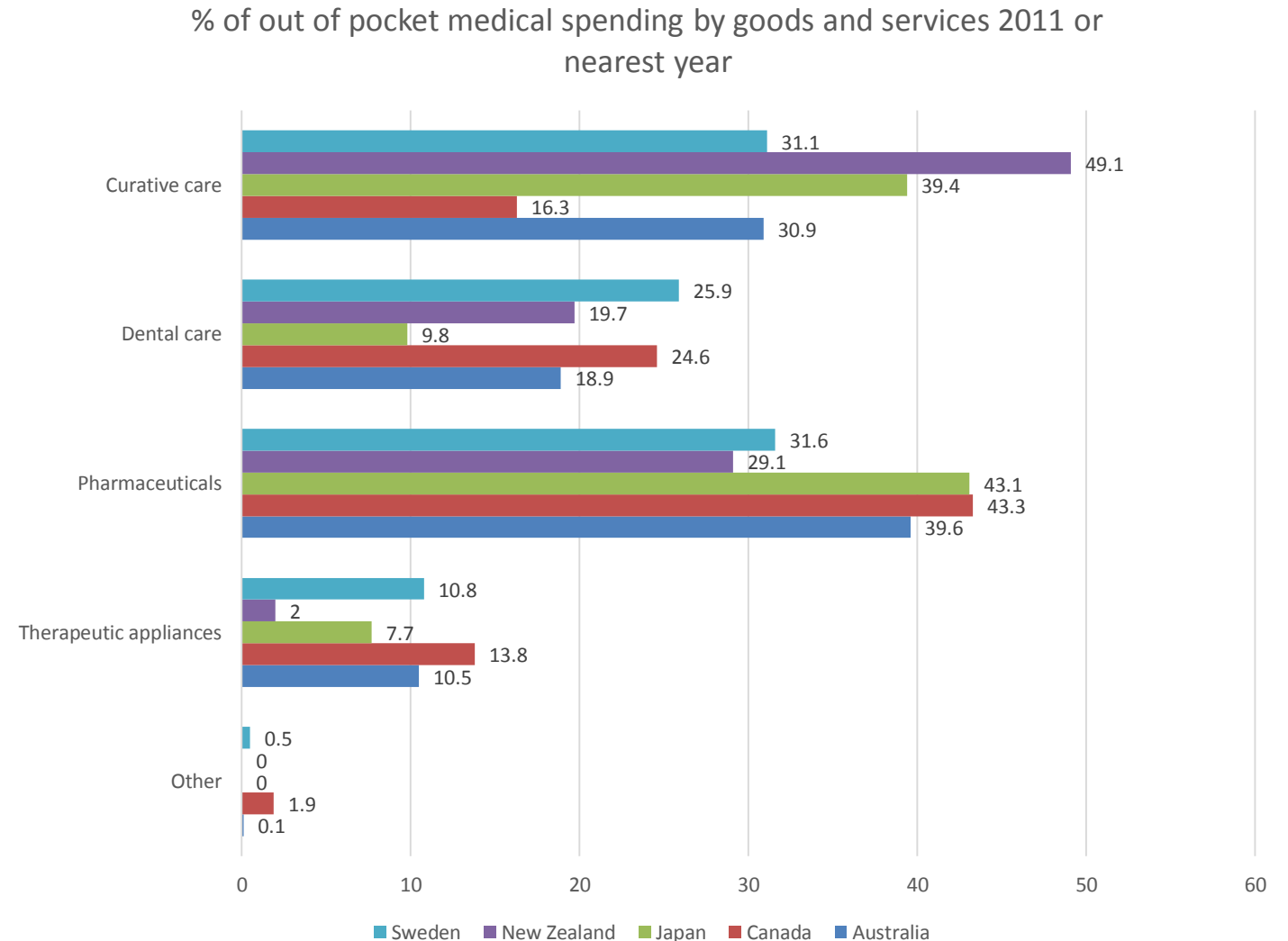


# Challenges for policy reform: Health

## Out of pocket expenses, its share and its growth

Country	Out of pocket medical spending as % of household consumption 2011 or nearest year
Australia	3.2
Canada	2.4
Japan	2.2
New Zealand	1.8
Sweden	3.3

- New Zealand has done an excellent job controlling out of pocket costs, especially for pharmaceuticals, dental care and therapeutic appliances.
- Most of the out of pocket costs are for curative care.

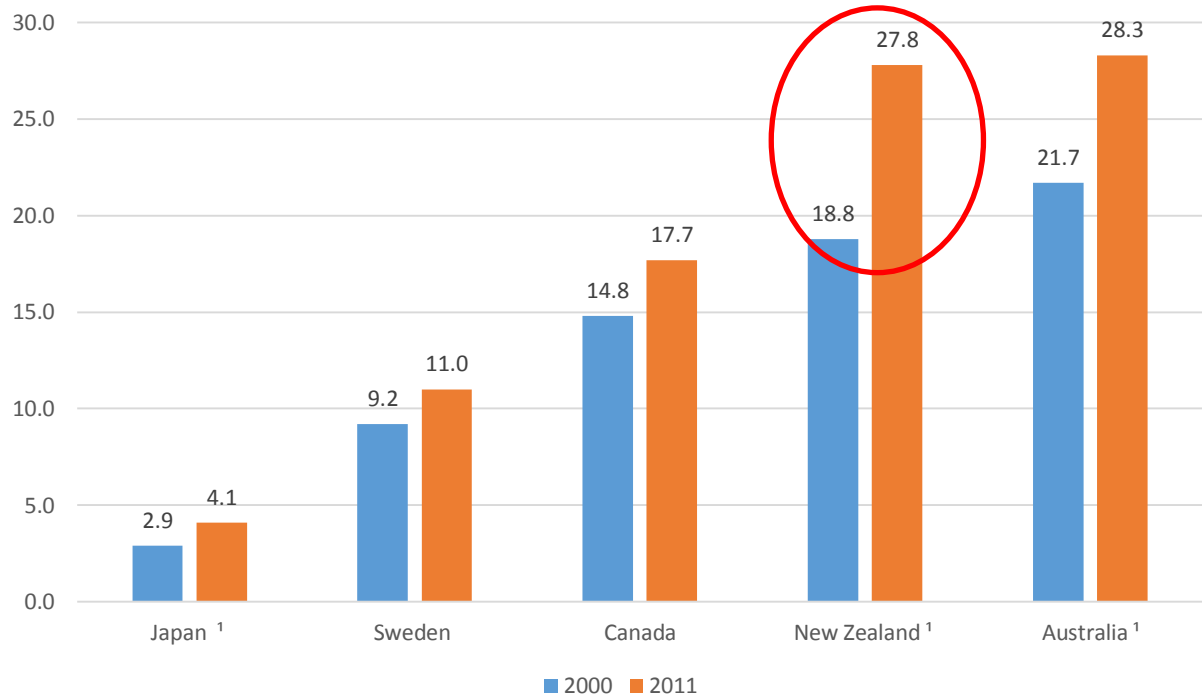


Source: OECD, Health at a glance, 2013

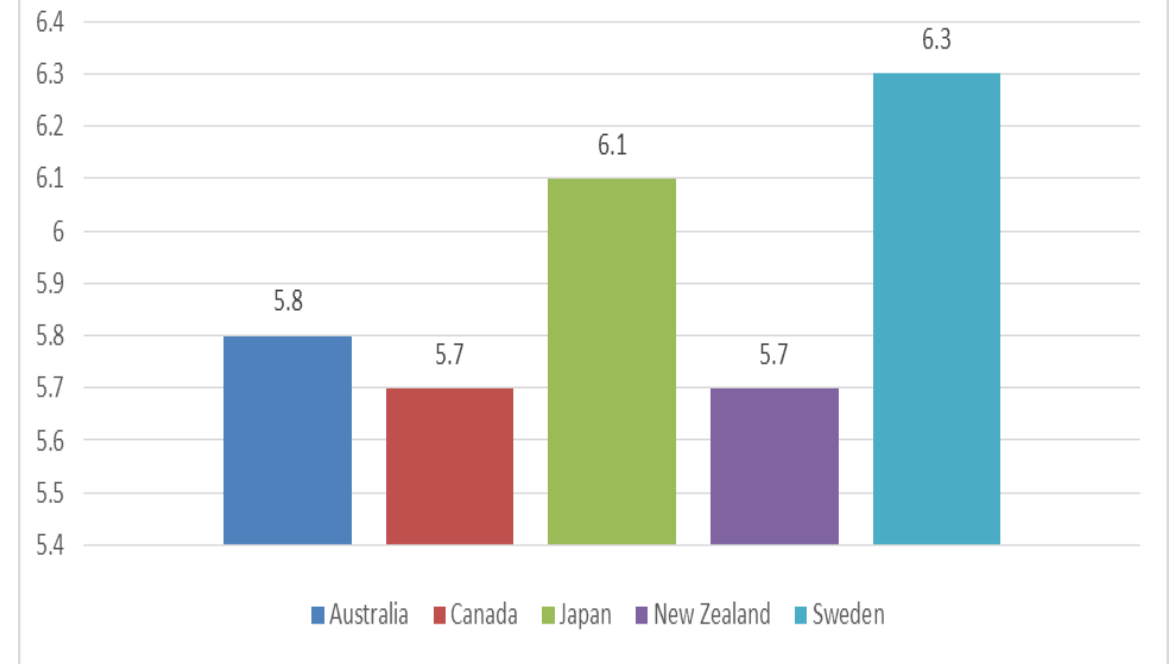
# Challenges for policy reform: Health

## Growth in age related diseases and multiple conditions

Increasing obesity among adults (15 years and older) in selected countries, 2000 and 2011 (or nearest year)



Prevalence of dementia of population 60 and over



- Obesity is related to heart disease and diabetes which raises health care costs in old age.
- About 25% of people 65 to 79 have 4 or more diseases requiring multiple interventions.

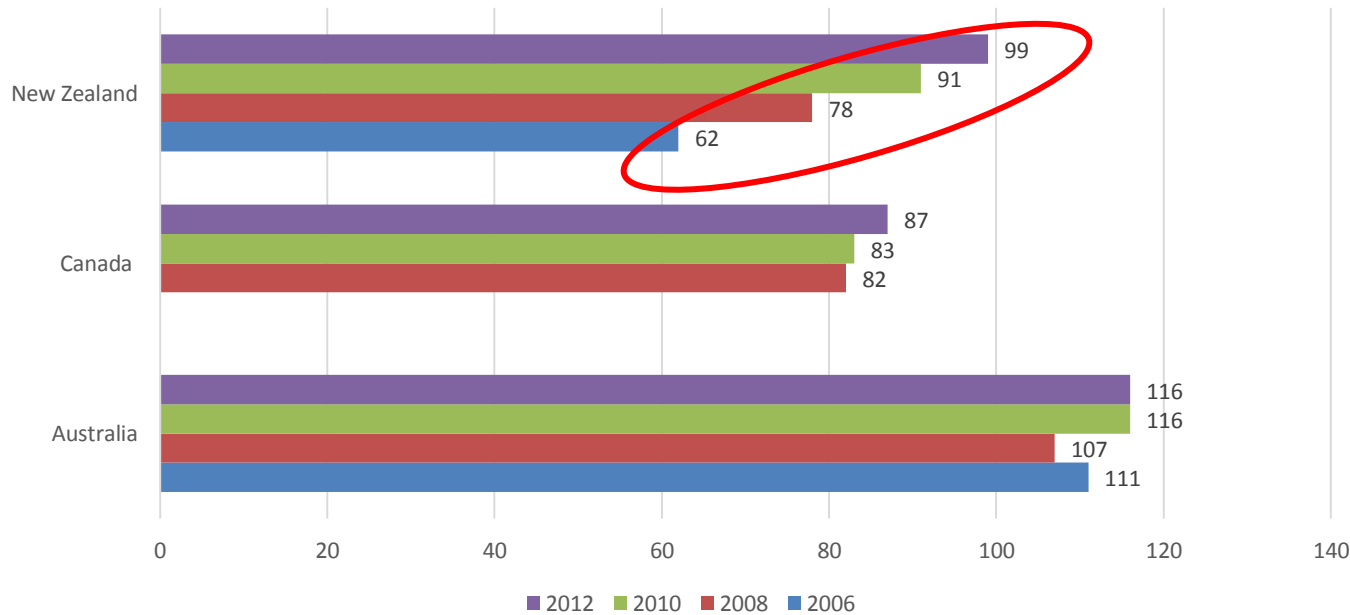
- In 2050 New Zealand estimates that 147,360 elderly will have dementia, about 2.6 of the population and triple the current rate.

Source: OECD Health at a glance, 2013.

# Challenges for policy reform: Health

## Growth in rationing and delays

Hip replacement, average waiting times in days from specialist assessment to treatment, 2006 to 2012 (or 2011)



Source: OECD Health at a glance, 2013.

### Alerts:

- Growing inequality in health outcomes.
- Long wait times/delays cause hardship for older persons.
- Increased out of pocket costs that are unaffordable for a growing proportion of people.
- Issues with care for elderly people with dementia.

## Health reform today

Reform strategies for Health care	Positive/negative for future elderly
<i>Lack of effective policies to rebalance in health care sectors</i>	- More on acute than preventive, promotion or primary care
<i>Health systems are not fully prepared for diseases that are common in old age</i>	- Impact of obesity, diabetes, etc
<i>Insufficient infrastructure and funding for mental and cognitive impairments</i>	- High cost of dementia/Alzheimers
<i>Measures that value the maintenance of independence</i>	+/- Still insufficient
<i>Increasing delays and wait times</i>	- Impact on independence
<i>Restructuring without increasing inequities in health outcomes</i>	+ if equal outcomes, especially for indigenous people.
<i>Decrease reimbursements, increase user fees or out of pocket costs</i>	- Affects standard of living.
<i>Lack of adequate data and longitudinal data.</i>	- Need for better decisions

# Desirable health reforms for the future

## Policy relevant questions:

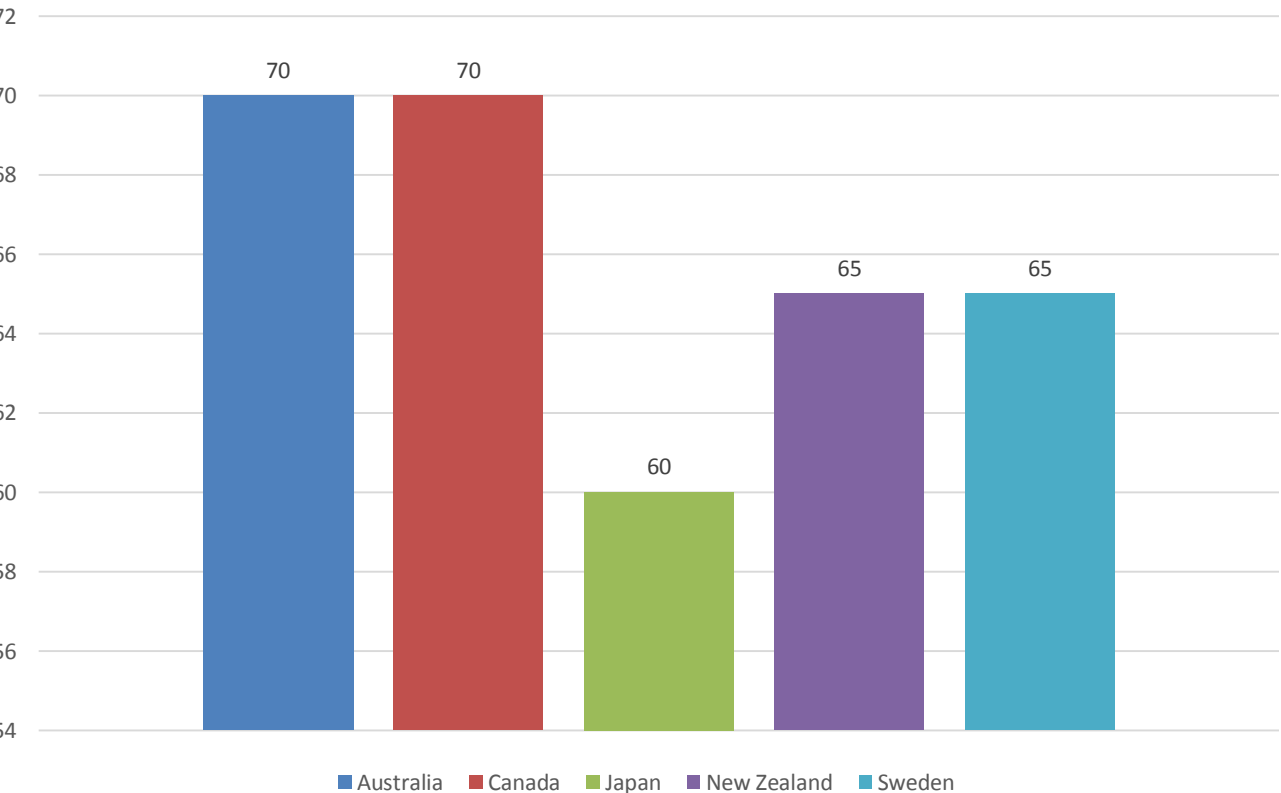
- Are costs of health care growing and consuming a greater share of GDP?
- Are there measurable improvements in health outcomes?
- Can dependency rates be lowered through greater access or more appropriate health care?

<b>Potential reforms</b>	<b>Desirable outcomes</b>
Slow expenditure growth to at least the rate of growth of GDP by managing price, technology and institutions and infrastructure	Ensure stability and coverage.
Pursue cost efficiency and productivity gains rather than capping costs	Maintain affordability of co-payments
Re-balance the health system with more effort on prevention and good health	Better health and delay in dependence which will reduce health costs
Special measures for those with low health outcomes such as aboriginal people or those with low outcomes	More equitable outcomes in terms of health and life expectancy

# Challenges for policy reform: Housing

Housing asset, aging in place, or “non productive savings?”

Home ownership rates (%) 2012 or nearest year



Sources: New Zealand productivity Commission, 2012, Housing Key Facts; Statistics Canada, 2012; Australian Bureau of Statistics, Year Book of Australia, 2012, Housing; Japan Ministry of Land, Infrastructure, Transport and Tourism, 2012, White paper on Home Ownership; Sweden, Financial Overview Feb 2014, Swedish House Prices Continue to Rise

# Housing policy reform today

Reform strategies for housing	Positive/negative for future elderly
<i>Insufficient or inadequate forecasting data and research</i>	- No evidence for decisions
<i>Equity based on need</i>	+/- if based on tenure
<i>Interaction between pension, housing benefits and taxation regimes</i>	+ if well managed
<i>Increasing the pace of accessible housing supply</i>	+ aging in place
<i>Tendency to favour home ownership over other forms of tenure</i>	- Only rental assistance means tested
<i>Tighter targeting and means testing</i>	- May raise costs of other programs
<i>Taxation with negative impact on elderly</i>	- if no modifications

**Alerts:**

- Rising homelessness and rising age of those that are homeless.
- Shifts in the patterns of home ownership.
- Poverty among elderly home owners

# Desirable housing policy reforms for the future

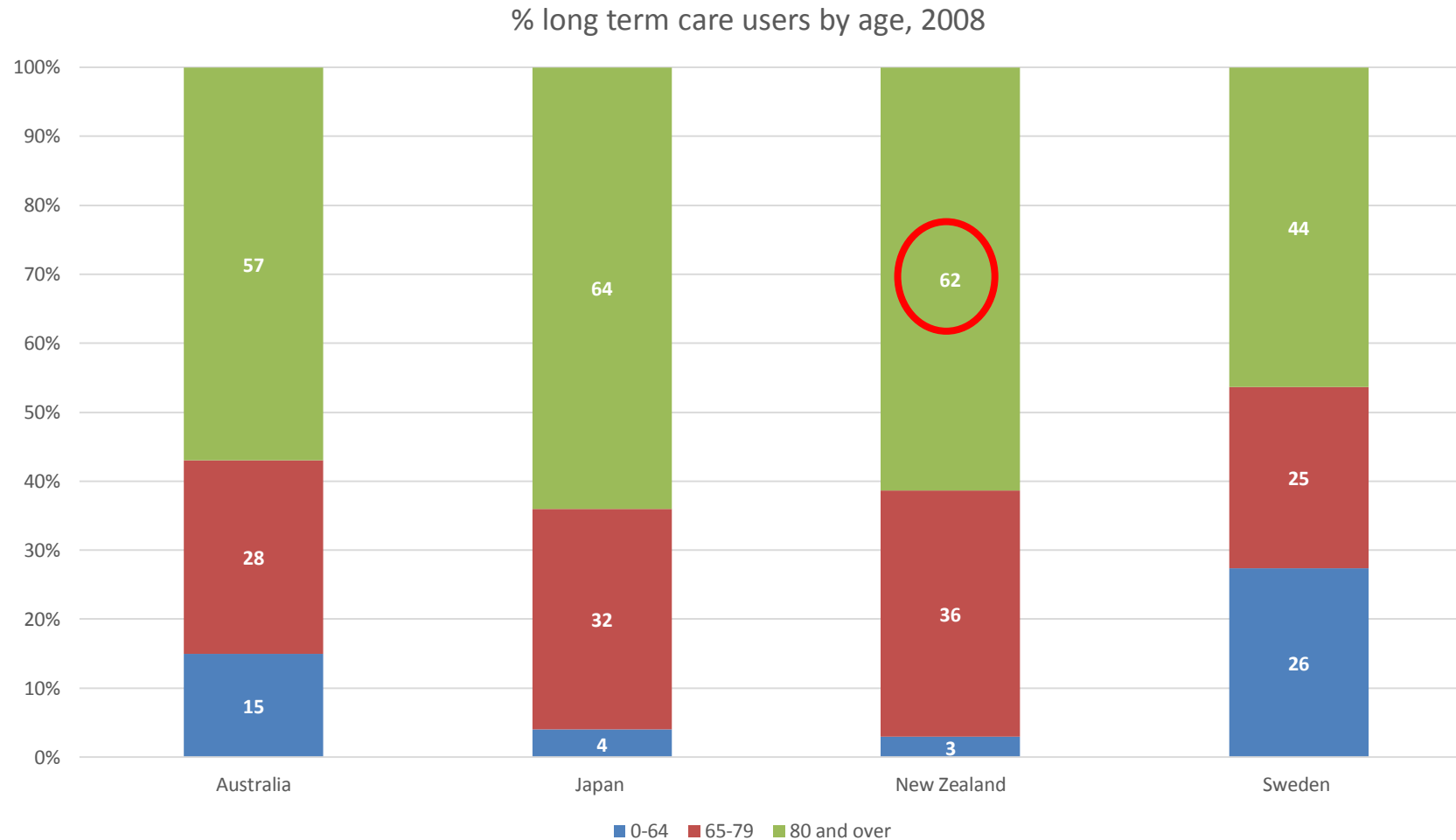
## Policy relevant questions:

- How much of the housing stock is appropriate for an aging population?
- Does housing remain a major vehicle for asset accumulation?
- Are there policy and financing measures to increase existing appropriate housing stock and are there policies to ensure that new housing will be appropriate for an aging population?
- Are the housing policies directed to need and income level rather than the type of housing or tenure?

<b>Potential reforms</b>	<b>Desirable outcomes</b>
Increase age-friendly housing stock	Ensure aging in place and independence
Given high rates of ownership, targeted housing support	Quality of housing for low income
Options for equity release or income raising programs for home owners	Provide income for older home owners who have locked assets in housing.

# Challenges for policy reform: Long term care

## Growth in demand with increase in people 80 and over

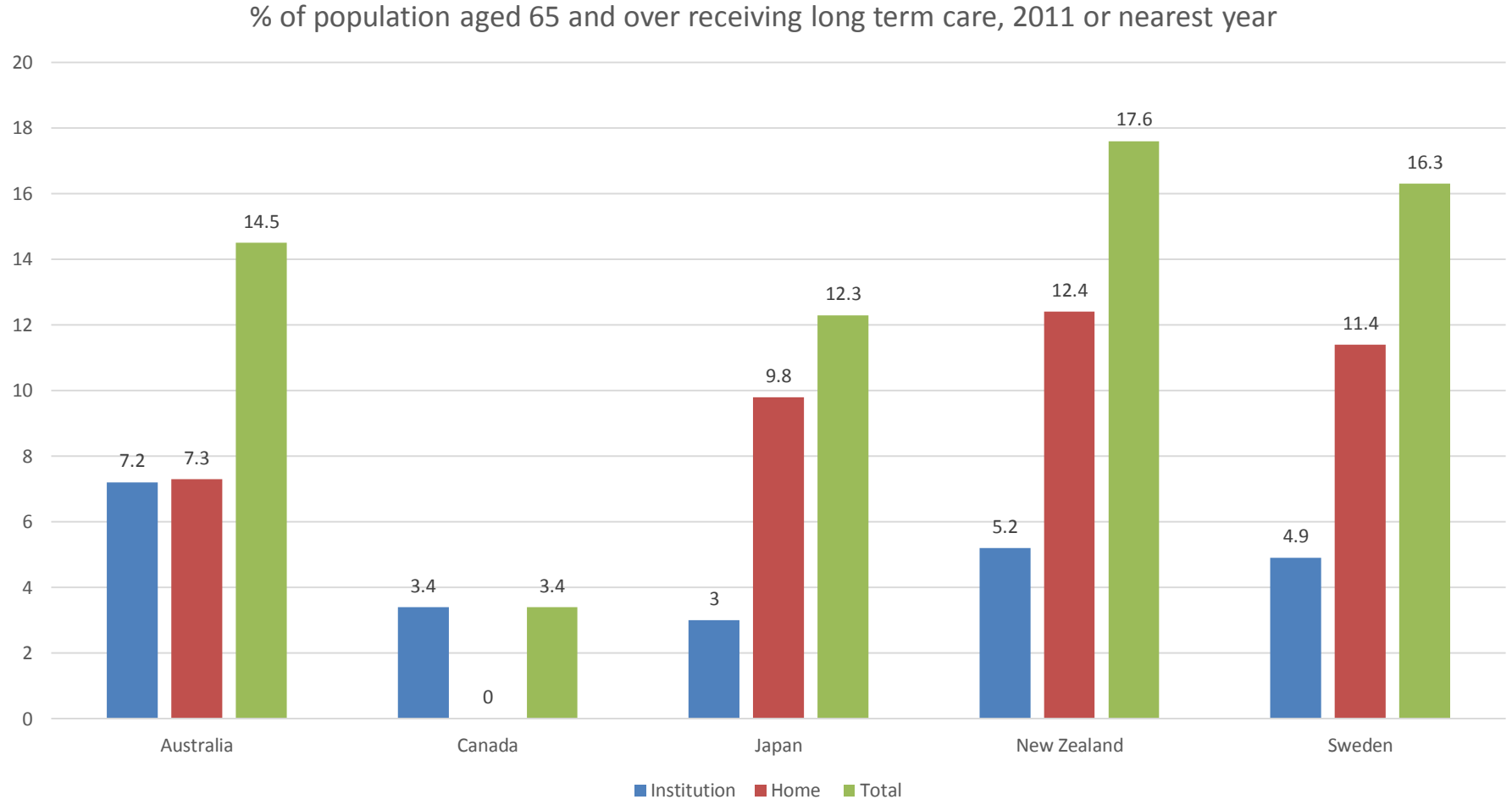


Source: Health at a glance, 2013.

- The users of long term care are primarily those 65 and over.
- In New Zealand, about two thirds of the users of long term care are over 80 years.
- The increase in the numbers of people 89 and over will require expansion of long term care which will affect costs.

# Challenges for policy reform: Long term care

## Independence and aging in place



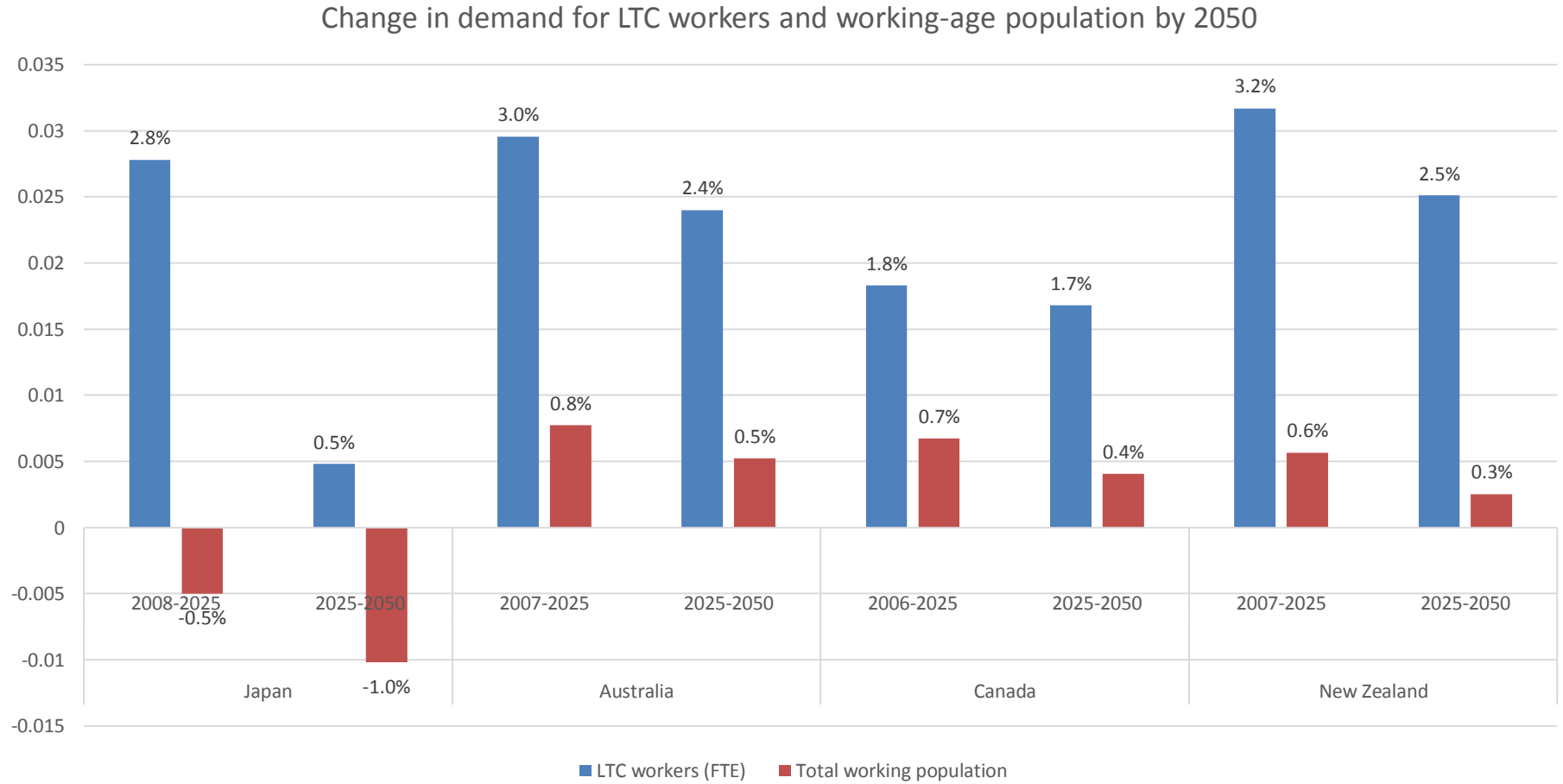
- Independence can be prolonged allowing aging in place.
- New Zealand has double the percentage of people receiving care at home as compared to institutions.
- Japan and Sweden with high proportions of elderly in the population have triple the percentage of people receiving care at home compared to institutions.

Source: Health at a glance, 2013.



# Challenges for policy reform: Long term care

## Shrinking labour force and shortage of formal carers



- Change in demand for care workers in New Zealand will be high up to 2030 and will continue to be high until 2050.
- Labour force growth is small and falling until 2050.

Source: OECD, Help wanted, 2011

# Challenges for policy reform: Long term care

Costs will double by 2050 with some reductions with healthy aging

Country	Public long term care expenditures as % of GDP		
	2006-2007	2050	
		Aging demand	Healthy aging
Australia	0.8	1.8	1.6
Canada	1.4	2.7	2.4
Japan	1.4	4.0	3.5
New Zealand	1.4	3.9	3.6
Sweden	3.5	5.5	5.3

- The costs of long term care will double in 2050.
- Most of the increase will be due to the increase in the number of elderly in the population.
- OECD (2011) shows that assuming that half the gains in life expectancy will be healthy, reductions in cost of 5-10% could be achieved by 2050.
- However, cost containment will have to focus on productivity and efficiency.

# Long term care reform today

Reform strategies for long term care	Positive/negative for future elderly
<i>Lack of reform to integrate long term care into the system</i>	+ If wellness rather than medical model
<i>Reallocation of funding</i>	+ Rebalance between institutional and home care
<i>Developing formal and informal care workforce effectively</i>	- Shortage
<i>Fairness of costs between institutions and other forms of long term care</i>	- Costs should be unbundled
<i>Articulation between health and long term care systems</i>	- Ability to move in and out, care pathways
<i>Increasing contributions and co-payments</i>	- Can affect standard of living
<i>Assistance to increase affordability of co-payments</i>	+ Especially for low income
<i>Reductions in intensity and diversity of services</i>	- Adequacy if not available from other sources

# Desirable long term care reforms for the future

## Policy relevant questions:

- Are costs of care related to need rather than provider or location of care?
- Can rates of independence be increased at every age beyond 65 through long term care services?

Potential reforms	Desirable outcomes
Sustainable growth and better coverage	Maintain independence
Equity based on need and not on care or residential arrangement	Access to services at fair cost
Better division of services and effort between informal and formal care	Each sector provides the care they are best able to provide.

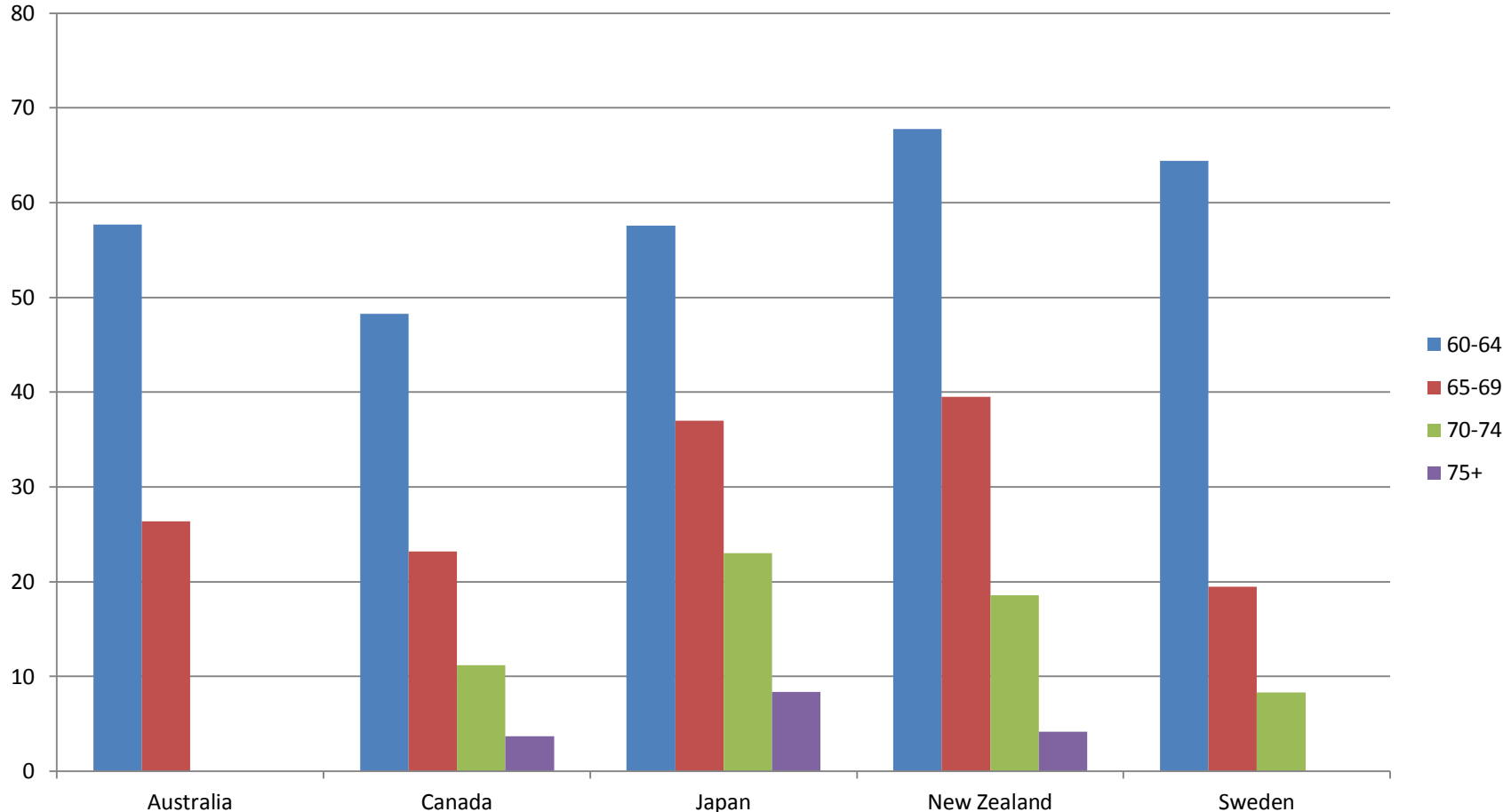
## Alerts:

- Increasing rates of dependence.
- Over use of health care system because of lack of long term care.
- High rates of psychological problems or low income among informal carers.

# Challenges for policy reform: Employment

## Extend work life by a few years

Employment to population ratio, %, by age, selected countries, 2012



Source: OECD, Stat extracts, Labour

- Employment rates of persons 65 and over has been higher in Japan and New Zealand.
- If the labour force participation rate of older people rises from 16% in 2010 to 26% in 2030 in New Zealand (just above the current rate of those currently 65 to 69), it could offset the demands for funding New Zealand Superannuation over this period.
- But second or “encore” careers are not always positive – low wages
- Not all elderly can work more years.

# Employment reform today

Reform strategies for employment	Positive/negative for future elderly
<i>Raised retirement age</i>	+ More years of retirement savings for long life expectancy
<i>Employment for older workers</i>	+ Greater employment options
<i>Lack of linkage between employment and pension policies</i>	+/- Affects income security if no coordination
<i>Lack of data</i>	- Labour force data on older workers
<i>Training of older workers</i>	+ Better job opportunities
<i>New working arrangements</i>	+ Flexibility, better transition to retirement.

## Alerts:

- Rising unemployment rates for older workers.
- Rates of employee training falls with age.

# Desirable employment reforms for the future

## Policy relevant questions:

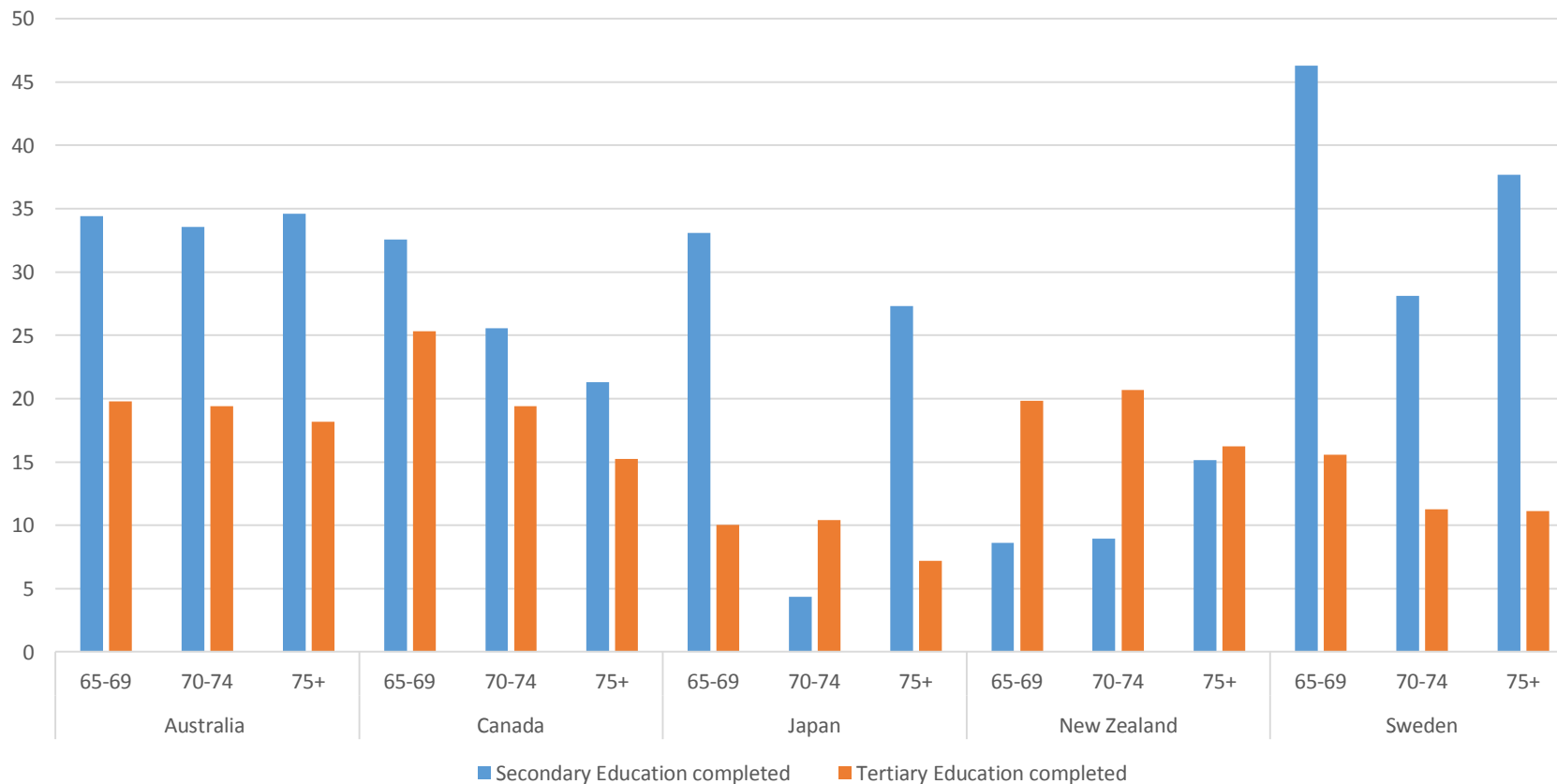
- Are there reliable national, sectoral and regional data available for workers of all ages?
- Are more flexible work arrangements and transitions to retirement available?
- Is there a change in employer attitudes to older workers?

Potential reforms	Desirable outcomes
Extended work life	Contribute to society longer and rely on pensions for a shorter period
Options for work – part time, home based, flexible, etc	Better transition to retirement

# Challenges for policy reform: Lifelong learning

## Adult learning and job related training

Educational attainment among the elderly, 2010



Barro and Lee, 2013

Through learning there is life; through life there is learning.  
Ma te mohio ka ora; Ma te ora ka mohio

- Older generation does not often have the same education as later generations.
- Adult learning results in broad benefits such as better jobs, wiser consumption, better self care and prudent asset management.
- Adult learning is affected by both literacy and numeracy levels of the learner and opportunities and options.

## Lifelong learning reform today

<b>Reform strategies for lifelong learning</b>	<b>Positive/negative for future elderly</b>
<i>Reduced eligibility or lower benefit</i>	- No lifelong learning
<i>Short term temporary initiatives</i>	- Short term, no stability
<i>Emphasis on employment related training</i>	- Affects minority of seniors
<i>Value of adult education</i>	+ Broader benefit
<i>Over reliance on private/volunteers</i>	- Not sustained
<i>Savings based instruments</i>	- Creates inequities
<i>Low literacy and numeracy hampers future learning</i>	+ If improved

## Desirable lifelong learning reforms for the future

### Policy relevant questions:

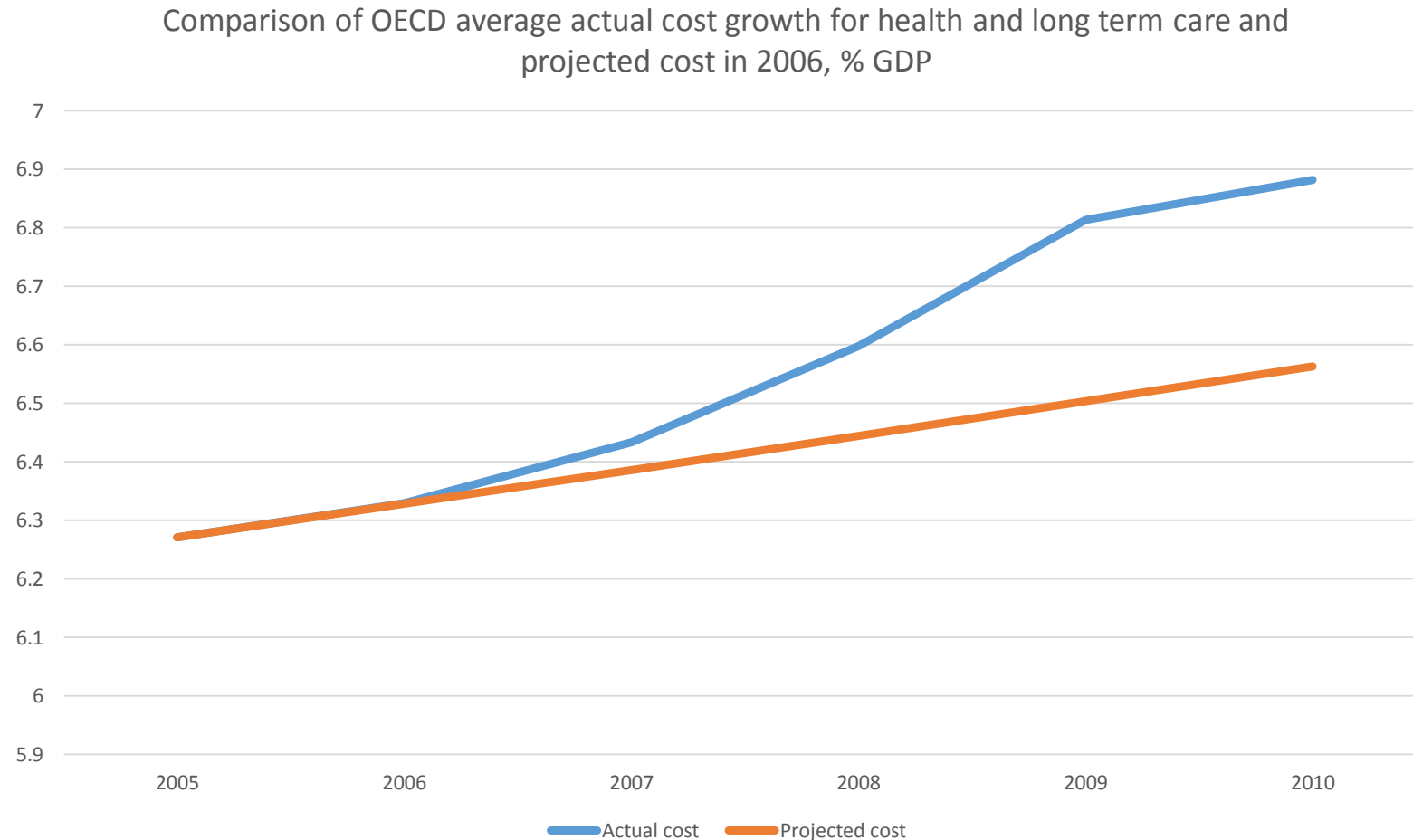
- Can the current use of traditional sampling of people aged up to age 65 be dropped in favour of including older people, since data and therefore research on lifelong learning is scarce?
- If personal responsibility and self-care are important conditions for cost efficient policies in health and income security, what policies are in place for education and training of seniors?
- If the labour force is shrinking, what educational and training supports are available to make it worthwhile for workers to work longer?

<b>Potential reforms</b>	<b>Desirable outcomes</b>
Direct or indirect for formal and informal learning	Better decisions and better self-care
Recognition of the intrinsic value of learning	Able to function and contribute to a society changing rapidly

### Alerts:

- Growing numbers of workers over 65 in the labour market working in poorly paid jobs.
- High proportions of people 65 and over with low literacy and numeracy.
- Closures or reductions in programs run by employers, private sector or volunteers

# The status quo is not an option for the future



Source: OECD, 2013. New projections

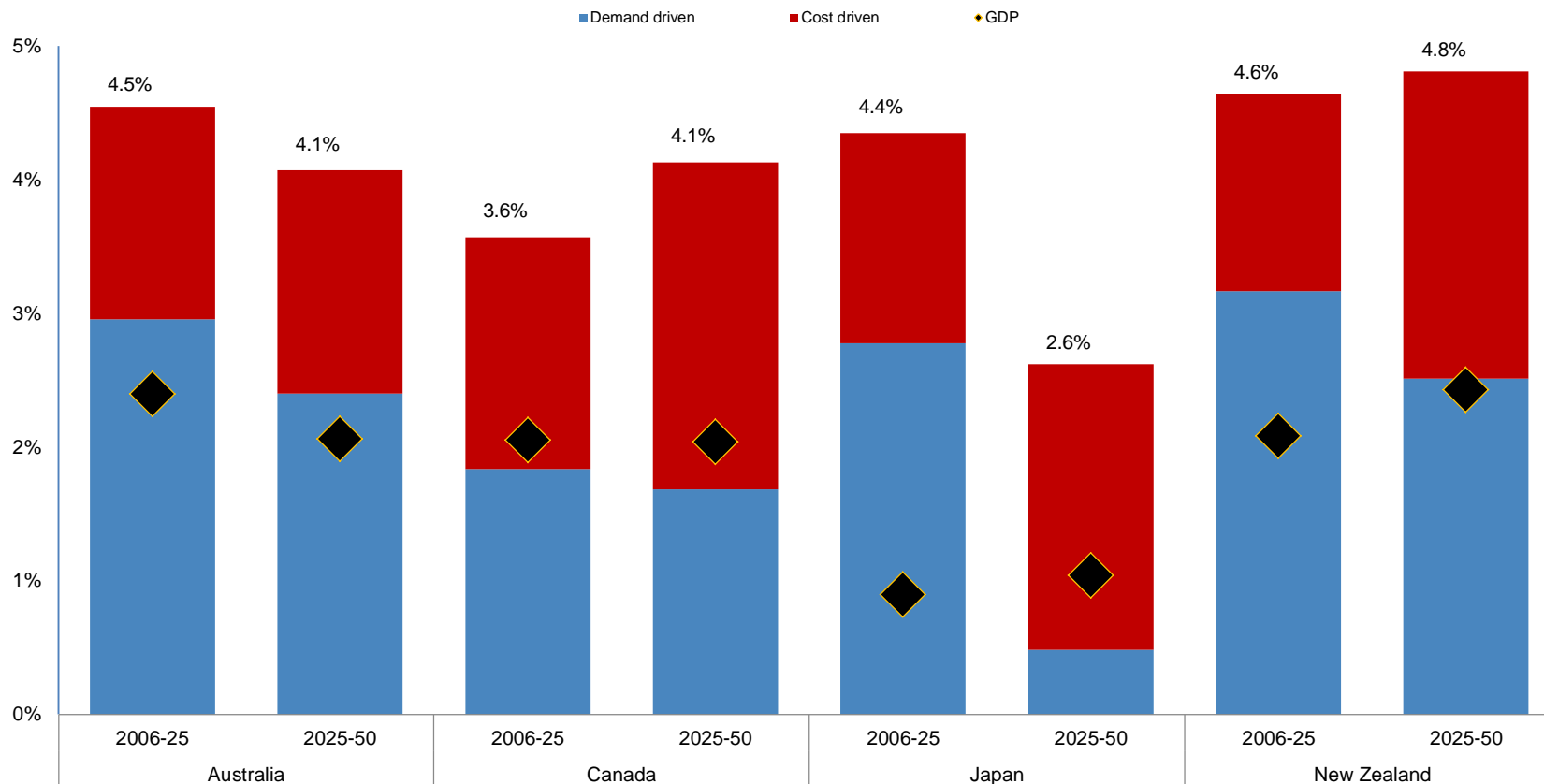
- With current policies, the growth in expenditure for health and long term care exceeded even the projections calculated in 2006.
- High government expenditure as a share of the economy will negatively affect growth, prosperity and wellbeing of citizens.

Future public expenditures need to be balanced between investments and other expenditures for growth and wellbeing



# If growth in public expenditures exceed the rate of growth of the economy it would result in deficit spending and public debt

The average annual growth of long term care expenditure will be significantly higher than real projected GDP growth 2006-2050



OECD. Help wanted 2011. Data for Sweden not available.

Reforms should aim for economic gain but also welfare gain

- In New Zealand the total average annual growth of long term care expenditure is about the same between 2005 - 2025 as well as 2025 and 2050.
- In the first period, the costs rise due to demand from growth in the aging population and in the second due to rise in costs.
- In Japan, the costs fall in the second period, because of the elderly population has stabilized.

# Change what the future will be to what the future should be

## Indicators of policy success:

- Sustainable
- Adequate
- Cost-effective
- Impact on outcomes
- Coverage
- Equity
- Balance between private and public

Brink, 2014

- Policy reform should not pit generation against generation, public against private or economy against society.
- A made-for-New Zealand solution will result in shared prosperity and wellbeing for all, now and in the future.



**BUT...ONLY IF ACTION IS TAKEN NOW!**



Thank you!

Kia ora!

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Source: Brink, Satya. (2014) Policy preparedness for population aging – New Zealand in international comparison