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hen researchers apply for grants to study topics such as material wellbeing, they are usually invited to list the benefits of their proposed study. A standard answer is that the findings will assist policy makers to identify priorities. So it is not unreasonable that when the research findings are published, the first question should be "What are the policy implications?"

The question may be reasonable, but the answer can prove to be more difficult than might be expected. This article describes a large research project where some of the policy implications flow fairly readily, but where others are proving to be far more contested.

The research project is an elaborate study of the living standards of older New Zealanders. On the face of it, it is a story with a happy outcome in the sense that it shows a population where great affluence may not be common, but neither is material hardship. The study shows that with few exceptions, older New Zealanders appear to be living well, and what is more, they themselves agree with this conclusion.

But when the question is asked, "What are the policy implications?" the story is more complex. There are some easy answers in that the study identifies some causes of deprivation among older people (such as high accommodation costs) where the remedies are fairly straightforward. The serious complexity arises in relation to inter-generational policy implications. If older people are faring rather well, what does that tell us about policy directed towards younger people?

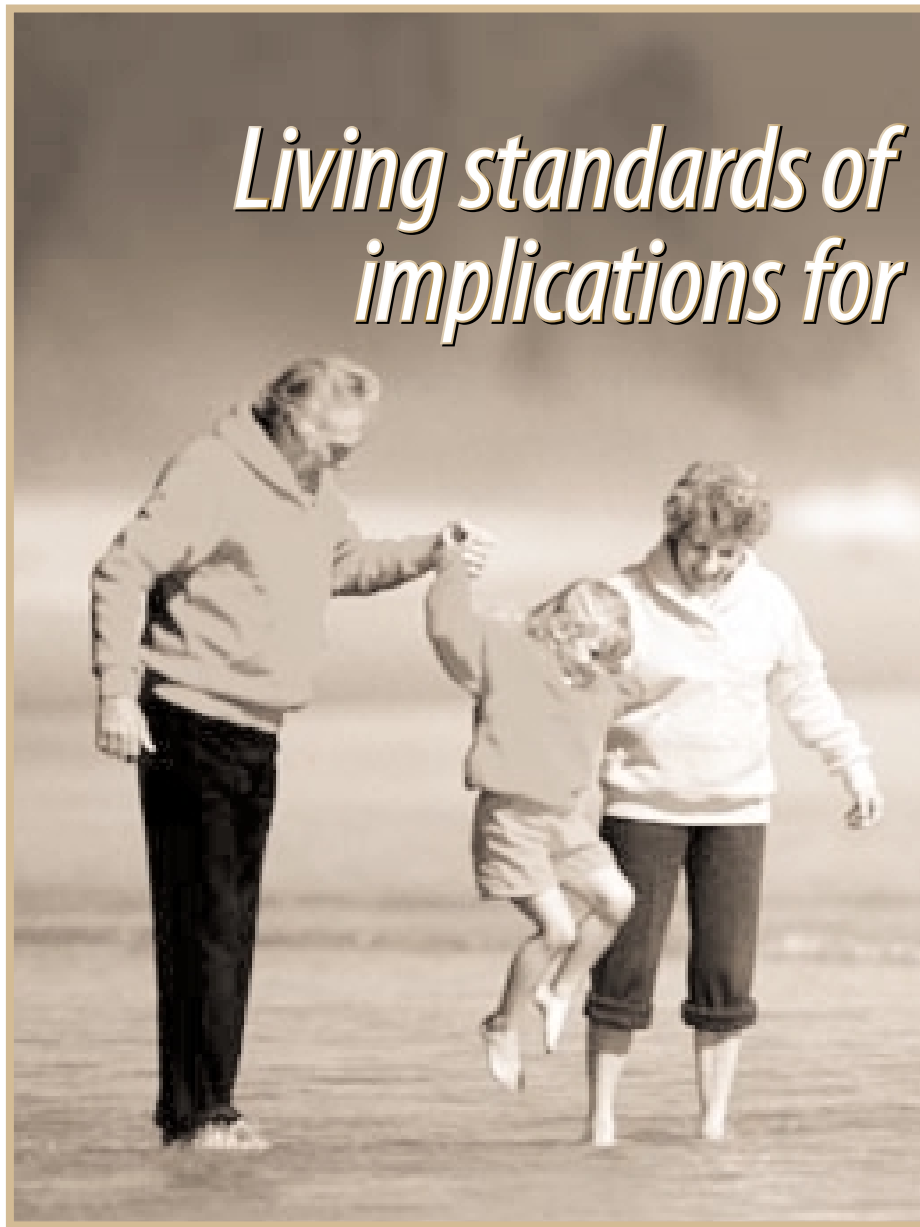
This article argues that the study does have important implications for policy directed at the young, but that it is easy to misinterpret those implications.

### Background

Between 1984–1992, median real disposable income in New Zealand fell by 14.6 per cent. Even following a modest recovery, by 1998 real incomes were still 6.8 per cent below the 1984 level (Stephens 2000). During this economic crisis, the provisions of the New Zealand welfare state, which had been generous by Anglo-American standards, were severely cut back. The most dramatic action took place in 1991 when most benefits were cut, some by as much as 25 per cent (Mackay 1998).

But there was one major exception to this general pattern: New Zealand Superannuation. New Zealand Superannuation was and remains a tax-funded, universal retirement pension. There are no eligibility tests in terms of income, assets, or employment. Between 1987 and 1996, the real equivalent income of a household whose main income source was New Zealand Superannuation remained roughly stable. In contrast, a household

# Living standards of implications for



receiving social welfare benefits had an average drop in their equivalent disposable income of 20 per cent (Periodic Report Group 1997: 33). Since the two groups had similar incomes in 1987, the income of age pensioners is now some 20 per cent higher than that of other beneficiaries. Note that this comparison is between households whose *main* source of income is a government cash transfer. The average income of age pensioners is even higher if all older households are included.

The level of New Zealand Superannuation is also high when compared with Australian rates. Table 1 shows that the ratio of the old age pension to average full-time total earnings is 16 per cent higher in New Zealand than in Australia for couples, and 29 per cent higher for a single person living alone.

It is not the case that governments considered New Zealand Superannuation as so sacred that it could not be touched. On the contrary, New Zealand Superannuation has been the subject of intense political debate throughout the entire period. The Labour Party introduced a tax surcharge on more affluent older people after it gained power in 1985. The rival National Party promised prior to the 1990 election to repeal the unpopular surcharge. It won the election, but once in office it was confronted with the prospect of a budget deficit of 6.3 per cent within four years (Mackay 1998: 15). The

# older people and policy their grandchildren

***If older people are faring rather well, what does that tell us about policy directed towards younger people? PETER TRAVERS discusses a research project conducted under the auspices of the New Zealand Ministry of Social Policy.***

newly elected government not only did not repeal the tax surcharge, but increased it.

The breaking of the promise was deeply resented, and abolition of the tax surcharge was again at the centre of the election campaign in 1996. This time the winning party kept its promise and the tax was abolished in 1998. An attempt to introduce mandatory private superannuation was made in 1997, but was rejected in a referendum by the amazing margin of 92 per cent to 8 per cent (Mackay 1998: 10). The indexation formula had been amended in 1998 to hold benefits constant in real terms for several years. A new government reversed this decision in 2000, reverting to the older more generous formula. Thus, by the year 2000, New Zealand Superannuation had emerged practically unscathed.

The above has described a pension system that is flat rate, relatively generous, with no means test or retirement test. It has not addressed what this means in practice for the living standards of older New Zealanders. For instance, how common is material hardship? How great are the differences in living standards among older people? What are the determinants of variation in living standards? How do their living standards compare those with working age New Zealanders? Above all, what are the policy implications of the answers to these questions? The following sections examine these matters.

## *The surveys*

The project described here comprises three surveys conducted under the auspices of the Ministry of Social Policy: a main survey of some 3000 people aged 65 years and over, and two supplementary surveys, one of 3682 working age people, and a second of 500 older Maori.

Statistics New Zealand was commissioned to undertake the main survey of older people and the supplementary survey of older Maori, and ACNielsen NZ Ltd was commissioned to undertake a more limited supplementary survey of people aged 18–64 years (working-aged). The survey of older Maori covered all questions in the main survey. The purpose of the supplementary survey was to boost the numbers of Maori so that more detailed analyses could be carried out. The survey of working age people is more limited in the questions asked, but it does cover the main living standards items.

All three surveys were based on stratified random samples, and all results are weighted to take account of the probability of selection, non-response and sample selection. The unit of analysis for most purposes is the income unit (Core Economic Unit). Among older people, this means in practice a family comprising a couple, a single person living alone, or a single person living with others.

I was a member of the analysis team that was based partly in Australia and partly in New Zealand. The three surveys were conducted in the first half of 2000. The full report is available from: [www.mosp.govt.nz/publications/online.0html](http://www.mosp.govt.nz/publications/online.0html).

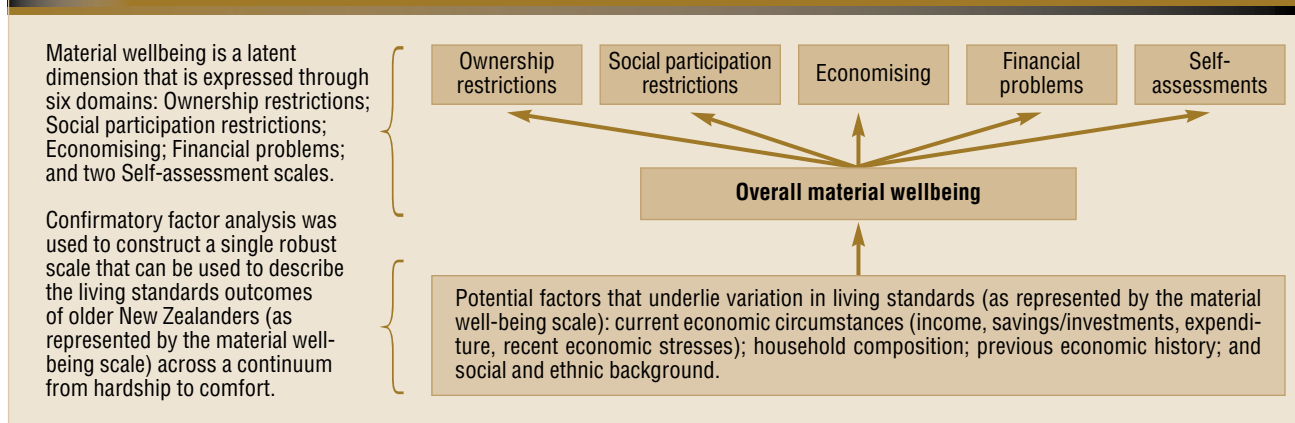
## *Methodology*

The approach taken was to use direct measures of living standards. There were two main reasons for this. The first is an acknowledgment of the well-known limitations of income and expenditure as indicators of living standards. The second was to avoid confounding the measure of living standards with the determinants of living standards. It was assumed that income would be an important determinant of living standards, and for this reason the researchers wished to avoid having income as both an independent and dependent variable.

Respondents were asked if they lacked a series of ownership items because of cost; whether they did not participate in common social activities because of cost; whether they had cut back their consumption in various areas because of cost; and whether they had experienced serious specified financial problems (see Table 3 for the full list). They were also asked to assess their living standards and the adequacy of their income.

The six components and the items that go together to make them up were identified using factor analysis. The

**Figure 1 Research approach for investigating the living standards of older people**



most technically complex phase of the study was the next step in which confirmatory factor analysis was used to verify that the six components could then be combined meaningfully into a single scale.

The final phase, the actual construction of the scale, was relatively simple. The scale is the unweighted sum of the six sub-scales, each of which has been standardised to a mean of zero and a standard deviation of one. For presentational purposes, the scale has been given a mean of 100 and a standard deviation of 10 (along the lines of an IQ scale). A high score means greater wellbeing. The approach is set out in more detail in Figure 1. The full details of the process of constructing the scale of material wellbeing are set out in Chapter 5 of the full report.

**Findings: living standards of older people**

Figure 2 shows the distribution of living standards for older people. The scale has an upper boundary maximum score of just below 115. This maximum represents someone with no restrictions in ownership, social participation, economising, or serious financial problems, and who has the maximum self-rating of standard of living and of income adequacy scores.

The figure shows that the majority of older people (about two-thirds) had an average or above average material wellbeing score (>100) relative to others. The distribution of material wellbeing scores of older people is substantially skewed, with a long left-hand side tail of a fairly small percentage of people (12 per cent) with relatively low material wellbeing scores (<90).

The scale is a means of ranking income units in such a way that a higher score implies greater material wellbeing than a lower score. The question then arises as to

what it means in practical terms to have a particular scale score. What are the implications of a person having a score that is, say, half a standard deviation above the mean (a score of 105) rather than half a standard deviation below the mean (a score of 95)?

We begin our answer to that kind of question by simply describing the circumstances of those in each scale category (Table 2). We can then make a judgment about the extent to which what we see is a cause for concern.

The results show that 7.3 per cent of the sample had low scale scores (<85), and that these are characterised both by relatively high restrictions for each of the scale components, and by a compounding of restriction types. That is, low scores indicate multiple restrictions rather than exceptionally high scores in a single restriction area. Those with scores of 100 or higher (63.3 per cent of the sample) have few ownership, participation, or economising restrictions and no serious problems.

**Findings: older and younger people compared**

The single scale described above is a ranking specific to the older population. The question of whether it is possible to rank the entire population of older and working age people on a single scale is contentious, and has not yet been examined in detail.

The report of the study adopted the more modest approach of comparing the two groups first on the basis of each of the individual items (Table 3) and then in terms of the average number of restrictions experienced in the sub-scales of ownership, social participation, economising, and serious financial problems (Table 4).

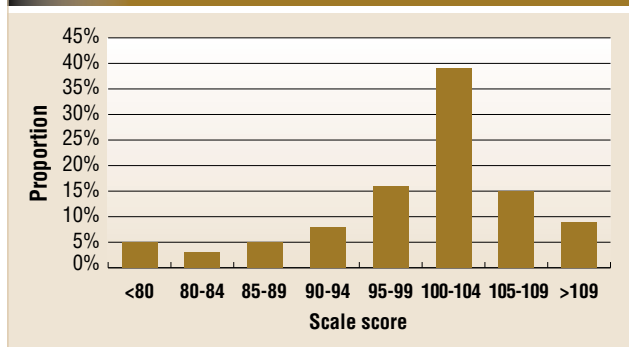
Tables 3 and 4 make a very strong case indeed that older people on average experience far fewer restrictions than do the working age population.

**Table 1 New Zealand and Australia: comparison of after tax pension/average earnings ratios**

	New Zealand Superannuation	Australian Age Pension
Married couple	67%	58%
Single person (living alone)	44%	34%
Single person (sharing)	40%	34%

*Note:* Net pension amount (April 1997) as a percentage of each country's after tax average ordinary time earnings (males and females combined, full-time equivalent) as at November 1996.  
*Source:* 1997 Retirement Income Report, Table 2.7.

**Figure 2 Distribution of material wellbeing scores for the sample of older people (N=3,013 income units)**



**Table 2** General description of material wellbeing scale categories



Scale score	General description
<b>&lt;80</b> <b>(4.5%)</b>	<ul style="list-style-type: none"> <li>Likely to lack one to four ownership items. Items that a quarter or more in this category did not have included warm good clothing, heating in main rooms, dryer, dishwasher, locks and stereo. Very likely to lack two to five participation items. More than a third in this category lacked holidays away or overseas, a night or day out once a fortnight, special meals at home once a week, or having visitors for a meal once a month. About one in five could not give presents to family/friends on special occasions. About one in ten could not participate in family/whanau activities, and one in ten could not have space for family to stay the night.</li> <li>Likely to economise a lot and may do so in two to 11 of the areas asked about. More likely areas of economising included buying cheaper/less meat, wearing old or second hand clothing, or worn out shoes, cutting back on shopping, social visits, and hobbies and postponing visits to the doctor. More than 90 per cent in this category bought cheaper or less meat and put off buying new clothes, and over a half postponed visits to the doctor. One in six people in this category economised by not picking up a prescription.</li> <li>Almost half experienced serious financial problems. If experienced, likely to be one or two. About one in four in this category could not pay their utility bill, one in five borrowed money from family or friends, and one in nine pawned or sold something.</li> <li>Just over a half rated their living standards as fairly low or low – one in five rated it as low. About two-thirds in this category indicated not enough income to meet every day needs, and one-third just enough.</li> </ul>
<b>80–84</b> <b>(3.0%)</b>	<ul style="list-style-type: none"> <li>Most likely to lack one to four ownership items which tend to relate to things such as warm, good clothing, heating in main rooms, dishwasher and locks. Most likely to lack one to four participation items, which tend to relate to holidays and going out (for example, a night out once a fortnight). About one in ten in this category did not give presents to family/friends on special occasions and one in ten did not participate in family/whanau activities because of the cost.</li> <li>Likely to economise a lot and may do so in one to nine of the areas asked about. Likely areas of economising were buying cheaper/less meat and wearing old or second hand clothing. About one third in this category postponed visits to the doctor. One in 20 people in this category economised by not picking up a prescription.</li> <li>Very unlikely to have any serious financial problems.</li> <li>Two in five rated their living standards as fairly low and about half rated it as medium. About half indicated not enough income to meet every day needs, and the other half with just enough.</li> </ul>
<b>85–89</b> <b>(4.6%)</b>	<ul style="list-style-type: none"> <li>Likely to lack one to three ownership items, which tend to relate to things such as heating in main rooms, dishwasher and locks. Likely to lack one to four participation items which tend to relate to holidays and going out (for example, a night out once a fortnight).</li> <li>Likely to economise a lot and may do so in one to five of the areas asked about. Likely areas of economising were buying cheaper/less meat and putting off buying new clothing. Just under one-fifth in this category postponed visits to the doctor.</li> <li>Very unlikely to have any serious financial problems.</li> <li>One in five rating their living standards as fairly low and most rating it as medium. About two in five indicating not enough income to meet every day needs, and the others mainly just enough.</li> </ul>
<b>90–94</b> <b>(8.4%)</b>	<ul style="list-style-type: none"> <li>About half in this category did not lack any ownership items, with the remainder lacking mainly one or two spread across the different types of items. Likely to lack one to three participation items, with the items tending to relate to holidays and going out (for example, a night out once a fortnight).</li> <li>Likely to economise a lot and may do so in one to three of the areas asked about with about. About half in this category bought cheaper or less meat.</li> <li>Generally no serious financial problems.</li> <li>Most likely to rate living standards as medium. About one in five indicating not enough income to meet every day needs, and most having enough or just enough.</li> </ul>
<b>95–99</b> <b>(16.2%)</b>	<ul style="list-style-type: none"> <li>Unlikely to lack any ownership items but may lack one or two. About half in this category did not lack any participation items, with the remainder lacking about one or two. These were likely to relate to holidays away or overseas.</li> <li>Unlikely to economise a lot but may do so in one or two of the areas asked about such as buying less or cheaper cuts of meat or putting off buying new clothes.</li> <li>No serious financial problems.</li> <li>Most likely to rate living standards as medium. About one in six indicating not enough income to meet their every day needs, and most having enough or just enough.</li> </ul>
<b>100–104</b> <b>(39.2%)</b>	<ul style="list-style-type: none"> <li>Unlikely to lack any ownership or participation items.</li> <li>Unlikely to economise a lot but may do so in one of the areas asked about.</li> <li>No serious financial problems.</li> <li>Rated living standards as medium and have enough or just enough income to meet their every day needs.</li> </ul>
<b>105–109</b> <b>(15.2%)</b>	<ul style="list-style-type: none"> <li>Unlikely to lack any ownership or participation items.</li> <li>Unlikely to economise a lot but may do so in one of the areas asked about.</li> <li>No serious financial problems.</li> <li>Rated living standards as fairly high or medium and most likely to have enough or more than enough income to meet their every day needs.</li> </ul>
<b>&gt; 109</b> <b>(9.0%)</b>	<ul style="list-style-type: none"> <li>Did not lack any ownership or participation items.</li> <li>Did not economise a lot in any of the areas asked about or have serious financial problems.</li> <li>Rated living standards as fairly high or high and had more than enough income to meet their every day needs.</li> </ul>

**Table 3** Itemised restrictions: older and younger (working-age) people



Item	Older (65 years and over)	Younger (18-64 years)
<b>Ownership restrictions</b> (Percentage of the sample reporting that they did not own item because of cost)		
Locks	5.3	4.9
Microwave	1.8	4.5
Washing machine	0.4	1.6
Dryer	3.6	10.8
Waste disposal	3.4	10.9
Dishwasher	4.9	17
Food processor	3.2	8.9
Heating in main rooms	5.9	10
Warm bedding	0.3	1.2
Warm, good clothing	5.1	10.2
Video	2.4	5.4
Stereo	2.9	3.6
Car	1.3	4.3
Television	0.2	0.5
<b>Social participation restrictions</b> (Percentage of the sample reporting that they did not engage in the activity because of cost)		
Participate in family/whanau activities	1.5	2.3
Give presents to family/friends on special occasions	2.3	3.8
Visit hairdresser once every 3 months	3.1	9.2
Holiday away from home every year	14.3	22.7
Overseas holiday once every 3 years	19.6	45.7
Day out once a fortnight	4.7	****
Night out once a fortnight	8.7	17.4
Visitors for a meal once a month	3.2	5.6
Special meal at home once a week	3.2	7.1
Space for family to stay the night	1.1	5.5
<b>Economising</b> (Percentage of the sample reporting that they economised "a little" or "a lot" on each item)		
Meat	36.1	60.9
Fresh fruit and vegetables	6.9	20.8
Second hand clothes	17.8	33.8
Wear old clothes	12.3	37.2
Put off buying new clothes	31.1	64.8
Rely on gifts of clothes	6.4	25.9
Worn-out shoes	7.8	26.9
Put up with cold	8.8	17.7
Stayed in bed for warmth	8.6	13.9
Postponed or put off visit doctor	7.7	29.5
Postponed or put off visit dentist	10.4	43.4
Gone without glasses	9.6	12.8
No or bad dentures	10.4	***
Not picked up prescription	1.4	12.0
Cut back or cancelled insurance	13.8	22.5
Cut back on social visits	10.6	30.2
Cut back on shopping	10.6	43.4
Cut back on hobbies	9.8	46.2
Not gone to funeral	4.4	11.0
<b>Serious financial problems</b> (Percentage of the sample reporting problem)		
Could not pay electricity, gas, water	1.7	12.0
Could not pay mortgage, rent	0.8	8.4
Could not pay HP, credit cards	0.6	12.3
Borrowed from family, friends	1.2	19.5
Help from community organisation	0.5	6.3
Pawned, sold something	0.9	9.0

### Policy implications: hardship among older people

The report of the study concluded that there is indeed hardship among some older New Zealanders, especially among the 5–8 per cent with the lowest scores. These people experience both a large number of restrictions and a compounding of restrictions in multiple fields.

A multivariate analysis of the determinants of scale location identified a number of significant risk factors:

- having no income apart from New Zealand Superannuation
- having no savings or investments
- paying rent or a mortgage
- being exposed to economic stress in the last year
- being exposed to economic stress between the ages of 50 and 59
- being aged under 70
- Maori ethnicity
- Pacific ethnicity
- having no formal educational qualifications
- having no employment or unskilled employment between the ages of 50 and 59 years.

A key finding of the study was that having only one or two of these risk factors means only a small increase in the chances that one will fare very badly in retirement compared to those with no risk factors. What does make a difference is experiencing four, five, or more risk factors. Those with seven or more risk factors are more than 20 times as likely to be in the bottom decile of the scale than those who have none.

The policy implication here is that an important component of social policy concerned with older people should focus on the likely contribution of *pre-retirement events and circumstances*. In particular, policy that encourages and facilitates saving and investment is important, as are policies that ensure high levels of employment and adequate income levels over the life course. In other words, good retirement policy should include events and circumstances prior to retirement.

### Policy implications: generational equity

Using the measures employed in this study, there is a clear case that older people are on average less likely to suffer deprivation than younger people. But policy implications rest on our analysis of *why* older people are less disadvantaged. Consider, for instance, the differing implications of the following three possible explanations of why older people appear to be faring so much better.

First, older people are faring better because they are a “selfish generation” who have always managed to arrange the tax and welfare systems to their advantage.

Second, older people are a select group of survivors. They are not typical of the cohort they were born into, and their current prosperity tells us nothing about the general fate of their cohort.

Third, today’s older people are not so much a “selfish generation” as a “lucky generation”.

The first explanation was suggested the day after the survey results were released, when a Wellington newspaper reminded its readers of a book entitled *Selfish Generations?* published ten years previously (Thomson 1991). Thomson’s argument was that older New Zealanders had done better from the welfare state than those

born since 1945. The older generation had, he claimed, shaped every provision to suit their immediate needs, to the detriment of future generations. The newspaper saw the surveys as confirming the accuracy of this interpretation. Not surprisingly, older people responded with anger! The biggest risk in this argument is that if it is successful, it could well result in cuts to the pension scheme. When such cuts are made, they are usually “grandfathered” and apply only to *future* pensioners. And who are these future pensioners? Presumably the very people who have already suffered at the hands of the “selfish generations”!

The second argument is that when discussing equity between generations, we should keep in mind that the older generation is always made up of atypical survivors. According to New Zealand Life Tables, 30 per cent of non-Maori women and 45 per cent of non-Maori men have died by age 77, the mean age of older people in the survey. In the case of Maori, the survival chances are much lower – only 58 per cent of Maori women and 29 per cent of Maori men survive to age 77 years. There is strong evidence that survival chances are directly linked to wealth, income, education, and occupation (Johnson and Stears 1998).

What this means is that we cannot conclude from the low levels of deprivation among older survivors that there were equally low levels of deprivation among their non-surviving peers. This argument does not refute the findings of the study. But it does suggest caution in drawing conclusions as to how favoured the older generation is.

The third and final point is that we cannot tell from a cross-sectional study such as the present one the extent to which the findings are cohort-specific. In other words, we do not know to what extent the experiences of his cohort of older people will be repeated in the life-course of today’s working-age population. The present generation of older people experienced very favourable conditions in terms of their ability to attain home-ownership (84 per cent of single people and 94 per cent of couples live in their own or a family-owned home). Divorce and separation were not common. All but the youngest cohort had little experience of unemployment and redundancy. Those who were the exceptions and who experienced financial shocks in their 50s (such as unemployment, redundancy, divorce) were much more likely to have low levels of material well-being in retirement.

This immediately suggests that the crucial issues facing the working-age population relate only in part to the level and availability of the retirement pension. The experience of the past ten years would suggest that there is increasing polarisation among people of pre-retirement age. For many, the rewards from employment have never been higher – especially those who have a spouse or partner whose market income is similarly high. For many other households the story is very different: employment is intermittent and poorly paid, and if they have a spouse or partner, their employment history is likely to be similar. Even if the present pension remains intact, it is unlikely to be sufficient to compensate for these adverse life experiences.

### Conclusions

The first policy implication to be drawn from this study affects the present generation of older people. The study

**Table 4** Mean number of restrictions for each component for all older and for younger (working-age) people

	Older (65 years and over)	Younger (18-64 years)	Significance
Serious financial problems	0.06	0.68	
Ownership restrictions	0.41	0.94	
Social participation restrictions	0.62	1.19	
Economising	2.24	5.52	
All restrictions	3.31	8.29	.000

identified areas of need (such as accommodation costs) where remedial action is clearly warranted.

The second policy implication affects older and younger people equally, although in different ways. This is the conclusion that good retirement policy includes events and circumstances prior to retirement. The difference is that for older people we are talking about past events, while for their grandchildren, they are in the main future events.

We have seen how older people on the whole experienced a life history that was favourable to their enjoyment of retirement. Their good fortune will be matched and no doubt exceeded by that of some of their grandchildren. But taking the two generations as a whole, the grandchildren undoubtedly face increased risks. Their risks include lack of the education and skills needed in a 21st century economy; family instability; greater difficulty in attaining home ownership; impediments to employment; and low wages.

These are the issues that will shape their retirement prospects, even if New Zealand Superannuation retains its present generous level and format.

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### Peter Travers addresses Institute

As reported in the last edition of *Family Matters* (no.60, p.102), this article is an edited version of a presentation at a seminar held at the Australian Institute of Family Studies on 16 August 2001, as part of the Institute’s year 2001 seminar program.