What does the 2018 Budget mean for housing for older New Zealanders?

TALK TO NORTH SHORE GREY POWER – 25th MAY 2018

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INTRODUCTION:

Perhaps the three biggest challenges facing us as New Zealanders are climate change, persistent and perhaps growing inequality and our aging society. These three challenges are not unrelated in part because there are various inter-generational tensions at play which have meant that to date we have not really addressed these challenges in any meaningful or effective way.

While our Prime Minister is a mere 37 years old and most of her Parliamentary colleagues are from Generation X rather than the Baby Boom generation it is the case that Baby Boomers and their interests dominate politics still. The reason for this is in the ballot box. There are a million or so Baby Boomers and most of them vote and while there are more Gen X and Millennials fewer vote. On any account the collective interests of Baby Boomers are well understood while those of the younger generations have yet to see a clear expression politically outside of rising concern for climate change.

But our inter-generational politics is more complex than this for at least two reasons. The first is that there is an older generation than the Baby Boomers whose needs and interests are increasingly being overlooked although perhaps not ignored outright. This is the inter-wars generation who possibly grew up during the Great Depression and served in World War II.

A second area of complexity is that not all Baby Boomers fit the stereotype of being comfortably well off. Some Baby Boomers for example are in poor health as they reach retirement age and many cannot afford to retire because they have not been able to share the Kiwi Dream of homeownership during their working lives.

These two groups of people – the survivors of the inter-wars generation and poorer Baby Boomers are the most likely to need assistance from the State for their housing. In the case of the inter-wars generation this will be through supported living and rest home care. For the poorer Baby Boomers this support will be in the form of either additional income support perhaps through the Accommodation Supplement or through the provision of state or other social housing.

This paper discusses how this assistance might roll out given the settings offered by the 2018 Budget.

OUR AGING POPULATION:

Like other western countries New Zealand's population is aging. Our median age rose from 31.4 years in 1991 to 36.9 years in 2017[1]. Projections suggest that this median age will reach 40.4 years by 2033[2]. This aging is due to three main factors :

- the high birth rate during the 20 years after World War II – the Baby Boom
- falling birth rates since the later 1950's and the fall of the rate below replacement[3].
- increasing life expectancy.

In practical terms this aging means two things – more older people and a rising share of older people in the population. These trends are illustrated in the following two graphs which are based on

projections undertaken by Statistics New Zealand. Figure 1 offers medium projections for the over 65's and the over 85's population through to 2028. The over 65's population is presently around 800,000 people and is expected to exceed one million by 2023 and 1.2 million by 2028. The over 85's population will grow even faster in proportional terms from around 88,000 people today to between 135,000 and 140,000 by 2028. This is a 47% increase in 10 years. Beyond 2028 the over 85's population will increase even faster. This is important because it is this older group of older people who are most likely to require care including facility based care.

FIGURE 1: Projections of number of people aged over 65 years—2017 to 2028[4]

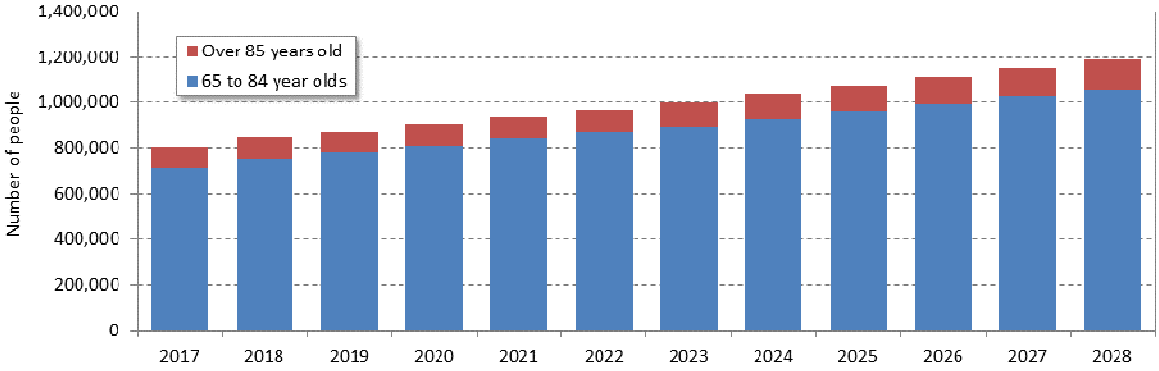
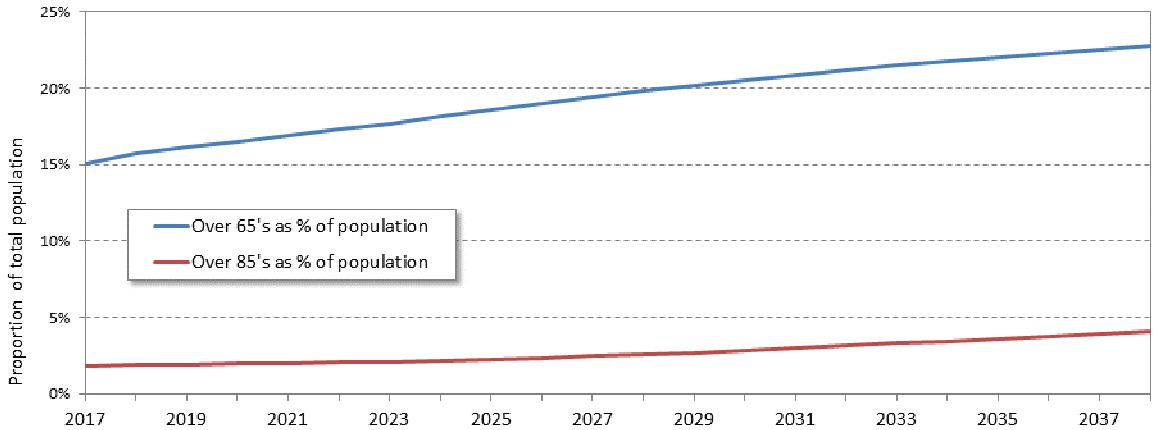


FIGURE 2: Proportion of population aged over 65 years—2017 to 2038[5]



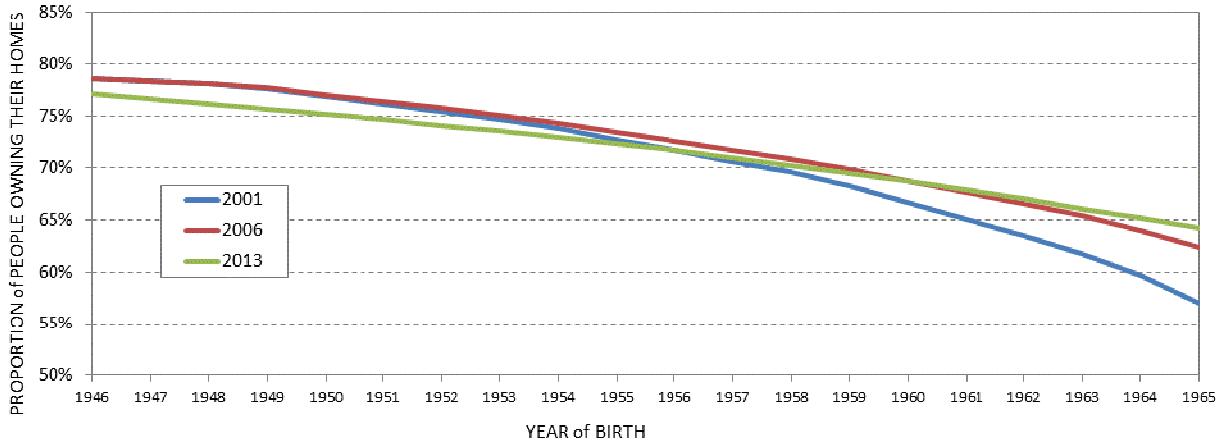
THE ACCOMMODATION REQUIREMENTS OF OUR OLDER POPULATION:

Housing and accommodation for the majority of older people is not too much of a problem. The majority of people over 65 years old own their home and are able to live independently in this home. However for poorer older people who did not manage to acquire a home during their working life and for frail older people who require more support with their accommodation, their living circumstances is perhaps not so comfortable or secure.

A structural shift has occurred in housing tenure in New Zealand since 1991. In 1991 around 74% of households owned their home – today that proportion is around 64% and still falling. It is the case that older people and older households have higher homeownership rates and this is mainly because they have had longer to accumulate the resources and incomes to be able to enter home ownership. It is also the case that the chances of a person owning their home at a certain age – say 47 years old, has declined over time. This is illustrated in Figure 3. This graph uses census data from 2001, 2006

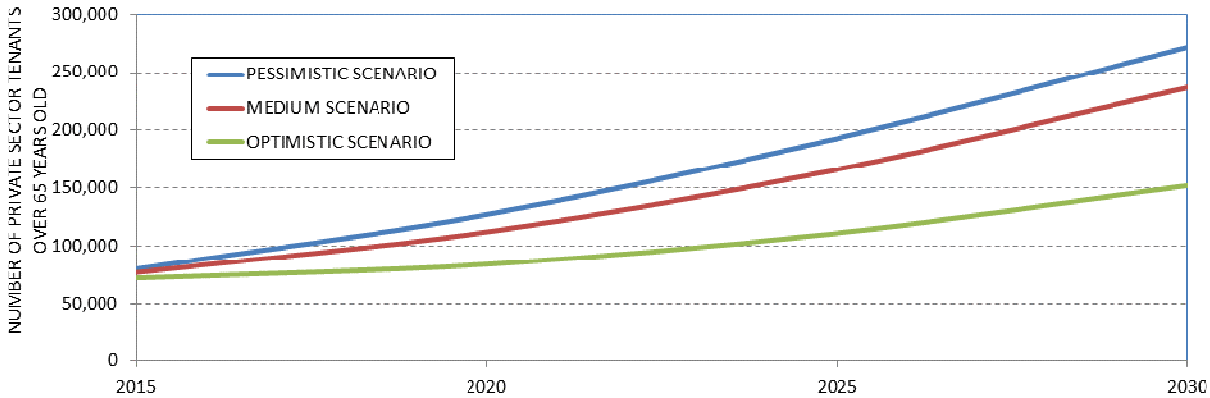
and 2013 to estimate the chances of someone born in any year between 1946 and 1965 (the Baby Boom years) of owning a house at the time of the census. In 2013 someone born in 1965 was around 47 years old and they had a 64% chance of owning their home (the green line). Someone who was 47 at the time of the 2001 Census was born around 1954. At that time they had a 74% chance of owning their home (the blue line).

FIGURE 3: Homeownership rates by year of birth of tenure holder – 2001, 2006 and 2013.[6]



This structural shift means that as different age cohorts (those born in a certain year) reach retirement age, fewer and fewer are likely to own their homes and more and more will be tenants in private rental accommodation. Forecasts of the number of people aged over 65 who will most likely end up as tenants in the private sector are provided in Figure 4. These forecasts vary between 150,000 and 270,000 by 2030 and most likely to be around 240,000. In 2015 this figure was approximately 75,000.

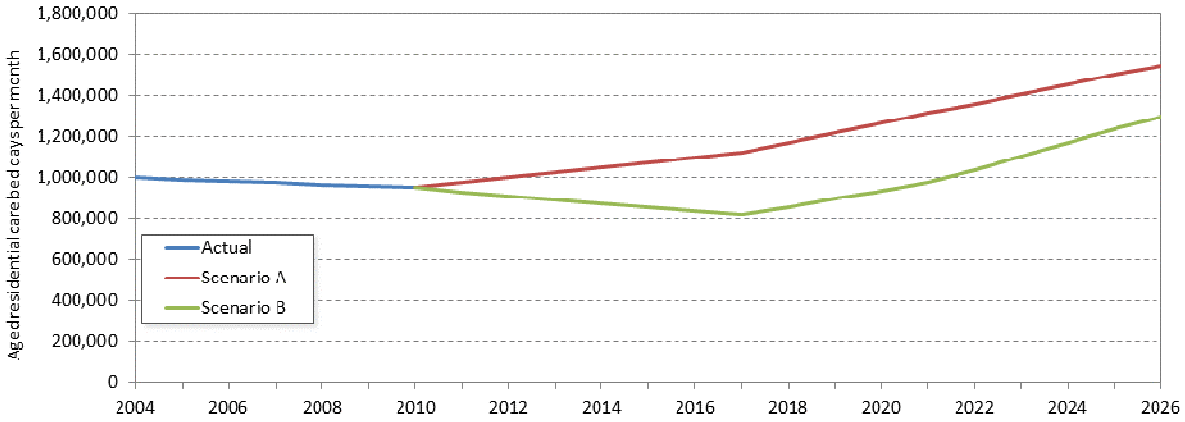
FIGURE 4: Forecasts of future demand for private rental accommodation from over 65's[7]



These numbers of older people needing to find rent for private sector accommodation is a challenge not just for them but for society. It is difficult to ascertain where the settings for the present New Zealand Superannuation came from but it seems likely that these are based on the assumption that most people owned their home at the time they retired or alternatively lived in social housing provided by Government or the local Council. New Zealand Superannuation is not sufficient to allow a person to pay private sector rent and live even modestly well. More and more older people are requiring additional support through the Accommodation Supplement but even this top up is not sufficient. In addition there are limited accommodation choices for older people in the private sector.

A second challenge comes around the provision of residential aged care. Planning by health authorities for such care appears almost non-existent with the most recent relevant study being done by Grant Thornton in 2010. A summary of their forecasts of future demand for aged residential care is offered in Figure 5.

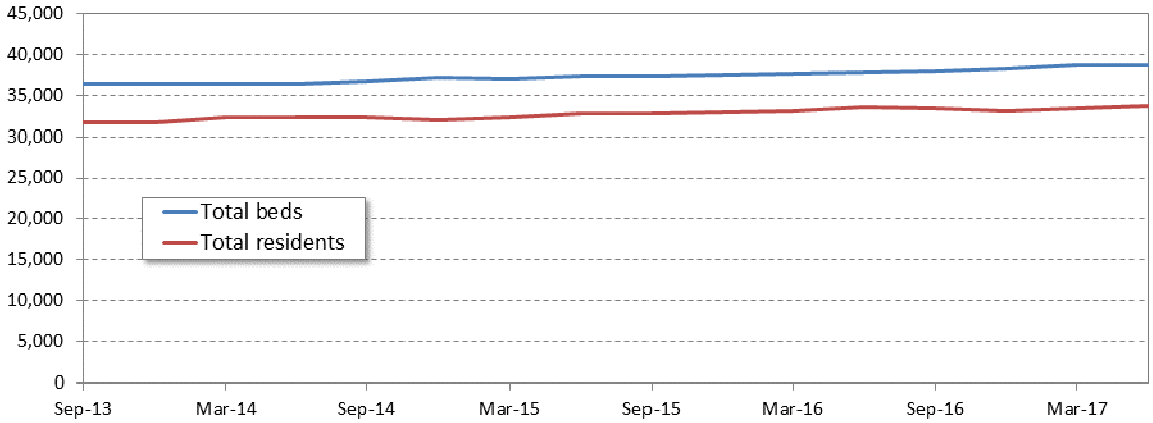
FIGURE 5: Future demand scenarios for aged residential care[8]



Grant Thornton's scenarios were based on initially falling demand for residential aged care facilites as emphasis went away from rest home level care to hospital level care. However around 2017 this demand was expected to ramp up at a rate of about 9,000 to 10,000 beds per year. In other words two new 100 bed facilities every week. Most of these beds will need to be partly or entirely funded by taxpayers as the cost of such care is beyond the majority of older people. However greater use of personal assets to pay for such care is likely to become more commonplace.

The problem to date is that the provision of additional residential aged care facilities has been very gradual as illustrated in Figure 6 for the period 2013 to 2017. This figure also shows that utilisation of the available beds has only been around 85%. This raises raises two questions. The first is that there is obvious rationing of access to such facilities by DHB's. We should probably expect this although the basis of such rationing – that is clinical assessments v budget constraints, is not clear. The second question is that further investment in residential aged care – as opposed to retirement villages, is undermined when operator/owners of these facilites can only achieve 85% utilisation. Clearly it is that case that utilisation rates will need to rise, additional places in care supported by tax revenue are inevitable and increased budgets to pay for this is unavoidable.

FIGURE 6: Supply and occupancy of residential care facilities—2013 to 2017[9]



WHAT DOES THE 2018 BUDGET OFFER?

Overall the 2018 Budget offered few surprises. The main budgetary initiatives of the new Government were announced in its so-called mini-budget in December 2017. The main initiative announced then was the Families Package which amongst other things put $1 billion extra into Working for Families. The extra $400 million annually going into housing subsidies also announced in December 2017 had already been provided for in the previous Government's budgets. It is worth noting however that the $1 billion in extra Working for Families payments merely reinstates the cuts to this budget since 2010.

The Labour-led Government's 2018 Budget was little different in flavour or focus to those of the last two or three of the previous National-led Government. The focus remains on meeting obligations to current New Zealand Superannuation entitlements (which is nearly $1 billion extra each year), limiting overall core Crown expenditure spending to less than 30% of GDP, running surpluses and using these surpluses to pay down debt or invest in infrastructure. All in all a sober responsible approach.

But this is a sober responsible approach if you ignore the other deficits which were allowed to grow under National-led Governments and from all accounts are not being fully addressed by the present Government. Two of these deficits are in health and housing.

As with the previous Government the present Government has made a big deal over all the additional money it is spending on public services such as health. For example much was made of the $3.2 billion in extra health spending [10]. Three things need to be said about this figure however.

Firstly this $3.2 billion is over four years so is an average annual increase of $800 million on a operating budget of $16 billion – in other words a 5% increase.

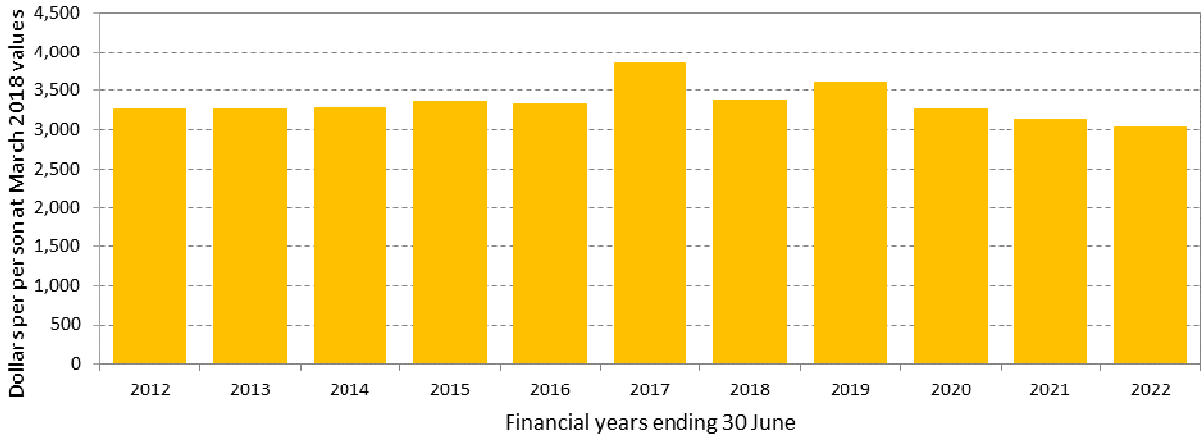
Secondly this figure includes $1.6 billion in capital spending so the increase in operating spending is $1.6 billion over four years or $400 million per year on average – in other words a 2.5% increase in operating spending.

Thirdly these figures don't take account of inflation, possible wage increases for nurses and other or population growth.

If we take account of past and expected population growth and inflation and then estimate the per-person spend on public health in inflation adjusted dollar terms we get a graph like that offered in Figure 7. This shows a small boost in per-capita health spend between 2018 and 2019 but declines from around $3500 per person to $3000 by 2022.

Granted these future figures are only estimates and can and most likely will change but the present budget settings, as for most of the budget settings over the last six years, have not provided for any real increase in public health spending on a per-capita basis.

FIGURE 7: Real per-capita public health spending– 2012 to 2022[11]



This failure to address the need for a real increase in per-capita health spending is a form of deficit which is not even talked about in the 2018 Budget. The reason an increase in per-capita health spending is desirable is because of our aging population and the health and care needs of an growing population of older people.

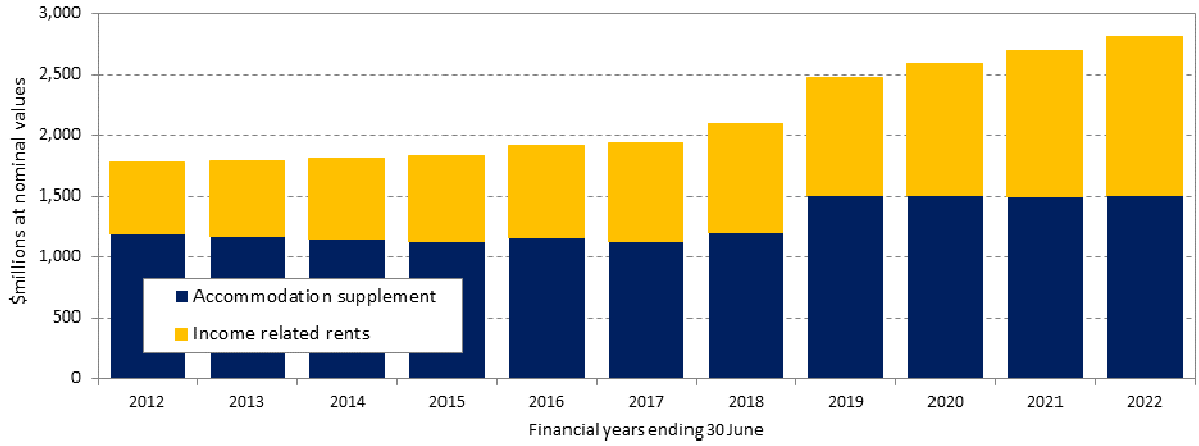
It is particularly in the area of aged care and especially aged residential care that the squeeze is likely to come. As discussed above it is not clear what and how the aged care subsidies are spent or allocated so there is room for subtle manipulation of access rules to allow DHB's and the Government to live within budgets. The real crunch in provision of residential aged care places is unlikely to come before 2025 although without some growing provision of and funding for these services access to them will become more and more restricted from now on.

Figure 8 reports changes in Government spending on the two main housing subsidies – the Accommodation Supplement and income related rent subsidies for state and social housing. These budgets show and increase of $400 million between 2018 and 2019 and a further increase of $300 million between 2019 and 2022. These are substantial sums although in total are less than one year's increase in New Zealand Superannuation.

These increases are due to two things. The immediate increase is due an adjustment to the maximums payable in Accommodation Supplement payments. These maximums had not been adjusted since 2007 and given rent increases since then they were well overdue. These increases may yet feed into higher rents and so into lanlrods' pockets but time will tell.

The later increases – from 2019 onwards, is to pay for higher income related rent subsidies for state and social housing. These increases are due in part to increasing subsidy rates to Housing New Zealand and other social housing providers and in part to modest increases in the numbers of social housing units provided.

FIGURE 8 Main housing subsidies – 2012 to 2022[12]



It is this additional provision of social housing which is a disappointing result from the 2018 Budget. The Salvation Army's work on estimating future demand for state and social housing recommended that we need to build an additional 2000 units per year to ensure that levels of homelessness do not become worse[13]. This 2000 figure was a minimum not a target and was largely based on expected need for social housing from older people. Regrettably the Government has proposed to build 6400 state and social housing units over the next four years. This difference most likely will contribute to increasing levels of homelessness and very poor housing outcomes and increasingly it will be older people at risk of such outcomes.

CONCLUSIONS:

It would be premature and unfair to dismiss the present Government as being indifferent to the housing and accommodation needs of older New Zealanders. This Government has more or less continued the budget settings of the previous Government so both inherited and to some extent continued the various social deficits which have gone with these settings. These deficits are particularly around health and housing but also include child poverty. A change of heart is needed in order for these budget settings to be changed significantly and for these deficits to be addressed adequately. Let's remain hopeful that this change of heart is forthcoming and let's help it to happen with robust respectful dialogue as the good hearted New Zealanders we are.

ENDNOTES:

[1] Statistics New Zealand's National population estimates which is available on Infos.

[2] Statistics New Zealand's National population projections characteristics which is available on NZStat.

[3] At the peak of the Baby Boom in 1947 New Zealand's birth rate was 27.64 births per 1000 population. In 2017 it was 12.43/1000 – the lowest on record. Statistics NZ

[4] Source: Statistics New Zealand's Population Forecasts—2014 base using the 90th percentile projections.

[5] Ibid.

[6] These estimates are based on customised census data supplied by Statistics New Zealand

[7] Johnson, A. (2015) *Homeless Baby Boomers: Housing poorer baby Boomers in their retirement*. The Salvation Army. Figure 4:10 p.40 Available at http://www.salvationarmy.org.nz/research-media/social-policy-and-parliamentary-unit/reports/homeless-baby-boomers

[8] Grant Thornton (2010) Figure 1 p.7.

[9] New Zealand Aged Care Association's Quarterly Bed Survey—June 2017.

[10] See for example the Radio New Zealand report of 17 May at https://www.radionz.co.nz/news/political/357697/how-healthy-is-the-government-s-budget-boost

[11] NZ Government Budget Estimates of Appropriations 2018

[12] Ibid

[13] Johnson, A. (2017) *Taking Stock: The demand for social housing in New Zealand*. The Salvation Army. Available at http://www.salvationarmy.org.nz/research-media/social-policy-and-parliamentary-unit/reports/taking-stock-2017