Kāpiti Coast Older Persons' Council

A Voice For Our Community

INFORM - ADVOCATE - EMPOWER

Submission to Minister For Seniors

Hon Tracey Martin

Financial Security In Older Age

Introduction

The 2019 report, "Better Later Life" aims to ensure effective policies are in place as our NZ population ages. Within this framework is the need to prepare for economic security. However, over the past decade, financial security for older people has eroded. With many seniors left with insufficient savings, or equity in their homes they are unable to utilise, many struggle to maintain a good quality of life. This submission seeks to outline some of the components that have led to the erosion of financial security and proposes some practical measures by which this may be restored.

1. Housing is at the heart of quality of life

Housing is regarded by many leading researchers as at the centre of social connectivity (Goetz 2003; Phillipson, et al., 2004; Allan & Phillipson 2008; Buffel et al 2014; Mence 2017). Stable home ownership or rental accommodation is central to the capacity of seniors to form social connections within their communities. With a severe shortage of rental accommodation available, home ownership provides the best option for housing stability. However, owning and maintaining a home into retirement is increasingly difficult. Over the past decade, home ownership has declined by approximately 15% for those aged 65 and over, with a corresponding 14% rise in those seniors who have mortgages.

In addition, 60% of seniors rely on superannuation to meet living expenses (source: www.grownups.co.nz. Time to review superannuation). Once mortgage payments are made, there is little money left to meet repairs and maintenance or other large expenses such as the replacement of an aging vehicle. Furthermore, increases in superannuation have not kept pace with increases in local body rates, which many superannuitants now struggle to pay. Anecdotally, we hear of many seniors going without food or medical care to pay for rates.

Home ownership is declining and for seniors with little or no savings, housing instability through rental accommodation is now the norm. Current market rents are not met by superannuation payments and meagre savings are eroded in topping up high rents. Long waiting lists for social housing mean seniors can wait up to two years for council housing and retirement villages offer no rental options.

2. Home equity has no value

Seniors are often described as “asset rich and cash poor”, with a significant amount of equity in their homes, while cash flow barely meets basic needs. For those who do have savings, returns are low. With 90-day bank bills currently trading at 1.23%, the outlook for an improving return on savings is not good. However in the current financial climate, with its restricted lending criteria, equity has no value. Many seniors can be occupying houses with a value of $700,000 or more, with 85% equity in the property, which is regarded by the banks as insufficient to allow even a small loan to be approved (beyond that borrowed for the mortgage). Thus, even a small mortgage top-up of $5,000 is likely to be declined where the older person has no income other than superannuation.

Since the global financial crisis of 2008, the pendulum has swung back to a conservative lending profile which has locked seniors out of the lending market. We have heard much about the “bank of mum and dad” with respect to young people buying their first home. For seniors, this is now being reversed, with banks advising retirees to put their income earning children on the mortgage in order to qualify for a mortgage top-up. We consider such arrangements could lead to a loss of independence for seniors along with an increased risk of coercion and elder abuse.

The risk of loan default is not high, in many instances the amount of the loan sought is small and equates to approximately 2% of the equity in the property (for example, a $10,000 loan against equity of $500,000) Yet still the application is declined. The focus of the bank’s criteria is on income, which discriminates against people who are retired.

3. Loss of financial options

Banks appear to be adhering to the letter of the law while ignoring the patently obvious with regard to lending criteria. Throughout their working lives, superannuitiants have been encouraged to invest in home ownership and to use this equity as a means of improving quality of life in older age. Until recently, wage earners were told not to sit on a freehold asset but to use this asset to acquire rental property or other investments. Equity however, now carries very little weight. Older people are now left with no options because the rules have changed. The risks of a default however, are low. This is an ageist perception which needs to be addressed.

Nonetheless, with a focus entirely on income, the impacts of this one-dimensional financial criteria are far reaching. Loss of social connectivity occurs as seniors are unable to replace aging vehicles. For many, Gold Card travel is impractical (e.g. Kapiti to Wellington, often a tiring 4-hour commute for a maximum 4 hours at the destination). Many clubs and organisations hold their meetings at night and have no public transport. Access to health services is not feasible using public transport with respect to hospital appointments or attendance at A & E. Food shopping becomes onerous without a vehicle.

Replacing a vehicle is a major difficulty for many superannuitants. In line with the government’s strategy for encouraging electric car purchases, seniors would benefit greatly from a low-cost loan toward the purchase of a used electric car.

In the home, essential repairs and maintenance are not carried out, gutters are not cleaned, windows remain broken or draft-prone and floorboards remain rotten. Woodburners are not cleaned, increasing fire risk. Quality of life decreases, exacerbated by living in cold damp drafty houses, reduced access to health services and more limited healthy food choices.

4. A lending monopoly

With an erosion of financial security comes a loss of options for financial management. Currently, one of the few organisations who will lend to a senior with no income is one bank specialising in reverse mortgages. This bank has the monopoly on the market and charges accordingly. When a reverse mortgage is taken out, the bank takes over the full mortgage, charging interest rates approximately double that of the current market. This bank's marketing criteria is also misleading, with what we consider are inflated projections of capital gains in a property market that has largely plateaued. It is inequitable that current legislation allows banks to refuse loans to older people while permitting reverse mortgages at twice the market rate. Under these lending terms, we consider seniors are being exploited and mislead.

Prior to 2008 many seniors could apply to Work and Income for a repayable advance to help with repairs and maintenance. This facility was offered with the knowledge that seniors' access to credit was restricted and they often had no other way to pay for essential repairs. This facility is no longer offered, and seniors are left with very few options, other than loan sharks, if repairs are needed. It has been suggested many times over the past decade, by many working in aged care services, that this repayable advance facility be reinstated. However, it seems to fall on deaf ears. We would like to see this discussion reinvigorated with respect to "Better Later Life" with Work and Income able to provide repayable loans for essential repairs where these cannot be funded from other sources.

Accordingly, we request that you consider the following recommendations:

1. A review of banks' lending criteria for seniors be carried out, with the aim of placing more emphasis on equity acquired and less on income received. An actuarial basis for establishing risk in relation to loans to seniors should be employed.

2. Retirement Villages should be required to provide a specific number of units as rental accommodation for seniors. We consider an initial target of 5% of residential units is achievable and could be expanded at a later date.

3. A reinstatement of Work & Income repayable advances for repairs and maintenance, the advance to be either repaid over an agreed period or to remain as a lien on the property. In addition, where vehicle replacement is needed, the older person should be eligible for a low-cost loan toward the purchase of a good quality used electric vehicle.

4. Require reverse mortgage lenders to lend at market rates, with a small margin allowed to reflect the indeterminant term of the loan.

5. Extend the hours of Gold Card use on weekdays to 4 pm, to allow seniors free travel within reasonable time frames.

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