Retaining the Age of Qualification for New Zealand Superannuation

by Keith Rankin, 20 June 2012

There are a number of important issues around New Zealand Superannuation, with the age of qualification being the most contentious one at present. There are two broad reasons why the qualification age should stay at 65.

One reason relates to the general idea that economic growth is a good thing because it implies rising living standards. On this basis, a means to economic growth that requires reduced living standards cannot be a good idea. The other relates to misleading projections of life expectancy for those generations who expect to live into the final decades of this century.

Economists are perceived to have a growth obsession. For economic historians, growth means a rise in gross domestic product per person (GDP *per capita*); a measure of rising living standards as well as a measure of increased output of goods and services. The other principal measure of increased living standards is average life expectancy.

What is missing here is a measure of free time. In the period from 1850 to 1950, GDP per capita understated the rise in living standards. Over that century, the average amount of life-time hours committed to paid work decreased substantially.

From the 1980s, however, the reverse started to happen, with multiple pressures on both men and women to increase their life-time hours of commitment to the labour market. In addition, there was a substantial rise in income inequality.

This means, that GDP growth has substantially overstated increases in living standards since the 1980s. Increased access to goods and services has come, for most, at a substantial cost. Raising the age of access to our publicly-sourced pension will further raise that cost.

Our second measure of living standards is average life-expectancy, and on this measure living standards in New Zealand have indeed increased since the 1980s. This measure also has flaws. There are generational influences on life-expectancy that our actuarial methods of calculation cannot pick up. Further, almost nothing in the real world follows a simple trend-line forever.

Economic historian and demographer Richard Easterlin developed an important hypothesis. Easterlin showed that "boom" generations (such as the baby-boomers) have to work longer hours to maintain expected material living standards, and on average die younger than expected.

On the other hand, "bust" generations such as those born in the 1930s and early 1980s would work shorter hours and live longer. The bust generations would find work more easily as school leavers, and have more control over their working lives.

The generation most adversely affected today by intra-generational competition would be the later baby-boomers; in New Zealand those born between 1960 and 1975. And indeed we do find that this generation experienced higher than expected death rates as teenagers and young adults, and have faced significant adverse labour market experiences.

They copped the high mortgage interest rates of the later 1980s, the big rises in student fees from 1989, and the huge unemployment rates of the early 1990s. And now they stoically face the prospect of both having to wait later for a pension and dying younger than those born in the 1940s.

We are treating the baby-blip mini-generation (persons born from 1987 into the early 1990s) in a similarly adverse way today.

Recent talk by the Financial Services Council of life-expectancies well into the 90s by 2070 is quite irresponsible and self-serving. At about the same-time (on TVNZ's Sunday programme, 10 June 2012), there was an item about sugar addiction and the likelihood that today's young would die younger than their parents.

Life expectancies increased last century for two major reasons - antibiotics and reduced rates of smoking. For the young today, antibiotics, having been misused by their elders, may become substantially less effective. Child poverty, diabetes, addictive substances and sedentary lifestyles will take their toll.

Healthcare systems - and aged care infrastructure - are in financial crisis through much of the developed world. The increasingly scarce resources in these sectors are being purchased by the top ten percent on the income scale. The intransigent economic problems that are leading to misplaced public sector austerity are going to get worse, not better, although there will be intermittent recoveries.

In short, persons born in the 1960s are unlikely to outlive their 1940s' born parents. Generations born after 1990 stand to have even shorter life expectancies, unless we create opportunities for them now. One key opportunity is for older people, facilitated by Superannuation, to move into the voluntary-sector, creating more opportunities for the young to enter the employment pipeline.

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