



Fin-Ed Centre



UNIVERSITY OF NEW ZEALAND

FINANCIAL EDUCATION AND RESEARCH CENTRE

# New Zealand Retirement Expenditure Guidelines

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Workplace Savings NZ is a national, not-for-profit, apolitical membership organisation that represents the interests of employers who offer workplace retirement savings schemes, their trustees and members, as well as superannuation industry service providers including KiwiSaver, and professional advisers. We are the peak industry body focussed on advancing the sustainable, effective and efficient delivery of workplace savings outcomes for all involved. Our membership, which includes corporate, public sector & industry superannuation funds, KiwiSaver schemes as well as individuals and service providers to workplace savings arrangements has over 90% of the approximately 2.5 million New Zealanders with Workplace Superannuation and/or KiwiSaver membership. Workplace Savings NZ members manage or advise on the bulk of the \$26.7 billion in workplace retirement savings assets as at June 2012.

## Fin-Ed Centre



FINANCIAL EDUCATION AND RESEARCH CENTRE



The Financial Education and Research Centre was founded by Westpac New Zealand and Massey University to improve New Zealanders' knowledge, attitudes and behaviour towards money matters. Westpac and Massey University are committed to improving financial literacy for the benefit of the country. The Fin-Ed Centre aims to improve the quality and accessibility of personal financial education, while addressing identified knowledge gaps. Key projects include a 20-year longitudinal study that will follow up to 300 New

Zealanders to understand their needs for financial knowledge at different life stages, a multi-level certification programme for personal financial educators and the New Zealand Retirement Expenditure Survey – a joint initiative between the centre and savings industry body Workplace Savings NZ to establish guidelines for 'modest' and 'comfortable' retirement.

### About the author

Dr Claire Matthews joined Massey University in late 1996 after nearly 12 years with Trust Bank in a variety of roles. Since January 2009, Claire has been Director, Financial Planning, with overall responsibility for the Personal Financial Planning endorsement of the Graduate Diploma of Business Studies. Claire's primary teaching responsibilities are in the university's financial advice and post-graduate banking programmes. Her research interests centre on consumer's financial behaviour, decisions and attitudes, with a particular interest in payment channels including internet banking, and KiwiSaver. Claire has a PhD in Banking on the subject of Switching Costs in the New Zealand Banking Market, and is a Fellow of the Financial Services Institute of Australasia.

### Acknowledgements

This work is based on/includes Statistics New Zealand's data which are licensed by Statistics New Zealand for re-use under the Creative Commons Attribution-Noncommercial 3.0 New Zealand license.

### Disclaimer

The views expressed in this report are those of the author and do not necessarily represent the views of Workplace Savings New Zealand or its members, the Fin-Ed Centre, Massey University or Westpac New Zealand Limited. This document is a general guide to retirement expenditure, and should not be relied upon or used as a substitute for professional advice specific to individual circumstances. The author is not an authorised or registered financial adviser.

### Previous edition

August 2012: available at <http://nzcpfe.massey.ac.nz/Research/139174NZRetirement.pdf> or <http://www.workplacesavings.org.nz/assets/Downloads/NZRetirementExpenditureGuidelinesAug2012.pdf>

There is increasing emphasis on retirement planning in New Zealand, in response to concerns about the affordability and adequacy of NZ Superannuation<sup>1</sup>. To assist in this process, the first New Zealand Retirement Expenditure Guidelines report was produced in 2012<sup>2</sup> to provide information to assist with retirement planning. Specifically, the New Zealand Retirement Expenditure Guidelines provide information on levels of expenditure to assist budget planning for retirees.

However, expenditures change over time due to the effect of inflation and varying expenditure patterns. This report addresses the effect of inflation by adjusting the guideline figures for inflation in the twelve months to 30<sup>th</sup> June 2013. Alterations to expenditure patterns are more complex, and will be addressed in the 2014 report after the next iteration of the Household Economic Survey [HES] is released. In addition to the direct inflationary impact on expenditure, this report provides information on housing costs.

### **Data**<sup>3</sup>

The data used to prepare these budget guidelines are from Statistics New Zealand's triennial Household Economic Survey<sup>4</sup>. The most recent HES was for the year ended 30 June 2010. The HES does not include the entire New Zealand population; rather it targets the New Zealanders aged 15 years or older that are usually resident in New Zealand and that live in private homes.

The data from the HES is published on the Statistics New Zealand website, but not in a form considered helpful to a person interested in retirement expenditure. To enable these budget guidelines to be prepared, Statistics New Zealand has extracted data from the HES, using specifications supplied for that purpose. Those specifications include geographic region and number of people in the household, for households where the main form of income is New Zealand Superannuation. Notes related to the use of the HES data are located in the Appendix 1.

### **About the Expenditure Guidelines**

The New Zealand Retirement Expenditure Guidelines comprise a set of eight expenditure guidelines, to reflect different groups of retirees. The groupings are based on geographic location, household size and budget type. It is important to note that these guidelines do not represent suggested or recommended levels of expenditure – they reflect actual levels of expenditure of retirees.

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<sup>1</sup> New Zealand Superannuation is the universal public pension provided by the government to New Zealanders who attain the age of eligibility, which is currently 65.

<sup>2</sup> The 2012 report is available online from the Fin-Ed Centre (<http://nzcpfe.massey.ac.nz/Research/139174NZRetirement.pdf>) or Workplace Savings NZ (<http://www.workplacesavings.org.nz/assets/Downloads/NZRetirementExpenditureGuidelinesAug2012.pdf>).

<sup>3</sup> Additional detail on the data used is available in the 2012 report

<sup>4</sup> The information about the triennial Household Economic Survey is from the Statistics New Zealand website, and further information is available at [http://www.stats.govt.nz/browse\\_for\\_stats/people\\_and\\_communities/Households/HouseholdEconomicSurvey\\_HOTPYeJun10/Technical%20Notes.aspx](http://www.stats.govt.nz/browse_for_stats/people_and_communities/Households/HouseholdEconomicSurvey_HOTPYeJun10/Technical%20Notes.aspx)

The guidelines have been produced for two geographic-related groupings. The first is the **Metro** budget, based on data for the Auckland and Wellington Regional Council areas. The second is the **Provincial** budget for the rest of New Zealand excluding Canterbury Regional Council.

Two types of households have been included in the guidelines: the first is the **one-person household**; and, the other is a **two-person household**. While retired households can comprise a range of living arrangements, including households of three or more people, these guidelines cannot cater for every situation. One and two person households represent approximately 96% of all retired households.

Finally, two levels of expenditure have been included in the guidelines. The **No Frills** guidelines reflect a basic standard of living that includes few, if any, luxuries. The **Choices** guidelines represent a better standard of living, which includes some luxuries or treats. The No Frills budget is based on the 25<sup>th</sup> percentile of the HES for retired households, while the Choices budget is based on the 75<sup>th</sup> percentile of the HES for retired households.

Data for the HES is collected over a 12-month period and can include expenditure for a two-year period – no adjustment is made for that difference in coverage. The 2012 report adjusted the HES data for the effect of inflation<sup>5</sup> between the June 2010 quarter and the June 2012 quarter. This report makes a further adjustment for the effect of inflation for the 12 months ended 30<sup>th</sup> June 2013.

The 2012 report includes some detail of what the expenditure levels in the guidelines mean in practical terms, in order to put the numbers into perspective.

### **Explanatory Notes**

- These guidelines do not represent recommended levels of expenditure.
- The levels of expenditure shown in the guidelines should be used to assist in the development of projected retirement budgets, by providing information about actual levels of expenditure by retirees in standard expenditure categories.
- The guidelines are based on percentiles, which by their nature are not additive. As a result, the subgroup figures do not add to the group figures. This reflects the fact, for example, that no household would be spending at exactly the 25<sup>th</sup> percentile for all subgroups within a group.
- Users are encouraged to focus on the group and subgroup figures rather than the total expenditure level. The group figures have been added to give the total expenditure, but this is likely to underestimate the total level of non-housing expenditure to some extent, again because no household would be spending at exactly the same percentile for all groups.

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<sup>5</sup> CPI information and data was sourced from

[http://www.stats.govt.nz/browse\\_for\\_stats/economic\\_indicators/CPI\\_inflation.aspx](http://www.stats.govt.nz/browse_for_stats/economic_indicators/CPI_inflation.aspx)

An overall CPI figure is calculated by Statistics New Zealand, as well as CPIs for the constituent groups and subgroups. The HES data have been adjusted for the effect of inflation using the appropriate group and subgroup CPIs.

- The HES, on which the guidelines are based, relies on participants to accurately record their expenditure, and is only for a two-week period, which may not represent a typical fortnight for that household.
- The guidelines should not be used as a substitute for professional advice specific to individual circumstances.

## The New Zealand Retirement Expenditure Guidelines

### ONE PERSON HOUSEHOLD – No Frills

	Metro	Provincial
<b>Food</b>	56.06 <sup>6</sup>	52.54
Fruit and vegetables	5.97	4.95
Meat, poultry and fish	5.85	3.72
Grocery food	18.15	23.39
Non-alcoholic beverages	0.00	0.00
Restaurant meals and ready-to-eat food	0.00	0.00
<b>Alcoholic beverages, tobacco and illicit drugs</b>	0.00	0.00
<b>Clothing and footwear</b>	0.00	0.00
Clothing		
Footwear		
<b>Household energy</b>	18.42	18.19
<b>Household contents and services</b>	0.98	2.36
Furniture, furnishings and floor coverings		
Household textiles		
Household appliances		
Glassware, tableware and household utensils		
Small tools & accessories for the house & garden		
Other household supplies and services		
<b>Health</b>	0.00	0.00
Medical products, appliances and equipment		
Out-patient services		
<b>Transport</b>	4.61	5.37
Private transport supplies and services	0.00	0.00
Passenger transport services	0.00	0.00
<b>Communication (Telecommunication)</b>	8.97	9.98
<b>Recreation and culture</b>	8.45	8.55
Audio-visual and computing equipment		
Other recreational equipment and supplies		
Recreational and cultural services		
Newspapers, books and stationery		
Accommodation services		
Miscellaneous domestic holiday costs		
<b>Miscellaneous goods and services</b>	16.14	16.36
Personal care	0.00	0.00
Personal effects nec	0.00	0.00
Insurance	0.00	0.00
Credit services	0.00	0.00
Other miscellaneous services	0.00	0.00
<b>Other expenditure</b>	0.00	0.00
Interest payments		
Contributions to savings		
Expenditure incurred whilst overseas		

<sup>6</sup> Where there is a conflict between the total for the subgroups and the amount for the related group, the larger number has been used at the group level

**TOTAL**

**113.62**

**113.35**

## ONE PERSON HOUSEHOLD – Choices

	Metro	Provincial
<b>Food</b>	<b>107.75</b>	<b>96.43</b>
Fruit and vegetables	20.37	18.46
Meat, poultry and fish	27.56	14.68
Grocery food	42.27	46.36
Non-alcoholic beverages	6.23	5.37
Restaurant meals and ready-to-eat food	11.54	11.64
<b>Alcoholic beverages, tobacco and illicit drugs</b>	<b>7.08</b>	<b>11.22</b>
<b>Clothing and footwear</b>	<b>14.50</b>	<b>8.70</b>
Clothing	14.49	2.90
Footwear	..S <sup>7</sup>	0.00
<b>Household energy</b>	<b>34.31</b>	<b>42.43</b>
<b>Household contents and services</b>	<b>16.10</b>	<b>18.07</b>
Furniture, furnishings and floor coverings	0.00	0.00
Household textiles	..S	0.00
Household appliances	0.00	0.00
Glassware, tableware and household utensils	..S	0.00
Small tools & accessories for the house & garden	0.00	0.60
Other household supplies and services	5.53	5.23
<b>Health</b>	<b>20.94</b>	<b>22.30</b>
Medical products, appliances and equipment	5.17	6.93
Out-patient services	10.56	15.38
<b>Transport</b>	<b>47.04</b>	<b>40.24</b>
Private transport supplies and services	38.77	32.99
Passenger transport services	2.84	1.05
<b>Communication (Telecommunication)</b>	<b>22.67</b>	<b>19.79</b>
<b>Recreation and culture</b>	<b>36.63</b>	<b>44.11</b>
Audio-visual and computing equipment	0.00	0.00
Other recreational equipment and supplies	7.29	10.74
Recreational and cultural services	22.48	27.15
Newspapers, books and stationery	5.13	7.08
Accommodation services	..S	0.00
Miscellaneous domestic holiday costs	0.00	0.00
<b>Miscellaneous goods and services</b>	<b>46.45</b>	<b>55.01</b>
Personal care	8.55	12.21
Personal effects nec	0.00	1.63
Insurance	27.56	31.43
Credit services	1.11	0.44
Other miscellaneous services	0.00	0.00
<b>Other expenditure</b>	<b>2.90</b>	<b>0.80</b>
Interest payments	0.60	0.00
Contributions to savings	..S	..S
Expenditure incurred whilst overseas	..S	..S
<b>TOTAL</b>	<b>356.37</b>	<b>359.10</b>

<sup>7</sup> ..S indicates that too few households reported spending in that category to permit reliable estimation by Statistics New Zealand in the HES



## TWO PERSON HOUSEHOLD – No Frills

	Metro	Provincial
<b>Food</b>	<b>93.86</b>	<b>96.53</b>
Fruit and vegetables	8.44	12.61
Meat, poultry and fish	11.06	11.17
Grocery food	39.33	44.58
Non-alcoholic beverages	1.93	2.90
Restaurant meals and ready-to-eat food	4.17	0.00
<b>Alcoholic beverages, tobacco and illicit drugs</b>	<b>0.00</b>	<b>0.00</b>
<b>Clothing and footwear</b>	<b>0.00</b>	<b>0.00</b>
Clothing	0.00	0.00
Footwear	0.00	0.00
<b>Household energy</b>	<b>31.34</b>	<b>35.57</b>
<b>Household contents and services</b>	<b>6.58</b>	<b>6.78</b>
Furniture, furnishings and floor coverings	0.00	0.00
Household textiles	0.00	0.00
Household appliances	0.00	0.00
Glassware, tableware and household utensils	0.00	0.00
Small tools and accessories for the house and garden	0.00	0.00
Other household supplies and services	1.02	1.54
<b>Health</b>	<b>3.74</b>	<b>6.00</b>
Medical products, appliances and equipment	0.00	0.00
Out-patient services	0.00	0.00
<b>Transport</b>	<b>27.30</b>	<b>28.18</b>
Purchase of vehicles	0.00	0.00
Private transport supplies and services	20.18	25.74
Passenger transport services	0.00	0.00
<b>Communication (Telecommunication)</b>	<b>12.86</b>	<b>13.87</b>
<b>Recreation and culture</b>	<b>43.62</b>	<b>27.98</b>
Audio-visual and computing equipment	0.00	0.00
Other recreational equipment and supplies	0.00	0.00
Recreational and cultural services	6.52	10.10
Newspapers, books and stationery	0.92	1.85
Accommodation services	0.00	0.00
Miscellaneous domestic holiday costs	0.00	0.00
<b>Miscellaneous goods and services</b>	<b>30.31</b>	<b>34.81</b>
Personal care	2.40	2.71
Personal effects nec	0.00	0.00
Insurance	14.66	22.99
Credit services	0.00	0.00
Other miscellaneous services	0.00	0.00
<b>Other expenditure</b>	<b>0.00</b>	<b>0.00</b>
Interest payments	0.00	0.00
Contributions to savings	..S	0.00
Expenditure incurred whilst overseas	0.00	0.00
<b>TOTAL</b>	<b>249.61</b>	<b>249.72</b>

## TWO PERSON HOUSEHOLD – Choices

	Metro	Provincial
<b>Food</b>	<b>217.20</b>	<b>170.86</b>
Fruit and vegetables	35.23	29.15
Meat, poultry and fish	30.53	33.19
Grocery food	91.36	72.58
Non-alcoholic beverages	11.38	9.34
Restaurant meals and ready-to-eat food	35.14	26.70
<b>Alcoholic beverages, tobacco and illicit drugs</b>	<b>18.89</b>	<b>27.39</b>
<b>Clothing and footwear</b>	<b>24.16</b>	<b>12.08</b>
Clothing	11.60	11.11
Footwear	0.00	0.00
<b>Household energy</b>	<b>52.61</b>	<b>53.53</b>
<b>Household contents and services</b>	<b>45.46</b>	<b>46.05</b>
Furniture, furnishings and floor coverings	0.00	7.50
Household textiles	0.00	0.00
Household appliances	8.40	6.25
Glassware, tableware and household utensils	0.00	0.00
Small tools and accessories for the house and garden	2.29	0.50
Other household supplies and services	8.50	9.32
<b>Health</b>	<b>43.24</b>	<b>50.26</b>
Medical products, appliances and equipment	12.43	19.25
Out-patient services	30.87	30.87
<b>Transport</b>	<b>101.42</b>	<b>134.43</b>
Purchase of vehicles	0.00	0.00
Private transport supplies and services	79.82	100.56
Passenger transport services	15.88	8.62
<b>Communication (Telecommunication)</b>	<b>35.70</b>	<b>24.11</b>
<b>Recreation and culture</b>	<b>129.42</b>	<b>111.34</b>
Audio-visual and computing equipment	6.95	7.09
Other recreational equipment and supplies	23.05	21.37
Recreational and cultural services	48.11	54.09
Newspapers, books and stationery	20.63	12.63
Accommodation services	2.05	4.95
Miscellaneous domestic holiday costs	5.80	4.80
<b>Miscellaneous goods and services</b>	<b>108.59</b>	<b>74.23</b>
Personal care	24.93	16.69
Personal effects nec	6.53	8.17
Insurance	70.14	47.50
Credit services	2.54	2.54
Other miscellaneous services	0.00	0.00
<b>Other expenditure</b>	<b>10.00</b>	<b>11.50</b>
Interest payments	0.00	4.20
Contributions to savings	..S	0.00
Expenditure incurred whilst overseas	1.90	0.00
<b>TOTAL</b>	<b>786.70</b>	<b>715.77</b>

## **How have the figures changed?**

Overall, there has been almost no change to the total expenditure levels, but this hides some more substantial changes for groups and subgroups of expenditure. The minimal effect at total level is unsurprising in current low inflation environment, where the CPI figure for the year ended 30<sup>th</sup> June 2013 was just 0.7%.

Food is a key budget item for all groups. Overall food prices increased by just 0.2% for the twelve months, but within that group fruit and vegetables increased by 2.7% and non-alcoholic beverages by 1.3%. Grocery food decreased by 1.5% for the same period, and this is likely to have meant changes in spending patterns due to relative affordability of different food categories, away from fruit and vegetables for example.

Household energy is another major expense category and the increase there was 3% for the twelve months ended 30<sup>th</sup> June 2013. One of the largest increases over that twelve-month period was 6.1% for insurance, after an increase of 6.7% in the previous year.

There were also some categories that had price decreases, but these are largely in more discretionary areas. One of the larger expense categories to enjoy a substantial decrease in prices was communication, with a reduction of 5.2%. Other expenditure categories that had price reductions included clothing and footwear which decreased by 1.8%, private transport supplies and services by 2.3%, and recreation and culture by 1.5%.

To put these changes in context it is helpful to consider how New Zealand Superannuation changed over this period. On 1<sup>st</sup> April 2013, New Zealand Superannuation rates increased by 2.44%, and the two key rates increased to:

Single, living alone	\$357.42 per week	after tax at the M rate
Couples, both qualify	\$549.88 per week	after tax at the M rate

## **Housing costs**

The New Zealand Retirement Expenditure Guidelines omit housing costs as they are influenced by a person's choice of housing and dependence on a person's individual circumstances. Housing costs depend upon whether a person is in a rental property or an owner-occupied home, as well as the size of any loan on an owner-occupied home. These costs are not directly comparable, and there is also some ability to directly control them, for example by ensuring any home loan is fully repaid prior to retirement. The 2012 report included limited discussion of housing costs, and at the time the report was issued, there was a lot of interest in housing costs. This interest stemmed in particular from recognition that these costs may have a substantial effect on the amount available for other expenses.

The Sorted website suggests that whether a person will live in their own home is a key element in the calculation of how much is needed in retirement<sup>8</sup>. The website explains:

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<sup>8</sup> <https://www.sorted.org.nz/a-z-guides/retirement-planning>

*If you rent, you'll need more savings to cover the cost – but on the other hand, you won't have money tied up in a home. However, owning the place you live in, debt-free, will reduce the risk of rent increases or being asked to find a new place to live. You will have more control over your finances, but you will have to take care of maintenance and rates. Being mortgage-free by retirement is a great goal to aim for. The reason many people currently in retirement are able to manage financially is because they no longer have the burden of mortgage repayments.*

This reinforces the importance of housing costs for retirees. There are a variety of accommodation options available to retirees, which includes their own home, renting alone, renting with others, living in a retirement village and living in a rest home. This section of the report will consider costs associated with renting and home ownership. Home ownership is likely to be a lower cost option for retirees than rental accommodation, but it is not costless, and as noted on the Sorted website it will tie up at least a portion of the owners' capital. There are arguments for and against home ownership relative to renting, but this is not the forum for that discussion; rather this report simply discusses the costs of home ownership and rental accommodation respectively.

### *The cost of renting*

Someone who is renting only has one cost to worry about, being the weekly rental for the accommodation being occupied. The weekly rental depends on a range of factors, including:

- type of dwelling, i.e. whether it is a flat/unit or a house
- size of the dwelling, which is usually associated with and measured by the number of bedrooms for rental purposes
- location, with rental costs varying both between and within geographic regions so that metropolitan rental prices will be higher than provincial rental prices, and urban rental prices will be higher than rural; prices will also differ between suburbs/neighbourhoods in metropolitan and other urban areas.

The Building and Housing Group of the Ministry of Business, Innovation and Employment collects and makes available information on weekly market rentals<sup>9</sup> throughout New Zealand on its website<sup>10</sup>.

The following table provides a selection of the market rental information as at July 2013 to provide an indication of typical market rental costs. The rental figures provided are the median rents, which means that 50% of rentals are above that figure and 50% of rentals are below that figure. The final three rows in the table provide figures for New Zealand overall, with the upper and lower quartile figures provided in addition to the median for comparison.

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<sup>9</sup> Market rent is described (in the Residential Tenancies Act) as what a willing landlord might reasonably expect to receive, and a willing tenant might reasonably expect to pay for the tenancy, in comparison with rent levels for similar properties in similar areas. [MBIE, 2013]

<sup>10</sup> <http://www.dbh.govt.nz/market-rent>

## COMPARATIVE MARKET RENTALS (July 2013)

Location <sup>11</sup>	1-bedroom flat	2-bedroom flat	3-bedroom house
Devonport (North Shore)	\$345	\$400	\$600
Remuera (Auckland)	\$320	\$435	\$650
Mangere East (Manukau)	\$255	\$300	\$380
Hillcrest/Silverdale/Tamahere (Hamilton)	\$190	\$260	\$340
Tauranga Central/Greerton (Tauranga)	\$195	\$260	\$320
Gisborne	\$170	\$200	\$280
New Plymouth	\$185	\$240	\$340
Tararua District	\$80	\$140	\$185
Hospital/Papaeoia (Palmerston North)	\$150	\$190	\$300
Paraparaumu/Raumati (Kapiti Coast)	\$212	\$270	\$350
Taita/Naenae (Lower Hutt)	\$135	\$247	\$337
Khandallah (Wellington)	\$285	\$322	\$507
Port Hills/Tahuna Hills (Nelson)	\$202	\$265	\$360
Buller District	\$160	\$215	\$280
Fendalton/Strowan/Bryndwr (Christchurch)	\$250	\$345	\$480
Sydenham/Waltham (Christchurch)	\$215	\$277	\$390
Ashburton District	\$177	\$250	\$320
Queenstown/Frankton/Arrowtown (Queenstown Lakes)	\$250	\$320	\$425
Kew/St Clair/St Kilda East (Dunedin)	\$180	\$230	\$300
Clutha/Southland (Both Districts)	\$100	\$170	\$200
New Zealand – Lower Quartile	\$175	\$220	\$280
New Zealand – Median	\$225	\$280	\$350
New Zealand – Upper Quartile	\$285	\$350	\$420

This table highlights the disparities in rental figures throughout NZ. For a one-bedroom flat, the weekly rent varies from \$80 in the Tararua District to \$345 in Devonport on Auckland's North Shore, with a median of \$225 for New Zealand. Weekly rental for a two-bedroom flat is higher, ranging from \$140, also in the Tararua District, to \$435 in Remuera, Auckland, with a median of \$280 for New Zealand. A three-bedroom house, which may be preferred by a couple who like to have family and/or friends visiting for example, ranges from \$185 in the Tararua District to \$650 in Remuera, Auckland, with the median for New Zealand being \$350.

These figures take on greater meaning when compared to the current rates of NZ Superannuation, as from 1<sup>st</sup> April 2013. The rate for a single person living alone, is \$357.42 net per week, which leaves just \$132.42 for other expenses after paying the New Zealand median rate of \$225 for a one-bedroom flat. However, it is important to acknowledge that someone in this situation is also likely to be receiving an accommodation supplement from Work and Income, which will assist. Depending on the location this could be around \$50 per week.

A couple living in a one-bedroom flat would be better off, with a surplus of \$324.88 each week after paying the New Zealand median rate, but that surplus would only be \$204.88 if paying the Devonport median rental. And the married rate of New Zealand Superannuation, where both qualify, of \$549.88 is insufficient to cover the median rental of a three-bedroom house in

<sup>11</sup> The locations have been selected in an attempt to provide a breadth of coverage of New Zealand. The selection has been affected by the availability of information for all three chosen dwelling categories.

Devonport or Remuera. It should be noted that both examples for a couple do not take any account of any eligibility for an accommodation supplement from Work and Income.

### *The costs of home ownership*

As noted there are costs associated with home ownership, although these are likely to be less than rental accommodation. The costs will depend on several factors:

- whether the home owner has a home loan to repay
- location, as that will influence the level of rates
- value of the property, which will also influence the level of rates
- construction materials and state of repair of the dwelling, which will affect the extent of maintenance required

Ideally a home owner would head into retirement with no outstanding debt (and therefore no loan repayments) in a low maintenance home on which all maintenance was up to date. However, that is not always achievable. The costs associated with home ownership are debt repayments, local government rates, and repairs and maintenance, and each will be considered in turn.

**Debts repayments** vary according to the amount owed, the interest rate being charged by the lender and the remaining term of the loan. To provide some indication of possible costs, we assume the outstanding loan at retirement is \$50,000 with a remaining term of 5 years or 10 years. Interest rates can be expected to vary over the remaining term of the loan, but to enable comparison we will use a current floating interest rate and a current 2-year fixed interest rate. The interest rates used are the median rates for the respective terms for the major banks<sup>12</sup>. Clearly the cost of the loan is not dissimilar to the cost of rental, with the disadvantage of the other costs of home ownership also to be paid, but a loan does have a finite term and once it is fully repaid no further repayments are required.

#### **FORTNIGHTLY REPAYMENTS FOR \$50,000**

	<b>Floating interest rate (5.99%)</b>	<b>2-year fixed interest rate (5.65%)</b>
Term – 5 years	\$446	\$442
Term – 10 years	\$256	\$252

**Local government rates** vary considerably between local authorities, reflecting average property prices in the area and the council's activities. It is important to remember that rates include regional council rates, although these are generally relatively small for residential properties. The following table provides a selection of rates information for the 2012/2013 year for local authorities and regional councils throughout New Zealand, chosen largely to match the areas used in the market rent table, to provide an indication of typical rates. These rating figures represent sample property rates included in the councils' 2012/2022 Long Term Plan, but do not include metered water charges as these are also payable by tenants. The value of the property associated with the sample rate is included in the table as that is an important component of the rating calculation.

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<sup>12</sup> The median interest rates are sourced from the Good Returns website [<http://www.goodreturns.co.nz/mortgage-rates.html>]

## COMPARATIVE LOCAL AUTHORITY RATES (2012/13)

Local Authority <sup>13</sup>	Rates (p.a.)	Property CV
Auckland City	\$2,335	\$600,000
Hamilton (Fairfield)	\$2,439	\$550,000
Tauranga	\$2,155	\$422,000
Gisborne (Awapuni)	\$2,543	\$230,000
New Plymouth	\$1,956	\$150,000
Tararua District (Medium)	\$1,881	\$200,000
Palmerston North (Average)	\$2,010	L <sup>14</sup> \$136,000
Kapiti Coast (Paekakariki)	\$2,207	\$480,000
Hutt City	\$1,880	\$366,024
Wellington	\$2,536	\$700,000
Nelson	\$2,561	L \$177,000
Buller District (Punakaiki)	\$2,151	\$210,000
Christchurch (Median)	\$1,527	\$322,000
Queenstown Lakes (Queenstown)	\$2,433	\$626,918
Dunedin (Median)	\$1,722	\$235,000
Southland (Median)	\$1,693	\$155,000
Horizons Regional Council (PNCC)	\$275	L \$235,000
Taranaki Regional Council	\$137	\$300,000
Greater Wellington Regional Council (Wellington)	\$318	L \$184,000
Environment Canterbury (Christchurch – Lyttleton)	\$282	\$379,000
West Coast Regional Council (Buller)	\$66	\$200,000

The lowest local authority rates in the table are \$1,527pa in Christchurch, which equates to \$29.37 per week, while the highest local authority rates included in the table are \$2,561pa in Nelson, or \$49.25 per week. The regional council rates included in the table range from \$1.27 per week to \$6.12 per week. However, to demonstrate the wide variety in rates, the Auckland Council sample rates in the 2012/2022 Long Term Plan included \$15,001pa (\$288 per week) for a property described as Urban-Residential with a CV of \$5million.

The final category of costs associated with home ownership is repairs and maintenance. Like the other costs, this is also variable and depends upon the building materials used, the size of the building and the current state of repair. Rough guides of how much to allow for repairs and maintenance on an annual basis range from a flat \$1500 to 0.3-1.0% of the value of the property. It is important to note that repairs and maintenance work tends to be lumpy, with no maintenance required in some years and three years worth of expenditure in one twelve-month period. The following table shows the range for the estimated annual cost of repairs and maintenance based on the median house price in the location for June 2013<sup>15</sup>.

<sup>13</sup> Where a suburb, particular locality or other qualifying description was provided by the local authority for the sample rates, this is noted

<sup>14</sup> L=Land value only

<sup>15</sup> Median house prices used in the calculation were sourced from the REINZ at [https://www.reinz.co.nz/shadomx/apps/fms/fmsdownload.cfm?file\\_uuid=CCF97CD0-CC03-8B6A-27ED-1DFD77E1C10D&siteName=reinz](https://www.reinz.co.nz/shadomx/apps/fms/fmsdownload.cfm?file_uuid=CCF97CD0-CC03-8B6A-27ED-1DFD77E1C10D&siteName=reinz)



### COMPARATIVE MAINTENANCE COSTS (June 2013)

Location	0.3%	1%
Devonport (Auckland)	\$2,469.00	\$8,230.00
Manukau City (Auckland)	\$1,590.00	\$5,300.00
Hamilton City	\$1,005.00	\$3,350.00
Tauranga	\$1,035.00	\$3,450.00
Gisborne City	\$645.00	\$2,150.00
New Plymouth City	\$1,047.84	\$3,492.80
Pahiatua (Tararua District)	\$324.00	\$1,080.00
Palmerston North	\$828.75	\$2,762.50
Hutt Valley	\$1,146.00	\$3,820.00
Central Wellington	\$1,479.00	\$4,930.00
Nelson City Zone	\$1,053.00	\$3,510.00
West Coast	\$720.00	\$2,400.00
Fendalton/Ilam/Merivale (NW Inner Christchurch)	\$1,695.00	\$5,650.00
Sydenham/Waltham (South Inner Christchurch)	\$810.00	\$2,700.00
Queenstown	\$1,552.50	\$5,175.00
Dunedin City	\$800.63	\$2,668.75
Southland	\$603.00	\$2,010.00
<b>New Zealand – Median</b>	<b>\$1,182.00</b>	<b>\$3,940.00</b>

It is clear from the table that in some cases the percentage-based estimation produces unrealistically low figures. For example, \$645 in Gisborne is not going to provide much in the way of maintenance even if accumulated for three years. This suggests \$1500 is an appropriate minimum figure, with 1% of the property value representing a reasonable maximum estimate. On this basis, the range for average maintenance costs is from around \$1,500 to \$8,230 per annum, or \$28.84 to \$158.27 per week.

Combining this we get a range of \$60.48 to \$213.64 per week for rates and repairs and maintenance combined. At the lower levels this is clearly much less expensive than the costs of rental. At the upper end, this is getting closer to the lower levels of rental, but this is for a property with a valuation in excess of \$800,000, which is likely to be more substantial than a one-bedroom flat.

These figures clearly support the argument for the wide variance in housing costs, and the possibly substantial impact on retirees' discretionary expenditure levels.



## **Appendix: Explanatory notes regarding the HES groups and subgroups**

*Alcoholic beverages, tobacco and illicit drugs* – This is broken down into two categories of Alcoholic beverages and Cigarettes & tobacco in the HES. However, the data indicated the amount spent on Cigarettes & tobacco was \$0 in all household groups of interest, so any expenditure in this category was almost exclusively on alcoholic beverages.

*Education* – This is a category included in the HES, but for all the households of interest, there were insufficient households reporting expenditure to get a reliable estimate, and it has been omitted from budget guidelines.

*Purchase of vehicles* – This is a subcategory of the Transport category in the HES. There were insufficient households reporting expenditure to get a reliable estimate, and it has been omitted from the No Frills budget guidelines.

*Recreation and culture* – The amount spent in this category is small, and no breakdown into its component parts is possible in the No Frills budget.

*Household contents and services* – The amount spent in this category is small, and no breakdown into its component parts is possible in the No Frills budget.