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# New Zealand Superannuation as a basic income PIE Working Paper 2025-1

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This PIE working paper updates [New Zealand Superannuation as a basic income Pension Briefing 2021-2](#), Retirement Policy and Research Centre.<sup>1</sup> It models how changing New Zealand Superannuation into a genuine basic income would allow a simple but effective clawback mechanism to operate through the tax system, generating useful revenue to help meet future government expenditure pressures in aged care, pensions, education, poverty reduction and climate change.

This update is based on the Half Year Economic and Fiscal Update (HYEFU) 2024 forecasted rates of New Zealand Superannuation (NZS) as at 1<sup>st</sup> April 2025, incorporating the effect of income tax changes announced in the 2024 Budget. Treasury's tax and benefit model TAWA (see note Appendix 1) is used to estimate the savings on an annualised basis for various special tax schedules for superannuitants and NZS rate scenarios for the year 1 April 2025 to 31<sup>st</sup> March 2026 (2025/26 tax year).<sup>2</sup>

The modelling illustrates that significant savings maybe achieved from a suitably progressive separate tax schedule for those who opt onto the basic income, called here the New Zealand Superannuation Grant (NZSG). Alignment of the various rates of NZS may generate additional saving.

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<sup>1</sup> This approach to NZ Superannuation was discussed in St John, (2015); St John, (2018) and first modelled for RPRC's 2019 Working Paper: St John & Dale, [Intergenerational impacts: the sustainability of New Zealand Superannuation](#), commissioned by the Commission for Financial Capability for the 2019 Review of Retirement Incomes Policies to assess "the impact of current retirement income policies on current and future generations, with due consideration given to the fiscal sustainability of current settings".

<sup>2</sup> PIE gratefully acknowledges the modelling work of the Treasury's Matthew Bell, Fergus Cleveland and Michael Eglinton, without whose help this update would not be possible. The views expressed in the paper however are those of the author alone.

## Contents

Introduction .....	3
Parameters of NZS .....	4
Means testing and alternatives.....	7
What do the Australians do? .....	7
A Clawback for NZ Superannuation? .....	10
New Zealand Superannuation as a Basic income .....	11
The New Zealand Superannuation Grant.....	12
Extending the income tax Base under the NZSG.....	16
PIE tax regime .....	16
Lack of taxation on housing .....	17
End of year reconciliation .....	17
Methodology and Modelling .....	17
Discussion .....	19
Conclusion.....	20
References .....	21
Appendix 1. Notes on NZS abatement modelling (Treasury) .....	23
Comparison of modelling results with MSD outturns and forecasts .....	23
Different methods of calculating aggregate net (of tax) NZS expenditure .....	23
Appendix 2 Scenario costings for 2025/26 March-end year .....	25
Appendix 3: Non NZS scenario costings for the 2025/26 March-end year .....	27
Appendix 4 Wealth held by households .....	28
Importance of real estate in total household wealth .....	28
New Zealand wealth distribution by age, comparison between 2001 and 2018* .....	28

## Introduction

For some time now, Treasury has been sounding alarm bells. The increasing pressure on public finances from demographic, climate and other sources was documented in the 2021 Long Term Fiscal Statement, He Tirohanga Mokopuna, (The Treasury, 2021) and has not abated. In November 2023, The Treasury's briefing to the incoming government again drew attention to the coming pressures:

*Cumulatively, the fiscal position is likely to face more headwinds in the decade ahead than experienced over the past few. This includes a less benign global backdrop, and the changing nature of shocks. Moreover, some of the challenges that could impact on public finances highlighted in successive Long Term Fiscal Statements and the Climate Economic and Fiscal Assessment are here now. The impacts are potentially large. **Demographic change and climate change are increasing demand on government expenditures and this will grow over time.** Geopolitical tensions and economic fragmentation could increase spending pressures in areas like defence and security. Higher debt and interest rates would see finance costs trend up. Given these pressures, a programme of work to identify enduring savings options and future policy settings would help support longer-term fiscal sustainability. (The Treasury 2023)*

Expenditure on New Zealand Superannuation (NZS) and the associated health and housing costs as the average age of the older population continues to increase are expected to rise strongly. Demographers and health practitioners are particularly concerned by the projected rapid growth of the high health costs especially from 2030 when the baby boom cohort starts to turn 85.

In 2024, Treasury continued to draw attention to the importance of the demographic shift.<sup>3</sup>

*Government revenues are not magicked from thin air but are obtained through taxes and charges for publicly-provided services. If superannuation transfers increase because of demographic ageing then the government must either increase revenue (through taxation or other charges) or decrease expenditure on other services. Alternatively, the government could change superannuation policy settings, to reduce the associated fiscal cost of transfers to superannuitants. The reasons for supporting the elderly are not being questioned here. Rather, the ultimate aim is to understand how those decisions affect the fiscal position of the government and to consider what policies might best achieve the desired objectives. (Stevens, Treasury, Sept 2024)*

At the same time, older person hardship is again re-emerging as a concerning social issue, driven by expensive and insecure housing tenure (Dale 2024). Universal NZS for all at 65 who meet residency criteria regardless of wealth, free public transport and the untaxed universal Winter Energy Payment sit oddly with a rapidly widening wealth and income divide, while policies to alleviate older persons' hardship such as the Accommodation Supplement have been neglected.<sup>4</sup>

Phrases such as 'NZS is unaffordable' or 'fiscally unsustainable' are generally unhelpful but they are shorthand to express the idea that in a world of choices, some expenditure on

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<sup>3</sup> See for example, [New Zealand demographics and their role in an overlapping generations model](#), Analytical Note September 2024, and [Longevity and the public purse](#) - Speech delivered by Dominick Stephens, Chief Economic Advisor - 26 September 2024:

<sup>4</sup> [PIE Commentary 2024-4: Addressing financial hardship](#). Susan St John with Brian Easton and Len Cook at the Brightstar conference.

NZS may preclude other more desirable social expenditures. There are judgements and values to consider, especially issues around intergenerational equity.<sup>5</sup>

St John & Dale (2019) discussed the wide variety of ways in which cost saving may be achieved to improve 'fiscal sustainability', their pluses and minuses. The Treasury (2021, pp. 55-59) modelled two of the main options: raising the age of eligibility for NZS; and indexing NZS to only prices not wages. These policies were projected to save 0.7% of GDP, and 2.4% of GDP respectively.

But raising the age is not supported by the Retirement Commission.<sup>6</sup> The wide disadvantages and inequities for ethnic groups such as Māori and Pasifika would mean off-setting costs elsewhere, such as in the social welfare system. Besides, a long lead-in time would be necessary while the fiscal pressures are immediate. The option of CPI indexing (removing any link to wages) would see NZS as a fraction of the average wage fall well below its current 66% for a married couple to around 50% by 2060 (The Treasury, 2021, p. 58). While the 2.4% of GDP saved means that the gross cost of NZS relative to GDP returns to its early 2020s level of around 5%, there would be a profound risk of creating older person poverty levels not seen since the early 1970s.

The third option of a means test was not modelled, however, the possible tax clawback scheme proposed by St John & Dale (2019) was described (The Treasury, 2021, p. 59). Compared to the first two options, it was noted that such a policy may be politically more acceptable and could generate more worthwhile, more timely savings without undue harm, while enhancing perceptions of intergenerational equity.<sup>7</sup>

## Parameters of NZS

Table 1 sets out the current and expected numbers on NZS and the projected costs (based on June years, MSD data and HYEPU 2024 MSD forecasts and Treasury projections).

Between 2023/24 and 2068/69, the numbers of NZS recipients are expected to nearly double. The nominal costs are projected to increase around seven-fold over this period, but the net NZS expenditure (after tax) rises from 4.3% to just 6.5% of GDP, reflecting a large, anticipated growth in nominal GDP.

The relative share of NZS as a percentage of GDP increases, but even so, New Zealand's expenditure on the pension will not reach the share in 40 years' time that many other countries actually experience today (OECD, 2019).<sup>8</sup> Nevertheless, total expenditure on those over 65 including healthcare and long-term care costs is expected to be a source of increasing fiscal pressures, alleviated only partially by the New Zealand Superannuation Fund (NZSF) (Bell, 2021).<sup>9</sup>

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<sup>5</sup> To contribute to the intergenerational equity debate, this PIE briefing St John (2022) [PIE Briefing 2022-2: Basic Income for the old and the young in New Zealand](#) compares and contrasts the generosity of the basic income support of NZ Super for older persons with the discriminatory, highly targeted and less well supported basic income provided by Working for Families for children. There is room for improvement to reap the full advantages of a basic income approach for both the young and the old.

<sup>6</sup> See [Pension tension: Summing up the Super Summit \(retirement.govt.nz\)](#), March 2024

<sup>7</sup> Some journalists have also discussed this as a serious option. [Brian Fallow: Another way to save on super - NZ Herald](#).

<sup>8</sup> PIE notes there are difficulties in these comparisons, see St John, S (2024) [PIE Commentary 2024-2: Superannuation – a fiscal challenge or opportunity?](#) Contribution to The Retirement Commission's Super Summit: New Zealand Super Issues and Options 21<sup>st</sup> March 2024, Wellington.

<sup>9</sup> The NZSF was set up as a sovereign wealth fund in 2002 to tax smooth the contributions from current taxpayers for NZS. Under the current formula, withdrawals of significance will not occur until 2055 and be no higher than 11% of the net cost of NZS by the end of the century (Bell, 2021). The fund does not make NZ Super less costly nor does it guarantee any aspect of it, see St John, S [PC 2021-2 New-Zealand-SuperFund](#).

**Table 1: Fiscal projections\* of NZS 2024-2069 (The Treasury, Half Year Economic & Fiscal Update (HYEFU) 2024)**

Fiscal Year (year ended 30 June)	2018/19	2023/24	2028/29	2038/39	2048/49	2058/59	2068/69
Nominal Gross Domestic Product (GDP) (\$billions)	310.281	413.343	517.713	750.505	1050.989	1440.048	1953.466
Gross New Zealand Superannuation (NZS) expenditure (\$billions)	14.562	21.574	28.769	47.015	68.572	104.450	152.907
Gross NZS expenditure as percentage of nominal GDP	4.7%	5.2%	5.6%	6.3%	6.5%	7.3%	7.8%
Net of tax New Zealand Superannuation expenditure (\$billions)	12.333	17.966	23.848	38.973	56.843	86.585	126.755
Net NZS expenditure as percentage of nominal GDP	4.0%	4.3%	4.6%	5.2%	5.4%	6.0%	6.5%
Average number of NZS recipients in fiscal year (thousands)	767	899	1,053	1,291	1,413	1,614	1,772
Annual percentage growth of NZS recipients	3.5%	3.3%	3.0%	1.4%	1.0%	1.2%	0.8%

\*New Zealand Superannuation (NZS) aggregate gross and net (of tax) expenditure data and recipient numbers for June-end (fiscal) years - history, forecast and projection. The 2018/19 and 2023/24 years are past actual outturn; 2028/29 is the last year of the Half Year Economic & Fiscal Update (HYEFU) 2024 forecast from the Ministry of Social Development. The later years are projections made by the Treasury from the HYEFU 2024 forecast base.

Table 2 shows that threequarters of today’s superannuitants are aged 65-79. These early baby-boomers are relatively healthy and their paid work participation is high and expected to continue to rise, see St John and Dale (2019, pp. 11-17). However, from 2030, the baby-boom bulge (born 1945-1965, currently aged 60-80 years old) will begin to move into the 85+ age group adding extra pressure on health, long-term care, and accommodation services for the next 20 or more years.

The last five years of changes as shown in Table 2 suggest that longevity improvements are increasing the numbers living to older ages, and that Māori, Pacific people and other ethnicities over 65 are growing at a faster rate than the NZ European group.<sup>10</sup>

Of those turning 65 today, fewer own their own homes mortgage-free and many are struggling in the private rental market.<sup>11</sup> As an indicator of extreme housing need, the Housing Register in Dec 2024, shows that 28% of 20,301 main applicants are over the age of 55.<sup>12</sup>

Evidence of pressures in the housing market are reflected in the increased numbers requiring accommodation and hardship support (see Table 2). The Accommodation Supplement (AS) is subject to a stringent unindexed means tests so that the current number of around 49,000 superannuitants receiving this help is likely to markedly understate the degree of housing need.<sup>13</sup>

<sup>10</sup> See Cook, L [PIE Working Paper 2024-1: Illuminating the intergenerational value of regular population censuses whilst amidst a population storm](#), for a full discussion of ageing among ethnic groups.

<sup>11</sup> See Kay Savile Smith, Grace Walker (eds), special 2021 edition [NZPR Vol.-47 final cr.pdf \(population.org.nz\)](#) and Dale, M C [PIE Briefing 2024-1: Housing options for older people in Aotearoa New Zealand: Trends and challenges](#).

<sup>12</sup>MSD [Housing-register-december-2024.xlsx](#)

<sup>13</sup> Susan St John (with Brian Easton and Len Cook) [Addressing financial hardship](#). Brightstar conference ‘Delivering equity for Older New Zealanders’, 31<sup>st</sup> April/1<sup>st</sup> May 2024, Millenium Hotel PIE Commentary 2024-4 and Claire Dale (2025, forthcoming).

**Table 2 Numbers on NZS: five yearly comparisons. Source, [Benefit Fact sheets, MSD, 2025\\*](#)**

New Zealand Superannuation recipients by recipient characteristics - last five years				
Recipient characteristic		Dec-19	Dec-24	% change
Receipt of additional support	Accommodation Supplement	43,479	48,789	12.21%
	Disability Allowance	128,046	123,045	-3.91%
	Temporary Additional Support/Special Benefit	8,052	12,819	59.20%
Gender	Male	369,090	434,748	17.79%
	Female	425,739	493,221	15.85%
	Gender Diverse	3	60	1900.00%
Age group	Under 60 years	3,858	1,137	-70.53%
	60-64 years	11,205	6,258	-44.15%
	65-69 years	237,903	265,596	11.64%
	70-74 years	215,073	236,487	9.96%
	75-79 years	149,145	196,599	31.82%
	80-84 years	94,131	123,204	30.89%
	85-89 years	54,021	65,187	20.67%
	90 years and over	29,493	33,564	13.80%
Ethnic group	European	579,324	680,559	17.47%
	Māori	45,468	61,920	36.18%
	Pacific Peoples	23,106	28,422	23.01%
	Asian	40,746	61,230	50.27%
	Middle Eastern/Latin American/African	3,306	5,814	75.86%
	Other ethnicity	12,948	22,467	73.52%
<b>Total recipients with recorded ethnicity</b>		<b>688,095</b>	<b>827,931</b>	20.32%
Ethnicity not specified		106,734	100,098	-6.22%
<b>Total recipients</b>		<b>794,829</b>	<b>928,029</b>	16.76%

\*Excludes 4899 Veterans pensions, a rapidly declining group

Table 3 shows the forecast 1st April 2025 rates of NZS and the new tax thresholds from 31st July 2024. These data are used in the modelling in this paper.

Of those on NZS, approximately 60.5% are married, 13.6% single sharing, and 24.9% live alone (McKenzie, 2019). Gross NZS for 2025/26 (June year) is forecast to be \$24,522 billion, of which approximately \$13.5 billion is paid to married persons, \$3.8 billion to single sharing and \$7.3 billion to superannuitants living alone.<sup>14</sup>

**Table 3: Forecast weekly rates of New Zealand Superannuation as at 1 April 2025**

HYEFU 2024 forecast weekly rates of New Zealand Superannuation at 1 April 2025						
	Gross (before tax)	Net (after tax)	Annual rates (to nearest \$ rounded down)			
			Gross	Net	Implied tax rate	
Single, living alone	\$621.00	\$533.33	\$32,292	\$27,733	14.1%	
Single, sharing	\$571.22	\$492.30	\$29,703	\$25,599	13.8%	
Married or civil union person	\$471.67	\$410.25	\$24,526	\$21,333	13.0%	
New Zealand personal tax regime		Tax rate below threshold				
First income tax threshold	\$15,600	10.5%				
Second income tax threshold	\$53,500	17.5%				
Third income tax threshold	\$78,100	30.0%				
Fourth income tax threshold	\$180,000	33.0%				
		39.0%				

<sup>14</sup> PIE estimates based on Table 1 data and 2025 rates.



## Means testing and alternatives

In brief, raising the age would affect the worst-off the most, leaving many on the inadequate welfare system dependent on supplementary assistance and foodbanks. It would have to be phased in over a long period of time reducing any immediate savings.

**Means tests** take other income and assets into account in determining the amount of benefit a person is entitled to. A simpler version is an **income test** alone.

Welfare benefits in NZ are subject to a stringent income test that aims to target payments to only those who 'need' them.

A gentle test that affects only the top end may be described as an **affluence test**.

A progressive income tax and a taxable benefit automatically ensures some income testing or **clawback**.

A basic non-taxable income and other income taxed at progressive rates is another way to operate an affluence test.

The second option of reducing the level would immediately impact on those struggling the most now. Yet fiscal considerations and urgent spending priorities do not support maintaining the status quo.

This leaves the 'third rail'<sup>15</sup> of superannuation policy: some form of means test or 'claw-back' from those who do not 'need' it. This has been a politically unattractive option because of New Zealand's history (see St John, 1999).

There are a number of ways to save costs by reducing access to NZS by the well-off. Probably few people would wish to contemplate a means test based on joint income and assets as operates for the age pension in Australia described in Box 1, or a welfare-type joint means test as operates in NZ for supplementary welfare assistance.

In the 1991 budget, under the newly elected National government, a very harsh joint income test for NZ Super was announced. The outrage among the powerful

superannuitants' lobby saw the legislation that would have changed NZS into a welfare benefit reversed before it was implemented (St John, 1999; St John & Ashton, 1993). National's changes would also have changed the individual status of NZ Super to one based on the couple.

*the gross amount of National Superannuation will be reduced at a rate of 90 cents for every additional dollar of gross income earned after the first \$80 of private income earned each week by the couple or individual. This phase-out rate is generally equivalent to reducing the net amount of National Superannuation at the rate of 65 cents for each additional dollar of income. (Shipley 1991, p35)*

### What do the Australians do?

It is tempting to cherry pick, but it is very difficult to compare just particular aspects of pensions systems across countries.<sup>16</sup> The means test for the basic age pension in Australia must be seen in their overall arrangements for retirement, where a much older and more entrenched compulsory private savings scheme makes the age pension more of a

<sup>15</sup> *Touch it and you die*. The phrase 'third rail' is a metaphor in politics to denote an idea or topic that is so 'charged' and 'untouchable' that any politician or public official who dares to broach the subject would invariably suffer politically. The third rail in a railway is the exposed electrical conductor that carries high voltage power. Stepping on the high-voltage third rail usually results in electrocution. The use of the term in politics serves to emphasise the 'shock' that results from raising the controversial idea, and the 'political death' (or political suicide) that the unaware or provocative politician would encounter as a result. (Wikipedia).

<sup>16</sup> For a comprehensive comparison of Australia and New Zealand see [Who does it better? Comparing the Australian and New Zealand retirement income systems | Retirement Commission Te Ara Ahunga Ora](#).

backstop. More-over, the Australian private scheme is far more generously state-subsidised than KiwiSaver.<sup>17</sup>

Nevertheless,

*"The Age Pension remains a key pillar of Australia's retirement income system, with more than 60% of the population aged over 65 receiving the payment as of 2021. While only 44% of people aged 65-69 receive some Age Pension, this rises to 81% for those aged 80-84 "*([Age Pension - Services Australia](#))

This model's joint income and asset test would likely be most unappealing to New Zealanders and would encourage avoidance activity.

### **Box 1. Age Pension means test in Australia 2025.**

*Rates of Age Pension September 2024 to March 2025 (including energy and pension supplements). (Update 20 March 2025)*

**Single: \$1,144.40 per fortnight (approximately \$29,754 per year)**

**Couple (each): \$862.60 per fortnight (approximately \$22,428 per year)**

**Couple (combined): \$1,725.20 per fortnight (approximately \$44,855 per year)**

**Couples separated due to illness each receive the Single rate (see above), which combined is \$2,288.80 (approximately \$59,509 per year)**

#### Income test

**Single:** for a full Age Pension income must be below \$212 per fortnight (\$5,512 per year). There is a 50 cents abatement for each dollar over \$212. A part Age Pension is payable when income is less than \$2,500.80 per fortnight (approximately \$65,021 per year).

**Couple:** for the full Age Pension combined income must be below \$372 per fortnight (approximately \$9,672 per year). There is a 50% abatement for each dollar over \$360. A part Age Pension is payable when income is less than \$3822.40 per fortnight (approximately \$99,382 per year).

A **work bonus** of up to \$300 per person per fortnight from working is not included in the Age Pension income test. The EMTR is no more than 50% for most age pensioners as \$33,000 of earned income (single) is tax exempt.

#### Assets test

**Single:** for a full Age Pension, assets must also be below \$314,000 if home-owner, or \$566,000 if not. A part Age Pension is possible if assets are up to \$695,500 if home-owner, \$947,500 if not.

**Couple:** for the full Age Pension combined assets must be below \$470,000 if home-owner or \$722,000 if not. A part Age Pension is possible if assets are worth less than \$1,045,500 (home-owner), or \$1,297,500 if not.

Both tests apply: The Age Pension is based on the test that delivers the lower amount of age pension.

Relationship tests are stringent, and the definition of income and assets used is broad.

[Age Pension - Services Australia](#)

Around two thirds of Australians receiving part pensions have too much income to be eligible for the full pension. The other one third of part-pensioners have too much assessable wealth (assets).

The income test covers a very broad range of income sources, including an interest return deemed to have been made on financial assets. It also operates on fortnightly earnings, not annual, so that a large income in one fortnight might be penalised. The income test is

<sup>17</sup> It can be argued that the means test in Australia clawbacks some of the cost of tax incentives for private saving. <https://www.abc.net.au/news/2021-07-19/wealthy-australians-exploiting-superannuation-tax-loophole/100303336>.



also a joint one, both partners in a marriage are affected, raising issues around what qualifies as a relationship that is in the nature of marriage.

Similarly, the asset test is astonishingly broad and jointly based. The official advice for each category is summarised in the links in Box 2. The value of all assets owned in and out of Australia, net of debt, is counted at market value, and so requires frequent updating.

#### Box 2 Australian asset test

- [Financial investments](#)
- [Home contents, personal effects, vehicles and other personal assets](#)
- [Managed investments and superannuation](#)
- [Real estate<sup>18</sup>](#)
- [Annuities, income streams and superannuation pensions](#)
- [Shares](#)
- [Gifting](#)
- [Sole trader, partnerships, private trusts and private companies](#)
- [Deceased estate](#)

To help give a perspective of the range and complexity of the asset tests, it is salutary to see it includes amongst other things:

- superannuation investments if over Age Pension age
- annuities and income streams
- money loaned
- money held in solicitor trust accounts
- bonds and debentures
- gold, silver or platinum bullion
- gifting
- Home Equity Access Scheme advance payments.
- home contents such as furniture and appliances
- personal effects such as jewellery and laptops
- motor vehicles
- boats and caravans
- licences such as commercial fishing and taxi
- surrender value of life insurance policies
- collections for trading, investment or hobby purposes
- non business livestock.
- managed investments
- investment and unit trusts
- life insurance and friendly society bonds
- property development funds
- self-managed super funds
- [funeral bonds](#)

The Australian means test is therefore highly complex and it is costly both for the government to administer and the individual to comply. It is not an approach that New Zealanders would relish.

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<sup>18</sup> [Real estate assets](#) exclude the principal home and up to the first 2 hectares of land it is on. But real estate rented out, left vacant for any amount of time, such as a holiday home or someone else lives in for free are included.

## A Clawback for NZ Superannuation?

From 1985 to 1998 New Zealand operated a surcharge on superannuitants' other income (Preston, 2001). This was highly unpopular and complex for people to understand. Nevertheless, it did deliver useful savings.

*While the surcharge was complicated and contentious, it performed a useful cost-saving function without imposing hardship. Some better-off retirees did not bother claiming the state pension, and most of those still in high-paid work received little after-tax benefit from it.*

*The fiscal cost of abolishing the surcharge in 1998 was estimated<sup>19</sup> to be \$400m or 10% of the net cost of NZS. This indicates that the surcharge created a 10% fiscal saving on the net cost of NZS. (St John, 2015, p. 8)*

In New Zealand, the challenge is to find a way to apply an income (or "affluence" test) that could be seen as fair simple and acceptable, with enough useful savings to take the pressure off relying solely on raising the qualifying age or reducing the relative rate of NZS as the principal levers.

Wealthy recipients of NZS may still be in well-paid work and/or have other large private incomes and assets, and sometimes annuities or private pensions (see St John and Dale 2019).<sup>20</sup> Wealthy older people are likely to have accumulated their wealth with tax-free capital gains, especially in housing, and may have gained substantially from the 2010 income tax cuts and lower Portfolio Investment Entity (PIE) rates of tax.

Under the PIE regime, the top rate of tax is 28%. Compared to the top rate of 39% this is an 11-percentage point advantage. Increasingly, the younger working age population who are struggling in the property market and may also have large student debts are questioning the largess of a universal pension for well-off, well-housed superannuitants.

While there are different rates depending on marital and living arrangements, each superannuitant is treated as an individual for tax purposes (ie a married person is not affected by their partner's income). The current generosity of NZS is illustrated in Figure 1 for the case of a married superannuitant. It shows the addition to disposable income provided by NZS at all income levels.

For the 2025/26 modelled year in this paper, if the superannuitant has no other income, the married person NZS payment is a net \$21,333 (Table 3). By the time earned income exceeds \$78,100, NZS is all taxed at 33% so that the effective net NZS payment is reduced to \$16,432. The additional income remains constant at \$16,432 until the net amount starts to decrease again from \$155,474 (Figure 1). Once income exceeds \$180,000, (not shown in Figure 1) the net value of NZS falls to \$14,961, where it remains regardless of how much more income is earned.

The 1993 Accord<sup>21</sup> endorsed the principle that the net amount of NZS should reduce as total income increases, either by a surcharge or a progressive tax regime that had equivalent effect. After the collapse of the Accord and the promised abolition of the surcharge in 1998, the 1997 Periodic Report Group on Retirement Incomes noted:

*We strongly support the sentiment that there are higher priorities for government resources. Therefore, **we regret the impending abolition of the surcharge...***

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<sup>20</sup> See Appendix 4 for some wealth statistics by nature of asset and age.

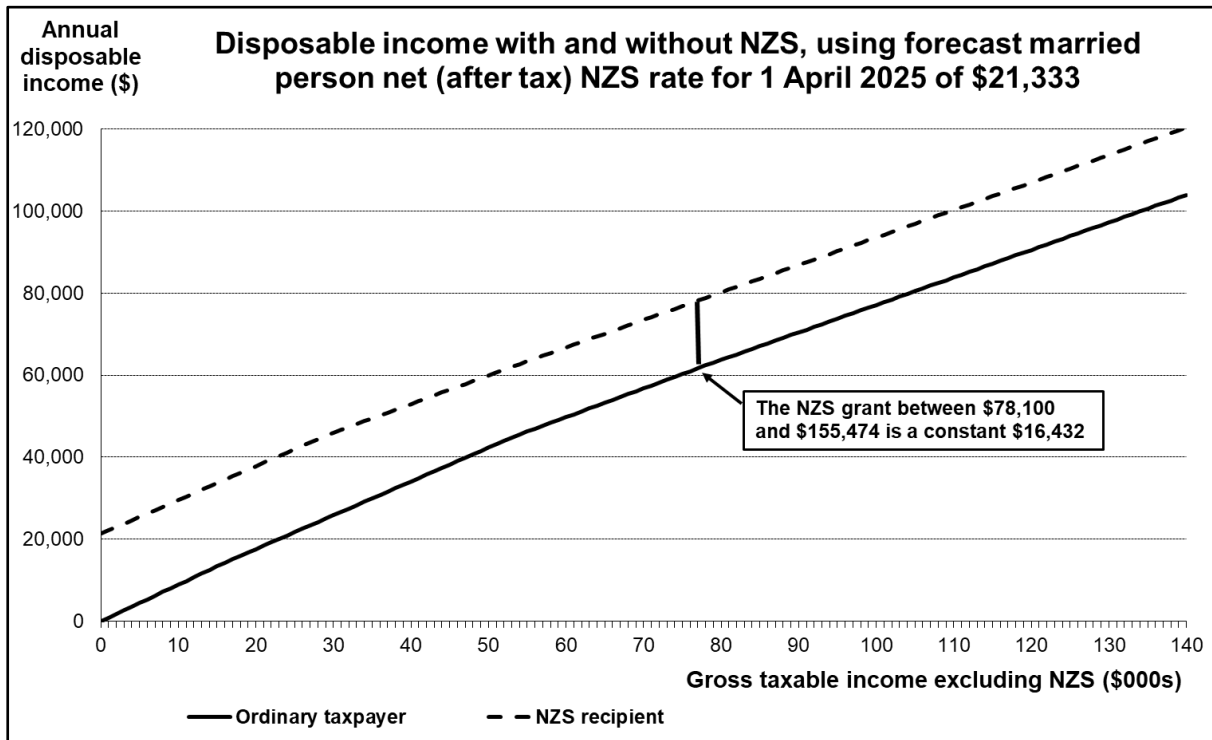
<sup>21</sup> Between the three major political parties: Labour, National and the Alliance in 1993.

*The abolition of the surcharge will provide a breathing space in which we can inform and educate the community about the future shape of public provision and explain why some kind of targeting mechanism will be needed in future. (Periodic Report Group, 1997, p. 47)*

## New Zealand Superannuation as a Basic income<sup>22</sup>

In contrast to other levers, such as raising the age of eligibility or reducing the rate of NZS only those with significant 'other' income were affected by the surcharge. Finding a way for the top line to meet the bottom line in Figure 1, by reducing the generosity of net NZS at the top end is worth exploring.

**Figure 1. Current Disposable income with and without NZS.**



A basic income approach<sup>23</sup> aligns with the understanding that the 21st century workplace no longer provides certainty of employment or sufficient hours of work for many workers.<sup>24</sup> The idea of a basic income paid as of right to every individual has gained currency in a world of precarious work for many.

In a basic income approach, each person has a universal grant that is not part of taxable income. A basic income offers people flexibility in their employment choices and serves as a cushion or buffer against adversity. When additional income is earned, it is taxed under a progressive tax regime so that the tax system does the work of providing a claw back of the universal grant for high income people. The higher the basic income, the higher tax

<sup>22</sup> The RPRC gratefully acknowledge the modelling of these results provided by Matthew Bell, NZ Treasury but this in no way implies any endorsement of these policies.

<sup>23</sup> This section updates St John (2015), St John (2018), St John and Dale (2019), St John (2021) to propose various basic income options for a tax-based, simple claw-back scheme to improve sustainability, with modelling to show approximately how much could be saved.

<sup>24</sup> The Labour government investigated the role that an earning-related social insurance scheme might play for the unemployed. This was not a basic income but still controversial, for example, see [CPAG social insurance concerns regarding inequity and poverty web.pdf](#)

rates on earned income must be to contain costs. Unfortunately for advocates, a universal basic income at a level high enough to prevent poverty for all adults over 18 years old would require prohibitive tax rates and result in probably unacceptable disincentives to work.

Nevertheless, NZS already provides a high-level universal income for a well-defined group, and it is therefore an ideal candidate for a basic income reform. Paying NZS as a proper basic income offers a compromise between aggressive means testing as applied for second tier benefits in NZ, or the means test in Australia, and a fully universal taxable pension approach such as for the current NZS.

Currently the tax system does provide some clawback, but the 33% MTR superannuitant still receives around 77% of the net pension paid to the lowest MTR superannuitant.<sup>25</sup> To make NZS a proper basic income, a more effective tax claw back mechanism is required (the meeting of the lines in Figure 1).

The idea is to retain NZS's simplicity and universality and the advantages of a secure cushion, while reigning in the expenditure at the top end to provide some useful additional revenue to balance intergenerational concerns, address poverty and to reduce income inequality within the retired population.

## The New Zealand Superannuation Grant

Taking a 'basic income' approach may be simple to implement and operate but it requires a new way of thinking. The basic income, named here the 'New Zealand Superannuation Grant' (NZSG), would be paid to all superannuitants as a weekly **non-taxable grant**. Then, for any other gross income, a separate tax scale would apply for each additional dollar of earned or passive income.<sup>26</sup>

For illustrative purposes in Figures 1- 4 the NZSG is the same for everyone (whether married; single sharing; single living alone): any extra supplement for high housing costs would be part of the welfare system.<sup>27</sup> While the NZSG could be set at any level, it is set equal to the 1<sup>st</sup> April 2025 (after-primary tax) rate of NZS, i.e. \$21,333 for a married person.

A break-even point exists (Figure 2) where the NZSG, plus extra income from work or investment net of the new tax rates, is equal to the disposable income of an ordinary taxpayer paying the usual rates of income tax. This point is effectively where the gain from the NZSG has been effectively clawed back (i.e. offset by the additional tax).

The scenario depicted in Figure 2 with a flat tax at 40%<sup>28</sup> on all other income shows the breakeven or cut out point occurs when the NZSG recipient's 'other' income is \$160,150.

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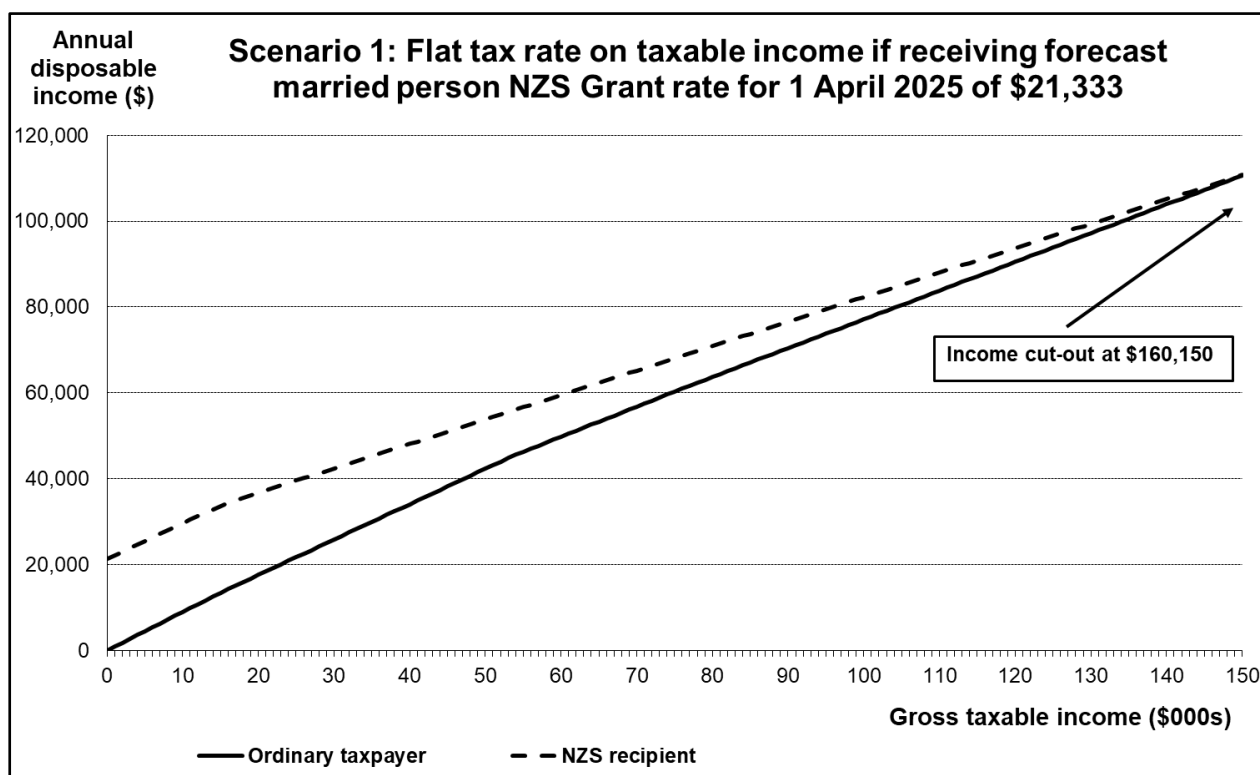
<sup>25</sup> A superannuitant on the top 39% MTR still receives 70% of the lowest MTR payment.

<sup>26</sup> Paying the pension as a non-taxable grant and a progressive tax on other income makes the pension analogous to universal payments such as the old Family Benefit. It fits the ideas of progressive universalism, introduced with Best Start, Winter Energy Payment, free first year tertiary study fees introduced by Labour government.

<sup>27</sup> Around 25% of superannuitants get the single, living alone rate. Of these, many but not all would continue to require a supplementary payment to reflect higher costs. A suitably modified accommodation supplement may be required.

<sup>28</sup> A flat tax of 39% used previously (PIE 2021)

**Figure 2. Scenario 1. NZSG with 40% Flat tax on other income: NZSG net married rate NZS 1<sup>st</sup> April, 2025**



This proposal is technically different to the surcharge of 1985-1998 because the NZSG payment is not part of taxable income. The surcharge was exceedingly complex, applying after an exemption that could be shared in a couple if one partner did not earn enough to use it all, until the net advantage from NZS was equal to the surcharge paid and could mean different end points (when NZS had been fully clawed back) for different taxpayers. Few could follow the calculations and could do their own tax returns. The surcharge was also perceived as an additional, discriminating tax that could result in marginal rates of tax exceeding 50% (see St John (1991) for further discussion of how the surcharge worked).

*The great majority of older New Zealanders (aged 66+) are very dependent on NZS and other government transfers for their income 40% have less than \$100 pw from other sources (40% of singles have no other income) the next 20% have on average around 70% of their income from NZS and other government transfers. Around 40% of older New Zealanders receive more than half their income from sources other than NZS. This group has grown in size in recent years (15% in 1998, 30% in 2009), mainly due to increasing non-government income for those in 'younger' couple (aged 66-75), and especially higher income from employment. (Perry, 2019)*

It must be stressed that the scenario depicted in Figure 2 is for illustrative purposes only. Given that most NZS recipients have only modest amounts of non-NZS income,<sup>29</sup> a tiered structure would be required to give some relief to those with limited extra income.

Clearly, an infinite combination of tax rates and thresholds can be modelled. For example, the PIE Briefing Paper 2021 modelled a second tax scenario with rates of 17.5% for the first \$15,000 of other income, and 43% on each dollar above that. Figure 3 updates this for 2025 data. The break-even point in this case is \$151,885.

<sup>29</sup> It is noted that PIE income is excluded in the modelling, see later discussion.

**Figure 3. Scenario 2. Two-tiered rate of 17.5% (for first \$15,600 earned) and 43% above \$15,600: NZSG net married rate NZS 1 April, 2025**

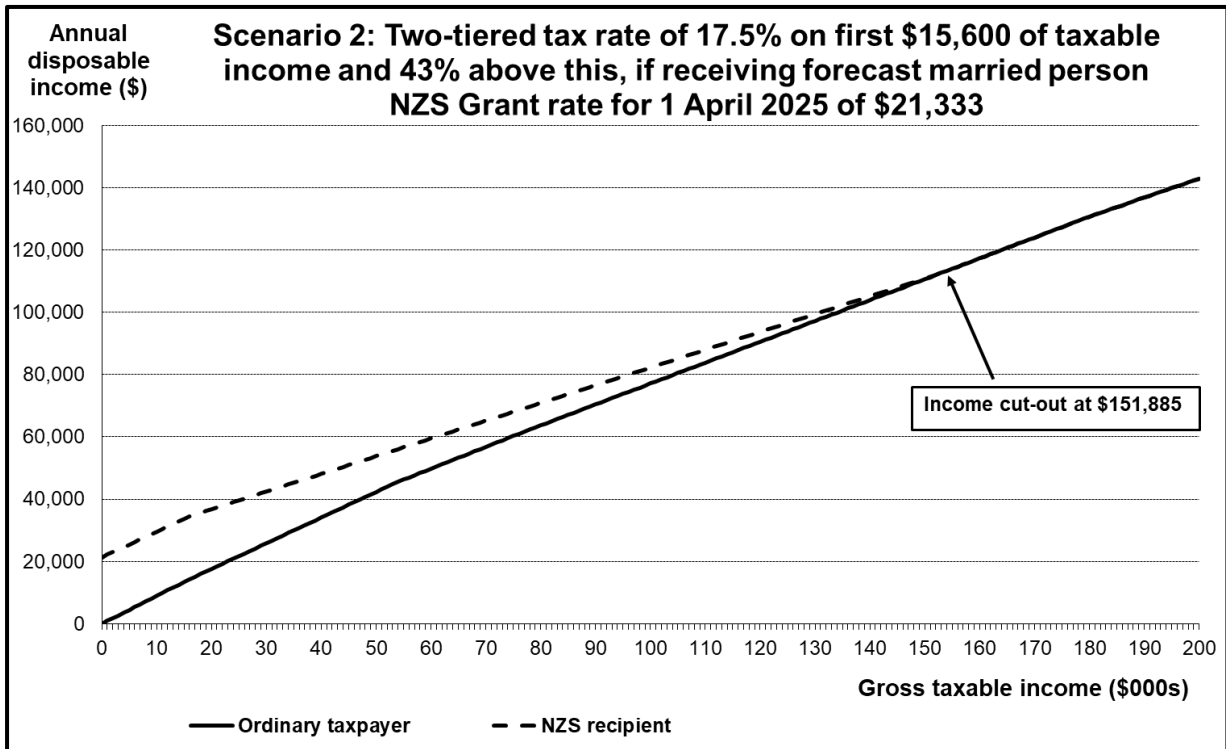
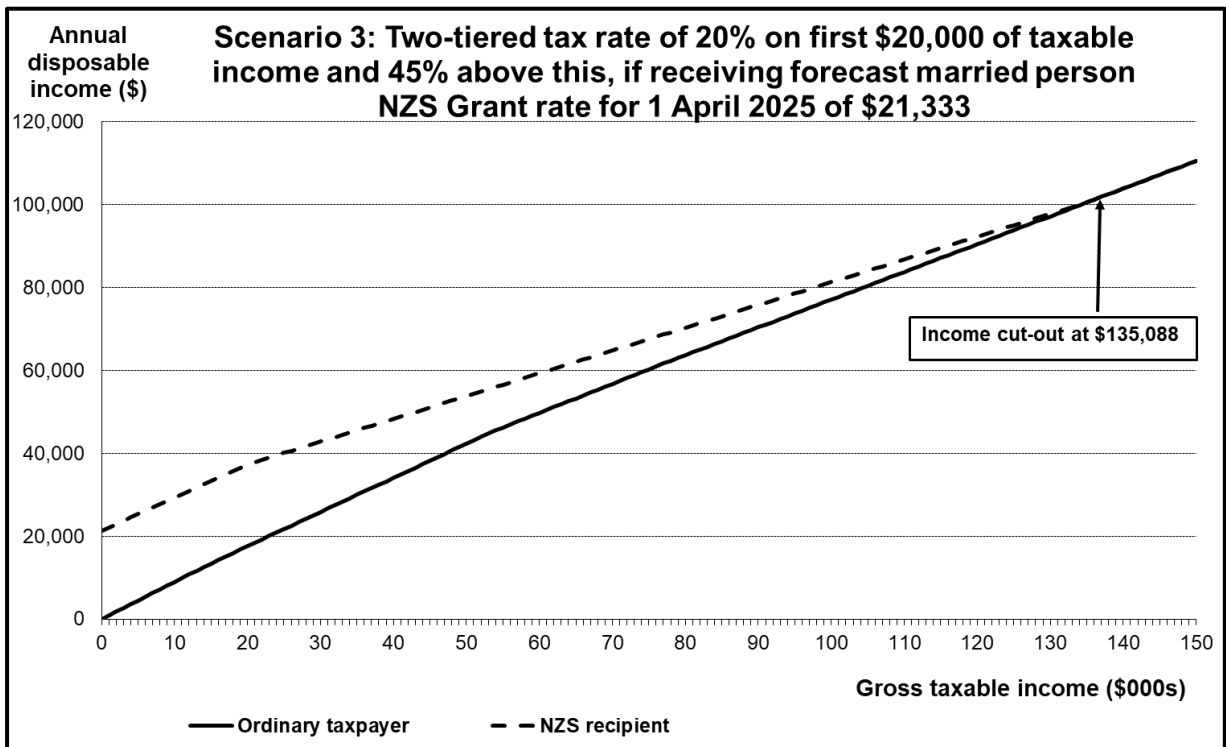


Figure 4 offers a third tax scenario that bites a little harder on first tranche of income, while implementing a slightly higher top rate of 45% with a cut-out point of \$135,088.

**Figure 4. Scenario 3. Two-tiered rate of 20% (for first \$20,000 earned) and 45% above \$20,000: NZSG net married rate NZS 1st April 2025.**





In all scenarios, if the recipient of NZSG receives more than the break-even amount of other income then it would be rational for them to either: forego the NZSG and be treated as an ordinary taxpayer, or to apply for a refund of any tax overpaid on income above the cut-out at the end of the year (see later discussion).

Whether other income is from paid work or from investments, and whether it reduces or disappears, the right to the basic income floor of the NZSG remains. Thus, the NZSG is the prototype of a basic income that provides automatic unconditional income security.

Realistically, the basic income approach suggested in this paper is likely to mean that high income people<sup>30</sup> simply do not bother to apply for NZSG even if they could be a few dollars better off. If in the future, the income base is widened to include capital gains or imputed rentals as discussed later, fewer wealthy superannuitants will bother to apply for the NZSG. But the option is always there for them should they need it.

For the three tax scenarios depicted in Figures 2, 3, and 4 respectively there are losses in annual disposable income relative to current settings as shown in Table 4. Any losses for people with small amounts of additional income are minimised in the two-tiered tax approach of tax scenario two and three.

**Table 4: Losses of non-NZS disposable income (rounded to the nearest dollar) for NZS Grant recipients. The NZS Grant is assumed to be the net married person rate of NZS of \$21,333 as forecast at HYEFU 2024 for 1 April 2025,**

Non-NZS taxable income		Tax Scenarios		
		One	Two	Three
\$5,000		\$1,118	nil	\$118
\$10,000		\$2,243	nil	\$243
\$15,000		\$3,368	nil	\$368
\$20,000		\$4,493	\$1,115	\$493
\$25,000		\$5,618	\$2,390	\$1,868
\$30,000		\$6,615	\$3,537	\$3,115
\$40,000		\$7,615	\$4,837	\$4,615
\$135,088	Cut-out point for Scenario Three	\$14,678	\$14,753	\$16,432
\$151,885	Cut-out point for Scenario Two	\$15,854	\$16,432	N/A
\$160,150	Cut-out point for Scenario One	\$16,152	N/A	N/A

Once in place, the NZSG would be less complicated than other forms of clawback such as the surcharge, a welfare-type income-test directly on NZS, or even a negative income tax approach.<sup>31</sup>

As with any targeting regime, an increase in the degree of targeting will result in some avoidance activity. New Zealand's history shows that opportunities and incentives for tax avoidance were features, at least initially, of the surcharge. It must be noted here however that the NZSG proposal is not nearly as harsh as the abatement in the benefit system or the means-test that applies to rest-home care subsidies (see St John and Dale, 2019).

<sup>30</sup> In the 2021 budget, the Minister of Revenue, the Hon David Parker allocated \$5m to Inland Revenue to gather better information on the distribution of wealth and income in New Zealand.

<sup>31</sup> See discussion in St John, S. (1991). *Reform of the GRI surcharge*. Wellington: New Zealand Planning Council.

The NZSG is designed to provide a gentle clawback using the principle of progressive taxation which is the natural counterpart of universal provision. The NZSG is consistent with current arrangements that do not require any retirement test and therefore there should be little significant disincentive to earn extra from paid work. The EMTRs do not approach those imposed on many younger family earners who may face abatement of Working for Families, (27%) student loan repayment (12%) and for some, abatement of Accommodation Supplement (25%) on top of the standard tax rates.

Meghan Stephens, Yvonne Wang, & Liam Barnes (2025) describe how, even excluding student loans, 30% of all sole parents face EMTRs of over 50%, while some face EMTRs approaching 90-100% over significant income ranges.

Another concern may be that the NZSG would need to be carefully packaged so as not to adversely influence the decision to save. This of course would be much more of a problem if a full means-test was proposed including an asset-test rather than the proposed income-test operated through the tax system.

## Extending the income tax Base under the NZSG

### PIE tax regime

Median wealth including financial wealth is highly skewed, favouring older age groups.<sup>32</sup> Inland Revenue has data on total PIE income received by individuals over 65. The PIE income information shown in Table 5 includes both KiwiSaver PIEs and non-KiwiSaver PIEs.

**Table 5 PIE Income (\$m) for over 65s by Prescribed Investor Rate and taxable (non-PIE income) range.<sup>33</sup>**

		Taxable Income Band (\$)					
Year ended 31 March	0	1-14,000	14,001-48,000	48,001-70,000	70,001-180,000	180,001+	Total
<b>2021-22</b>	5.5	10.3	120.2	30.4	58.1	30.7	255.4
<b>2022-23</b>	6.0	9.8	167.8	44.5	86.4	45.0	359.6

		Prescribed Investor Rate (%)				
Year ended 31 March	0	10.5	17.5	28	Total	Share of Total PIE income
<b>2021-22</b>	0.4	12.7	92.1	150.2	255.4	16.0% of \$1,600m
<b>2022-23</b>	0.6	16.4	144.5	198.1	359.6	30.7% of \$1,170m

PIE income is treated as tax paid with the underlying estimated PIE rate supposedly a proxy for the actual marginal tax rate of the investor. The costing done in the next section does not capture the undertaxed PIE income or indeed any PIE income as it is not included in the Household Economic Survey data base.

The integrity of the NZSG approach would require that the correct rate of tax is paid on all income. The current top PIE rate of 28% is highly advantageous to top marginal tax rate payers: investing in PIE funds is one way the better-off might seek further advantage

<sup>32</sup> 60% are over age 60 and 83% of HWI are aged over 51. See [High Wealth Individuals – Wealth Accumulation Review 2016](#). Also See Appendix 4 median wealth by age.

<sup>33</sup> Personal OIA received 15<sup>th</sup> August 2024, Inland Revenue.

in the NZSG tax regime. However, gross PIE income is now recorded for each taxpayer by the IRD and could be imputed as 'income' to be taxed under the NZSG tax regime with a credit for tax already paid by the PIE on the member's behalf (as in the imputation regime for dividends). The same argument applies to income earned through trusts, companies and overseas vehicles.<sup>34</sup> PIE income is already included in the other income used to abate tax credits in Working for Families, a major redistributive programme for children in New Zealand.<sup>35</sup>

Treatment of current annuities and defined benefit pensions raise other complex but not insoluble problems. In the past, such annuities were apportioned 50% as income for surcharge purposes. While such Defined Benefit schemes that pay pensions are a rarity for most, there is still a significant minority with private pensions. Some retired public servants have very large tax-free pensions, of which a percentage could be included as income for fairness. If in the future for example, there was desire to encourage annuitisation, an annuity of a limited value could be ignored instead of a share apportioned as income as a means of making annuitisation attractive to middle income people (St John, 2016; St John & Dale, 2019a).

### **Lack of taxation on housing**

The current tax treatment of income from housing is widely perceived as unfair with much of the current debate focusing on the need for a Capital Gains Tax (CGT). A CGT is not however a silver bullet. It may be better than doing nothing, but a broader view of the income from housing is possible. Better-off superannuitants are likely to have considerable amounts of untaxed imputed housing income from home ownership and rental property investments. The inclusion of such income (after a per person exemption) as suggested in the Fair Economic Return proposals (St John & Baucher 2021)<sup>36</sup> would also draw more income into the NZSG net. The more the tax base is widened, the greater the savings including those from many who may not bother to apply for the NZSG.

### **End of year reconciliation**

Putting NZSG recipients onto a separate tax scale also helps perceptions of fairness when older people receive other help automatically such as the untaxed winter energy payment and free public transport. There is a case for not offering a final tax reconciliation at all to high income people who choose to take the NZSG and its associated benefits.

## **Methodology and Modelling<sup>37</sup>**

Conceptually it may appear simple to evaluate the impact of basic income/clawback on the fiscal cost of NZS. In practice it is complex to model. One issue is defining the comparator of net superannuation. Table 1 shows a figure for the net cost of NZS as the amount MSD actually pays out after taxing at the elected tax rate of the superannuitant. More accurately, the cost to the taxpayer is modelled in this paper by taking each recipient's net super as if it had been taxed at their highest MTR (see Treasury note,

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<sup>34</sup> The issues around the need for an overall reform of these vehicles so that they are taxed at the individual's appropriate marginal tax rate are explored in Chamberlain & Littlewood (2010, 2019).

<sup>35</sup> See <https://www.ird.govt.nz/situations/i-am-a-pie-investor-with-a-student-loan-or-working-for-families>.

<sup>36</sup> For summary of FER papers see St John, S (2024) [PIE Commentary 2024-9: The capital gains tax debate is hotting up: Time to check out the Fair Economic Return.](#)

<sup>37</sup> The authors gratefully acknowledge the modeling of these results provided with the help of Matthew Bell, The Treasury but this in no way implies any endorsement of these policies.

Appendix 1). Appendix 2 shows that the baseline 2025/26 net cost to the taxpayer of NZS is an estimated \$18.956 billion for 864,000 recipients.<sup>38</sup>

For this update, Treasury has modelled cost savings to assist in the production of this paper. It does not represent government policy or Treasury advice. It is based on several assumptions. Previous modelling adjusted non-NZS incomes from 2017/18 levels to 2021/22 levels by applying a 3% income growth per year.<sup>39</sup> The modelling for 2025/26 figures uses individual anonymised data for estimates of non NZS incomes for superannuitants based on a much larger survey and gives more robust estimates.

The Treasury model assumes:

- All eligible people elect the option that delivers the higher disposable income, even if only by \$1 per annum. In other words, the only people who turn down the NZSG are those whose non-NZS income exceeds the 'break-even or cut-off' point, where they would end up with the same disposable income under either option.
- There are no behavioural responses, in particular, no change to labour supply or average hours worked by eligible superannuitants.

A total of 12 combinations: 4 NZS net rate options costed by the three different scenario tax regimes are modelled. The costings for the 12 combinations and the savings are summarised in Appendix 2.

The 4 NZS net rate options are:

1. Anyone who receives NZS gets the net married person rate
2. Any married person who receives NZS gets the net married person rate and any single person who receives NZS gets the net single sharing rate.
3. Anyone who receives NZS gets the net rate they are currently entitled to
4. Those living alone get the living alone rate—single sharing and married get the married rate.

The 3 alternative tax regimes are:

**Tax Scenario 1** 40% flat tax rate on all non-NZS taxable income (see Figure 2)

**Tax Scenario 2** 17.5% on the first \$15,600 of non-NZS taxable income and then 43% on non-NZS taxable income above \$15,600 per year (see Figure 3)

**Tax Scenario 3** 20% on the first \$20,000 of non-NZS taxable income and then 45% on non-NZS taxable income above \$20,000 per year (see Figure 4)

The true cost to the government of providing the public pension is the aggregate net (after-tax) NZS expense. Relative to its value in the 2025/26 year, costed under the NZS rates and personal tax regime existing in that year, modelling set out in Appendix 2 shows that savings in net NZS is possible for all net rate options.

These figures assumed an immediate adjustment of all rates to the prescribed NZS net rate option. In practice any alignment of the rates would be phased in over time and the savings would increase more gradually. The costings also take no account of the additional supplements required by those living alone with high housing costs. The results are summarised for the net rate NZSG options 1, 2, 3, 4 above respectively in Table 6.

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<sup>38</sup> The numbers of recipients of NZS in the modelling here do not match with Table 1 largely because the survey on which the modelling is based excludes those living in non-residential institutions (rest homes).

<sup>39</sup> This was a conservative assumption but aligns with the combination of the historical average and recent Budget 2021 Treasury forecasts for nominal wage growth over this period (3.46% per year).

**Table 6: Overall savings, as a percentage of current cost to taxpayers of funding NZS, from each scenario**

	All on Married* Rate	All married on Married Rate	Status Quo rates	All sharing accommodation on Married Rate
Tax Scenarios		All singles on Single Sharing Rate		Others on Living Alone Rate
1	29.6%	22.6%	20.0%	21.7%
2	24.1%	17.2%	14.6%	16.3%
3	24.6%	17.8%	15.2%	16.9%

\* While the term Married is used in this table it also applies to superannuitants in a civil union.

Over time, as the baby boomers continue to swell the numbers over age 65, some still in work and others with high financial assets, savings under the NZSG will likely increase. This will be reinforced if the tax thresholds for the chosen NZSG tax schedule are not adjusted regularly for inflation. It is desirable however that any thresholds are indexed.

The first tax scenario of aligning the single living alone and single sharing rate to the married rate achieves the most saving (29.6%) or \$5.6 billion. Around one third or 9.2 percentage points of this saving is due to the alignment of the rates to the married rate (see Appendix 2).

Even if the net rates are not changed (status quo), the costings show that 15-20% (\$2.8 billion-\$3.8 billion) savings of net NZS are possible as modelled under the three tax scenarios.

For the combination of all on the married rate and a flat tax schedule of 40%, 44,000 or 5.1% of age-eligible superannuitants are unlikely to apply as they would not gain from the NZSG. For other tax combinations around 4% drop out. It is likely these figures are very much understated as many would find it not worth the bother to ask for the NZSG especially if they are in well-paid work. It is also likely that others would be deterred if more income in the future, such as PIE income and deemed housing income are included.

Thus, the savings set out in Appendix 1 for the 12 combinations are all likely to be underestimates of the true potential of the NZSG approach. However, especially if the living alone rate is aligned to the single sharing or married rate, there will be more needed for separate assistance with accommodation costs for many low-income retirees.

## Discussion

If it is agreed that the cost of net NZS should be reduced by increasing the degree of targeting, using the tax system and the proposed NZSG has potential advantages compared to other targeting regimes:

- **Relatively simplicity** in administration when compared to other income tests and the old surcharge.
- **Universality is maintained.** The grant is paid irrespective of other income as a basic income grant if eligible people elect to take it.
- **Continuity:** Higher income superannuitants already elect a separate tax code to reflect the appropriate taxation of their NZS: there should be acceptability of a separate tax code for other income under the NZSG as there was for the old surcharge.
- **Flexibility:** The choice of tax rates for other income allows flexibility and clarity in reaching a desired breakeven point and required fiscal savings. It also provides choice and clarity for very high-income superannuitants who are not denied access to the basic income floor of NZSG if their situation changes.

- **21<sup>st</sup> century basic income.** Once seen as working well as a basic income, the NZSG could be usefully extended as a basic income to other groups such as those in their 60s on the supported living payment.

This analysis suggests that the combined approach of using a separate tax schedule for other income and freezing the single rates so that over time there is alignment with the married rate, will give large savings of at least between 24-30% of net NZS depending on the tax scenario.

Even if the net rates are not aligned (status quo) there are possible savings from the modelled tax schedules of around 15-20%. However, paying a single rate of NZSG for all equal to the net amount now paid to a married person simplifies the treatment of relationship status in the system. There is little sound rationale for the difference between the single sharing rate and the married rate. With modern relationships of very different kinds, it can be very confusing.<sup>40</sup>

But any alignment of rates would need to be done over time by freezing the single rates (or only CPI adjusting them) while indexing the married rate to wages. There is a better rationale for a higher living alone rate, but that too is a blunt tool for compensating for higher living costs. A single rate (at the married rate) is most effective at saving costs although additional payments for those with high accommodation costs would be required.

If the single sharing and married rates are aligned (column 4 Appendix 2) while the Living Alone rate left as is, the savings are around 16-22%. This may be more politically saleable than paying those who live alone a lower rate (eg column 2 Appendix 2).

With respect to the tax scenarios and referring to Table 4, a flat rate of 40% is simplest and most effective in saving costs. However, compared to what happens currently, this imposes an extra impost on those with only modest amounts of non-NZS income. The 2-tiered tax options helps solve this (see Table 4) with tax scenario 2 the fairest to those with low additional income.

The design of the NZSG is a matter of judgement. The model Treasury has developed can be used to test other tax scenarios for their distributional impact and ability to save the required amounts of net super costs. Preliminary use of the model to see if paying a higher aligned base NZSG above the married rate to help address elder poverty, shows reduced but still significant savings. Other scenarios outside the scope of this paper can be tested with this powerful model.

## Conclusion

A way forward would be to introduce the NZSG at the net status quo rates, freeze the single sharing rate, achieving alignment of single sharing and married rates over time. The case for further alignment of the single living alone with this rate may be made alongside development of new ways to meet higher accommodation costs. Under tax scenario 2, which has the most protection for low income people, a minimum of 16.3% cost saving can be expected (\$3.1 billion modelled for 2025/26), with more as the tax base expands to include PIE income and other base broadening measures such as for housing.

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<sup>40</sup> The distinction famously led to a case taken by Winston Peters to the High Court in 2019. See St John, S (2019) [The real problem in Winston's case](#) Newsroom, 13<sup>th</sup> November 2019 and St John, S (2019) [Winston's trial this week should be a wake-up call for everyone](#) Daily Blog 4th November 2019. Also see [87-year-old-flatmates-have-pensions-docked-after-govt-ministry-deems-them-couple? The Press, Feb 8](#)



Such a scheme may be easier to introduce than raising the age, and hence savings could be reaped earlier. But raising the age slowly could be a companion policy if other protections are in place with constant monitoring to ensure individuals who are asked to wait longer but cannot support themselves are not penalised.

The proposed change would decrease the fiscal cost of NZS through reductions in payments to high income superannuitants and there would be choices for using this revenue to relieve pressure on younger New Zealand taxpayers or for other redistributive policies. It may therefore lead to improved perceptions of inter-and intra-generational equity.

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### **Comments on this Pension Briefing welcome.**

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## Appendix 1. Notes on NZS abatement modelling (Treasury)

### **This disclaimer is a requirement of Statistics New Zealand (Stats NZ)**

These results are not official statistics. They have been created for research purposes from the Integrated Data Infrastructure (IDI) which is carefully managed by Stats NZ. For more information about the IDI please visit <https://www.stats.govt.nz/integrated-data/>. The results are based in part on tax data supplied by Inland Revenue to Stats NZ under the Tax Administration Act 1994 for statistical purposes. Any discussion of data limitations or weaknesses is in the context of using the IDI for statistical purposes, and is not related to the data's ability to support Inland Revenue's core operational requirements.

### **Comparison of modelling results with MSD outturns and forecasts**

The Ministry of Social Development (MSD) produces outturns (known past data) and forecasts of aggregate New Zealand Superannuation (NZS) expenditure, both on a gross and net (of tax) basis. These figures are in time periods of fiscal or June-end years e.g. the fiscal year 2023/24 ran from 1 July 2023 until 30 June 2024.

The New Zealand Treasury's TAWA microsimulation model, which was used to produce the modelled outputs for this paper, works in time periods of March-end years e.g. the March-end year 2023/24 ran from 1 April 2023 until 31 March 2024. This is because its main data sources are in these time units.

This is one reason the data in Table 1, which shows outturns and forecasts of aggregate gross and net NZS outturns and Half Year Economic and Fiscal Update (HYEFU) 2024 forecasts in fiscal years from MSD, cannot be aligned with the modelled March-end years from TAWA.

Another reason is simply because the MSD outturn year figures are based on administrative data that they receive, and their forecasts are built from these outturn year bases. Hence, MSD's outturns and forecasts are reflective of the entire population that receives NZS. TAWA, on the other hand, is a model that is based on Stats NZ's Household Economic Survey (HES), and so does not have input data from every superannuitant. The target population of the HES survey is all normally resident individuals of private dwellings, meaning that the modelled population does not include people in, for example, residential care homes for the elderly. Furthermore, TAWA attempts to model numerous tax and welfare types, as well as other fiscal variables. While its parameters and assumptions are calibrated to try and reflect actual outturns as closely as possible, it cannot match every value used in its calibration, including aggregate NZS amounts, exactly.

### **Different methods of calculating aggregate net (of tax) NZS expenditure**

Another important difference between MSD figures and the modelled values in this paper relates to net (of tax) NZS amounts. MSD outturns and forecasts reflect various tax options amongst their administrative data. One option is to tax the gross NZS payment at the 'M' rate, which treats it as the first or only taxable income of the superannuitant. However, people have the option of electing higher tax rates<sup>41</sup>, which they usually choose because they have other taxable income. Using a higher tax rate is normally done in order to avoid or at least reduce any debt owed to the Inland Revenue Department (IRD) at the end of the tax year, due to their NZS payments having been undertaxed. While IRD can advise a superannuitant on which of the tax options they

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<sup>41</sup> It is possible to elect any of the higher tax rates 17.5%, 30%, 33% or 39%, and even a special tax rate can be arranged with IRD. However, this example focuses on the optional 'S' rate of 17.5% on NZS income.

would be best to elect, ultimately it is the person's decision and they then settle their entire tax liability or refund with IRD at the end of the tax year.

By contrast the tax levied on gross NZS in this paper is at the superannuitant's marginal tax rate, or a mixture of this and the tax rate below it if the gross NZS payment moves them into a higher tax bracket than just their non-NZS taxable income sits in. In other words it is taxed as if it were the last addition to their overall taxable income. The reason for doing this is because the tax retrieved from gross NZS for any individual is the difference between the overall tax that they would have paid had they not received NZS and the overall tax that they need to pay when they receive NZS along with this other income.

An example may help to make this clearer. Currently a single superannuitant, living alone, is entitled to a gross NZS weekly amount of \$606.67. This equates to an annual taxable amount of \$31,546. The current personal income tax regime is 10.5% from \$0 to \$15,600; 17.5% from \$15,600 to \$53,500; 30% from \$53,500 to \$78,100; 33% to \$180,000; and then 39% above \$180,000. Hence taxing \$31,546 as if it were the first or only taxable income (i.e. under the 'M' rate) produces an annual net figure of \$27,117 or \$521.49 weekly.

That would be exactly what the tax would be on this gross NZS amount if this superannuitant received no other taxable income. However, what if they remained working part-time, which under current legislation around NZS would not affect their eligibility to receive NZS nor their gross NZS entitlement. Suppose this part-time work brought them in \$500 extra taxable income each week, or \$26,000 annually. They might then elect, for example, the 'S' tax rate on NZS, which then taxes all of their NZS at 17.5%. This would result in their net NZS annual payments from MSD reducing to \$26,025 or \$500.49 weekly.

However, if the tax liability on their annual income is calculated with and without NZS as part of their taxable income, then the comparison involves annual taxable incomes of \$57,546 and \$26,000. The annual tax on the former is \$9,484, or \$182.39 per week, while the annual tax on the latter is \$3,458 or \$66.50 per week. This means that, in effect, this superannuitant is paying \$6,026 annually in tax on their gross NZS entitlement of \$31,546, which equates to a 19.1% tax rate on their NZS. Even with the 'S' tax rate this superannuitant is effectively going to have a debt of \$506 to the IRD at the end of the tax year, which is the 1.6% difference between the effective 19.1% tax rate and the 17.5% 'S' rate. If they elected the 'M' rate they would owe the IRD \$1,598. If they had elected one of the higher tax rates IRD would owe them a refund at the end of the tax year.

If all of these numbers start to get confusing, the main point is this. Based on their administrative data, MSD will calculate the net aggregate expenditure on NZS as a mixture of those paying the 'M' tax rates and the various higher tax rates. As the example above showed just for one individual superannuitant, the aggregate tax on NZS derived from the difference between MSD's annual gross and net NZS figures will not necessarily align with the actual total amount of tax paid on NZS.

**The actual aggregate tax on NZS is the sum over all NZS recipients of the difference between tax levied on their total taxable income, which includes their gross NZS entitlement, and that levied on their taxable income excluding NZS. The aggregate net NZS amount derived from subtracting this tax amount difference from aggregate gross NZS is the actual cost to the taxpayer of funding NZS.**

## Appendix 2 Scenario costings for 2025/26 March-end year

<b>Alternative NZS scenario costings for 2025/26 March-end year</b>					
<i>Yellow-shaded cells are modelled results, all other cells just calculated from these modelled figures.</i>					
<b>Status quo in tax year 2025/26 (1 April 2025 to 31 March 2026)</b>	<b>\$ billion</b>				
2025/26 aggregate cost to taxpayers of funding New Zealand Superannuation (NZS) (modelled)	18.956				
2025/26 aggregate tax paid by superannuitants on all taxable income (modelled)	12.880				
2025/26 aggregate tax paid by superannuitants on non-NZS taxable income (modelled)	8.137				
2025/26 aggregate tax paid by superannuitants on gross (of tax )NZS (modelled)	4.743				
2025/26 number of superannuitants who receive NZS in thousands (modelled)	864				
		<b>Scenario differentiated by NZS receipt type superannuitants receive</b>			
		<b>Everyone</b>	<b>All singles</b>		<b>Singles alone</b>
		<b>receives</b>	<b>receive single</b>	<b>Everyone</b>	<b>receive single</b>
		<b>married person</b>	<b>sharing rate</b>	<b>receives their</b>	<b>alone rate</b>
		<b>rate (MPR)</b>	<b>Otherwise MPR</b>	<b>current rate</b>	<b>Otherwise MPR</b>
<b>Scenario One: Flat tax rate of 40% on non-NZS annual taxable income</b>					
Aggregate cost of New Zealand Superannuation (NZS) grant (tax free)		17.702	19.258	19.787	19.435
Aggregate tax paid on non-NZS taxable income		12.490	12.731	12.756	12.731
Aggregate savings for taxpayers of funding NZS Grant		1.254	-0.302	-0.831	-0.479
Savings on NZS Grant as percentage of status quo aggregate cost to taxpayers of funding NZS		6.6%	-1.6%	-4.4%	-2.5%
Extra tax paid on non-NZS taxable income from alternative taxation regime for those receiving NZS grant		4.353	4.594	4.619	4.594
Increase in tax revenue as percentage of status quo aggregate tax paid by NZS recipients on non-NZS income		53.5%	56.5%	56.8%	56.5%
<b>Overall saving from changed cost of NZS Grant and changed tax on non-NZS income from NZS recipients</b>		<b>5.607</b>	<b>4.292</b>	<b>3.788</b>	<b>4.115</b>
Percentage of overall saving due to paying the NZS grant		22.4%	-7.0%	-21.9%	-11.6%
Percentage of overall saving due to the alternative tax system on non-NZS income		77.6%	107.0%	121.9%	111.6%
<b>Overall saving as percentage of status quo aggregate cost to taxpayers of funding NZS</b>		<b>29.6%</b>	<b>22.6%</b>	<b>20.0%</b>	<b>21.7%</b>
Number of superannuitants who no longer receive NZS (thousands)		44	34	33	34
Percentage of superannuitants who no longer receive NZS relative to status quo NZS recipient numbers		5.1%	3.9%	3.8%	3.9%
<b>No alternative tax system, just changes to NZS grant rates based on scenario's NZS recipient type</b>					
Aggregate cost of NZS just from changing NZS grant payment rate		17.219	18.610	18.956	18.641
Aggregate savings for taxpayers on NZS just from paying NZS grant rate based on recipient type		1.737	0.346	0.000	0.315
Percentage of aggregate NZS grant payment saving due to payment based on recipient type		9.2%	1.8%	0.0%	1.7%

	Scenario differentiated by NZS receipt type superannuitants receive			
	Everyone receives	All singles receive single	Everyone receives their	Singles alone receive single
	married person rate (MPR)	sharing rate Otherwise MPR	current rate	alone rate Otherwise MPR
<b>Scenario Two: 17,5% tax rate on non-NZS annual taxable income up to \$15,600 then 43% above that</b>				
Aggregate cost of New Zealand Superannuation (NZS) grant (tax free)	17.598	19.101	19.628	19.274
Aggregate tax paid on non-NZS taxable income	11.343	11.551	11.583	11.553
Aggregate savings for taxpayers of funding NZS Grant	1.358	-0.145	-0.672	-0.318
Savings on NZS Grant as percentage of status quo aggregate cost to taxpayers of funding NZS	7.2%	-0.8%	-3.5%	-1.7%
Extra tax paid on non-NZS taxable income from alternative taxation regime for those receiving NZS grant	3.206	3.414	3.446	3.416
Increase in tax revenue as percentage of status quo aggregate tax paid by NZS recipients on non-NZS income	39.4%	42.0%	42.3%	42.0%
<b>Overall saving from changed cost of NZS Grant and changed tax on non-NZS income from NZS recipients</b>	<b>4.564</b>	<b>3.269</b>	<b>2.774</b>	<b>3.098</b>
Percentage of overall saving due to paying the NZS grant	29.8%	-4.4%	-24.2%	-10.3%
Percentage of overall saving due to the alternative tax system on non-NZS income	70.2%	104.4%	124.2%	110.3%
<b>Overall saving as percentage of status quo aggregate cost to taxpayers of funding NZS</b>	<b>24.1%</b>	<b>17.2%</b>	<b>14.6%</b>	<b>16.3%</b>
Number of superannuitants who no longer receive NZS (thousands)	49	40	39	40
Percentage of superannuitants who no longer receive NZS relative to status quo NZS recipient numbers	5.7%	4.6%	4.5%	4.6%
	Scenario differentiated by NZS receipt type superannuitants receive			
	Everyone receives	All singles receive single	Everyone receives their	Singles alone receive single
	married person rate (MPR)	sharing rate Otherwise MPR	current rate	alone rate Otherwise MPR
<b>Scenario Three: 20% tax rate on non-NZS annual taxable income up to \$20,000 then 45% above that</b>				
Aggregate cost of New Zealand Superannuation (NZS) grant (tax free)	17.370	18.803	19.380	19.041
Aggregate tax paid on non-NZS taxable income	11.205	11.360	11.450	11.433
Aggregate savings for taxpayers of funding NZS Grant	1.586	0.153	-0.424	-0.085
Savings on NZS Grant as percentage of status quo aggregate cost to taxpayers of funding NZS	8.4%	0.8%	-2.2%	-0.4%
Extra tax paid on non-NZS taxable income from alternative taxation regime for those receiving NZS grant	3.068	3.223	3.313	3.296
Increase in tax revenue as percentage of status quo aggregate tax paid by NZS recipients on non-NZS income	37.7%	39.6%	40.7%	40.5%
<b>Overall saving from changed cost of NZS Grant and changed tax on non-NZS income from NZS recipients</b>	<b>4.654</b>	<b>3.376</b>	<b>2.889</b>	<b>3.211</b>
Percentage of overall saving due to paying the NZS grant	34.1%	4.5%	-14.7%	-2.6%
Percentage of overall saving due to the alternative tax system on non-NZS income	65.9%	95.5%	114.7%	102.6%
<b>Overall saving as percentage of status quo aggregate cost to taxpayers of funding NZS</b>	<b>24.6%</b>	<b>17.8%</b>	<b>15.2%</b>	<b>16.9%</b>
Number of superannuitants who no longer receive NZS (thousands)	59	53	49	50
Percentage of superannuitants who no longer receive NZS relative to status quo NZS recipient numbers	6.8%	6.1%	5.7%	5.8%

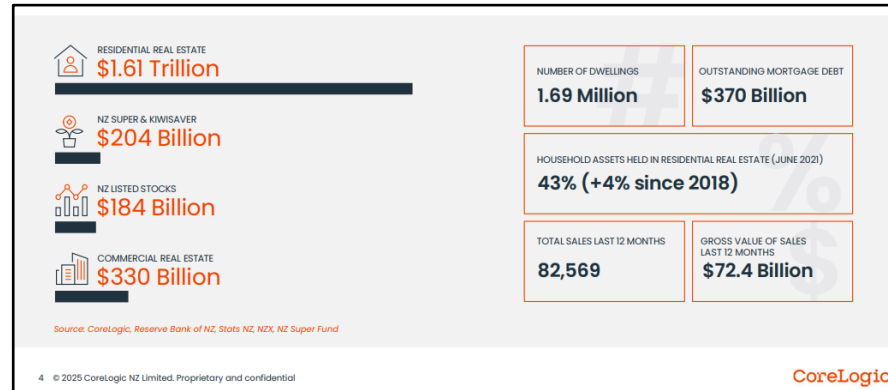


### Appendix 3: Non NZS scenario costings for the 2025/26 March-end year

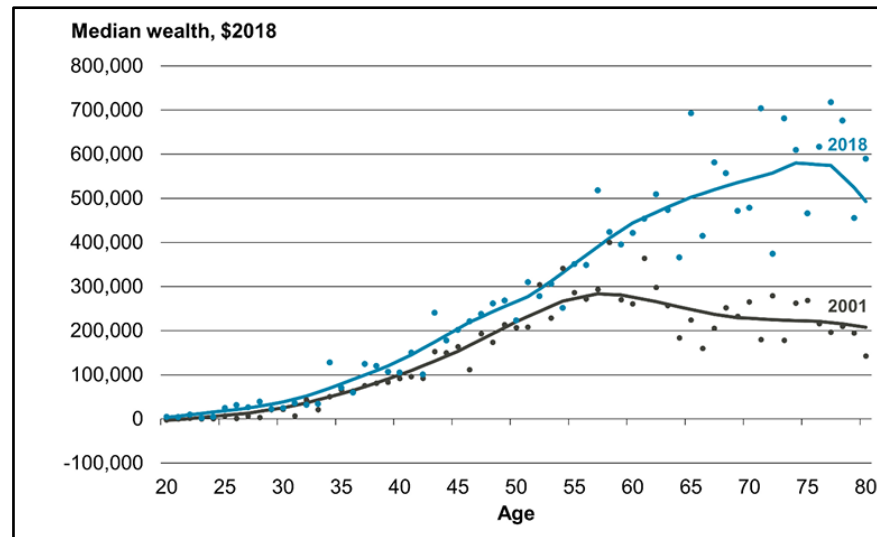
<b>Appendix Three: Non-NZS scenario costings for 2025/26 March-end year</b>		
<b>Assumes all NZS recipients who still qualify get their current NZS rates</b>		
<i>Yellow-shaded cells are modelled results, all other cells just calculated from these modelled figures.</i>		
	<b>\$ billion</b>	<b>% of total income</b>
<b>Non-NZS taxable income in tax year 2025/26 (1 April 2025 to 31 March 2026)</b>		
Amount of non-NZS taxable income above \$0 but under \$15,600	1.482	4.4%
Amount of non-NZS taxable income above \$15,600 but under \$20,000	0.525	1.6%
Amount of non-NZS taxable income above \$20,000 but under \$53,500	4.873	14.4%
Amount of non-NZS taxable income above \$53,500 but under \$78,100	4.081	12.1%
Amount of non-NZS taxable income above \$78,100 but under \$180,000	11.138	32.9%
Amount of non-NZS taxable income above \$180,000	11.740	34.7%
Tax paid on non-NZS taxable income under existing tax regime	8.137	
<b>Scenario One: Increased tax from flat tax rate of 40% on non-NZS annual taxable income</b>		
	<b>\$ billion</b>	
From non-NZS taxable income above \$0 but under \$15,600	0.437	
From non-NZS taxable income above \$15,600 but under \$20,000	0.151	
From non-NZS taxable income above \$20,000 but under \$53,500	1.251	
From non-NZS taxable income above \$53,500 but under \$78,100	0.900	
From non-NZS taxable income above \$78,100 but under \$180,000	1.656	
From non-NZS taxable income above \$180,000	0.225	
<b>Overall increased tax from 40% flat tax rate on non-NZS annual taxable income</b>	<b>4.620</b>	
<b>Tax paid under 40% flat tax rate on non-NZS taxable income by those receiving NZS grant</b>	<b>9.603</b>	
<b>Tax paid on non-NZS taxable income by those who no longer receive NZS</b>	<b>3.153</b>	
<b>Scenario Two: Increased tax from 17.5% tax rate on first \$15,600 of non-NZS annual taxable income and then 43% above that</b>		
	<b>\$ billion</b>	
From non-NZS taxable income above \$0 but under \$15,600	0.104	
From non-NZS taxable income above \$15,600 but under \$20,000	0.048	
From non-NZS taxable income above \$20,000 but under \$53,500	0.834	
From non-NZS taxable income above \$53,500 but under \$78,100	0.771	
From non-NZS taxable income above \$78,100 but under \$180,000	1.543	
From non-NZS taxable income above \$180,000	0.147	
<b>Overall increased tax from 17.5% tax rate on first \$15,600 of non-NZS annual taxable income and then 43% above that</b>	<b>3.447</b>	
<b>Tax paid under 17.5% tax rate on first \$15,600 of non-NZS annual taxable income and then 43% above that by those receiving NZS grant</b>	<b>7.818</b>	
<b>Tax paid on non-NZS taxable income by those who no longer receive NZS</b>	<b>3.765</b>	
<b>Scenario Three: Increased tax from 20% tax rate on first \$20,000 of non-NZS annual taxable income and then 45% above that</b>		
	<b>\$ billion</b>	
From non-NZS taxable income above \$0 but under \$15,600	0.141	
From non-NZS taxable income above \$15,600 but under \$20,000	0.045	
From non-NZS taxable income above \$20,000 but under \$53,500	0.786	
From non-NZS taxable income above \$53,500 but under \$78,100	0.788	
From non-NZS taxable income above \$78,100	1.554	
<b>Overall increased tax from 20% tax rate on first \$20,000 of non-NZS annual taxable income and then 45% above that</b>	<b>3.314</b>	
<b>Tax paid under 20% tax rate on first \$20,000 of non-NZS annual taxable income and then 45% above that by those receiving NZS grant</b>	<b>7.183</b>	
<b>Tax paid on non-NZS taxable income by those who no longer receive NZS</b>	<b>4.267</b>	
<i>For Scenario Three the sample size of the "Above \$180,000" group that still received the NZS Grant was too small to be released under Stats NZ requirements. Consequently, for this scenario the "Above \$78,100 but under \$180,000" and "Above \$180,000" groups have been combined.</i>		

## Appendix 4 Wealth held by households

### Importance of real estate in total household wealth



### New Zealand wealth distribution by age, comparison between 2001 and 2018\*



\*[Estimating the Distribution of Wealth in New Zealand](#), figure 17.

