



## Tackling poverty and long-term fiscal pressures

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### PIE Commentary 2025-5

6<sup>th</sup> August 2025

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PIE is pleased to republish Susan St John's article for Newsroom [Why we should take \\$3b off top end of Super](#). The claim that NZ Super is 'unaffordable' must be scrutinised. We first need to know what the problem is before we can assess the solutions. This commentary identifies two problems: one is the inherent unfairness and incoherence of how we spend the welfare budget. The second problem is the increasing fiscal pressures in an uncertain 21<sup>st</sup> century.

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There is a growing consensus that something needs to be done about NZ Super (NZS) because apparently, we 'can't afford it'. Means-testing is sometimes suggested by a brave few but raising the age of eligibility seems to be the most popular solution. According to Prime Minister Christopher Luxon , [raising the age to 67 is 'a no-brainer'](#).

But in what sense is NZS 'unaffordable'? For the current 2025/26 year we will spend a total of \$46 billion with NZS taking 54 percent of the total spend. The table below is based on the budget for social welfare benefits and tells a stark story. The total welfare spend is projected to rise by \$6.7 billion over for the four years to 2029. Of this total increase, \$5.8 billion, or 87% is due to NZS.

That lion's share would be acceptable if it was not at the expense of other welfare payments. A sizeable group of the people over 65 collecting their Super are very wealthy, own expensive homes and have large incomes. They may remain in very well-paid work when they turn 65 and yet still qualify for NZS. The very wealthiest pay at the most a 39 percent marginal tax rate and a concessional 28 percent on their passive income under the PIE (portfolio investment entity) regime.

Many of them would not be able to tell you how much their weekly NZS is, or even notice it increases when the winter energy payment starts automatically in May. Yet even

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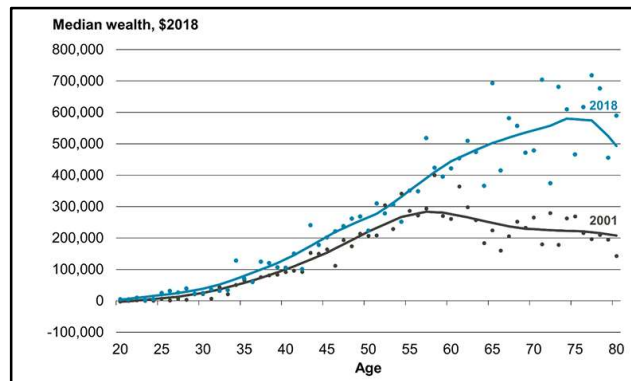
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at the lowest (married person) rate, the very well-off can always retain at least a net of tax \$15,000 each, or a net \$19,700 for those living alone.

Welfare benefit expenses					
Source Budget 2025		2025	2029	2025-29	share of
(\$millions)		Forecast	Forecast	Forecast	change
New Zealand Superannuation		23,180	28,957	5,777	87%
Jobseeker Support and Emergency Benefit		4,644	4,420	-224	-3%
Supported Living Payment		2,669	3,023	354	5%
Sole Parent Support		2,257	2,169	-88	-1%
Family Tax Credit		2,435	2,541	106	2%
Other Working for Families tax credits		564	600	36	1%
Accommodation Assistance <sup>1</sup>		2,304	2,186	-118	-2%
Income-Related Rents		1,487	1,952	465	7%
Disability Assistance		492	506	14	0%
Winter Energy Payment		560	596	36	1%
Best start		348	281	-67	-1%
Orphan's/Unsupported Child's Benefit		402	447	45	1%
Hardship Assistance		758	891	133	2%
Paid Parental Leave		720	850	130	2%
Childcare Assistance		170	205	35	1%
FamilyBoost tax credit		131	163	32	0%
Benefit expenses		43,270	49,931	6,661	100%

A Treasury report published in 2023 encapsulates what has happened to median wealth overtime.

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



Ching B, Forward, T & Parkyn, O.(2023) [Estimating the Distribution of Wealth in New Zealand](#), New Zealand Treasury Working Paper 23/01 April 2023

If we updated this to 2025, the age gap would be even worse, reflecting the strong housing boom peaking in 2021 with many multimillion-dollar houses augmenting the excesses of untaxed wealth of the already wealthy, while Covid and this punitive, never-ending recession have shredded the balance sheets of the poorest.

Raising the age of eligibility for NZS would be a very blunt tool to address this unfairness. Most of those who retire at 65 aren't wealthy and would be worse-off, including Māori and Pasifika whose life expectancy is lower, the disabled, chronically ill and unemployed. Their increased hardship would require costly extra welfare spending and offset any saving. It would also prevent many younger retirees from making valuable contributions to the care of their grandchildren when parents work and other unpaid volunteer work.

Moreover, raising the age only applies to future cohorts and not to the wealthy who are already retired. Such a policy does not generate revenue in the short term because it needs a long lead in time. For example, a proposal in 2017 from the then [Prime Minister Bill English was to raise the age gradually to 67, starting in mid-2037.](#)

At the same time, there are growing numbers for whom the pension isn't enough to live on: older person poverty is very real, especially when people do not own their own homes. But while the wealth and income divide within the older age group is growing, so too is the divide growing between the older rich and the poor young, and their children.

[Families on low incomes can face horrendous EMTRs \(Effective Marginal Tax Rates\)](#), well above the 39 percent faced by the very highest earners over 65. Their debts may exceed the value of their assets, most are likely renting for the rest of their lives and [at least one in 1000 is homeless.](#)

Is it fair to pay everyone over the age of 65 the same gross universal pension regardless of wealth or income when there is so much social distress and outright poverty amongst working age people and their children right now? Could and should the welfare dollar be better distributed?

It certainly could be. What is unsustainable is that there is very little movement in core benefit support projected for the next four years, as shown the table above. Spending on the Jobseeker and Sole Parent Support is expected to decline, reflecting an optimism that the economy will be in better shape, and because these benefits are indexed to inflation rather than wages.

Over the next four years spending on Working for Families, the principal tool for child poverty alleviation goes up by about only five percent, much less than inflation, while Best Start for those under three goes down 19 percent. Today, the extent and depth of family poverty, rampant homelessness, mental illness, debt enslavement, and foodbank overwhelm are too hard to ignore, but under these projections are set to get much worse.

We could distribute welfare so much more equitably. Our research, [New Zealand Super as a Basic Income](#) presents various scenarios modelled by Treasury (not endorsed, but validated) and shows at least \$3 billion per year can be taken off the top end of NZ Super with little or no impact on the majority of superannuitants.

This \$3 billion could be used to rebalance the welfare budget by improving Working for Families, the Accommodation Supplement, hardship assistance and allowing beneficiaries to be treated as individuals, not part of a couple. We believe that if this was 'sold' to the public as directly assisting the working age population and their children, it could be acceptable to the many thoughtful older wealthy superannuitants.

Of course, that won't solve all our problems. We would still need an additional stream of revenue to rebalance the economy for long-term fairness and efficiency. The number of unemployed and underemployed people is steadily rising, traditional jobs are disappearing, and many of the middle class are falling further through the cracks. The economy is structurally unsound and unprepared.

The wealthy pull away with their helipads and private health insurance, enjoying a first world standard of living provided by imported goods and low wage labour. Our scarce resources have gone into high-end property because it has traditionally been a fool proof way to store untaxed wealth. At the same time, and as a likely consequence, state housing public health and education, environmental protection, have been starved of real resources.

A wider tax base that includes untaxed returns to holding assets is required. As tax accountant Terry Baucher and I have argued in several working papers, we need a [fair economic return](#). To avoid delays, we should start with the biggest and most economically damaging, but easily valued asset, residential real estate. The imputed income from holding net equity in housing over and above a modest home would be treated as if invested in a term deposit. Once this wider tax base is embedded, it might be gradually extended to capture other sources of wealth.

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