

## Is Roger Douglas right about New Zealand's "Super Disaster"?

**PIE Commentary 2026-3**  
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PIE invited commentaries from our Research Associates on issues topical to this year's budget and to inform election debates.

New Zealand Superannuation is a universal, taxable, wage- and prices-linked, flat-rate, individual, tax-funded, non-contributory pension for all who pass the residency test at age 65. PIE has been extensively involved in age-old debates about PAYGO v SAYGO pension schemes which are re-surfacing as both the shape and future of New Zealand Superannuation are put under scrutiny.

Here, Michael Littlewood, former RPRC co-director, exposes the fallacies in the proposals from Sir Roger Douglas, formerly Minister of Finance (1984-1988), author of the 1975 compulsory superannuation savings scheme and a long-time critic of its abolition.

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## Is Roger Douglas right about New Zealand's "Super Disaster"?

Roger Douglas's compulsory retirement savings scheme of 1975 has re-surfaced in the wake of political commentary on the future cost of New Zealand Superannuation (NZS). His most recent offering is [here](#).

He begins:

*New Zealand's serious superannuation problems began in 1976 when the Muldoon Government replaced Labour's compulsory super savings scheme with a Pay-As-You-Go (PAYGO) system. That single decision changed everything.*

Douglas implies that his 'New Zealand Superannuation Scheme' (compulsory savings of 8% of pay) was to replace the then 'Universal Superannuation'. Not so. Douglas wasn't really concerned about the long-term costs of an ageing population because his scheme would have added to those costs. Unless, of course, he then intended to means-test the Universal Superannuation pension.

Douglas continues:

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<sup>1</sup> This series of our research associates commentaries may or may not be the consensus view of the PIE hub.

*PAYGO is essentially a Ponzi scheme...PAYGO allowed politicians to make generous promises without having to fund them properly. It created massive unfunded liabilities - IOUs that future generations would have to pay. Today those unfunded liabilities stand at around \$2 trillion.*

So Douglas assumes that the original scheme should have been 'properly funded', and constructs a straw man that misrepresents the economics of today's age pension.

Why should the government pre-fund pensions when it doesn't pre-fund its other activities? Police? Defence? Education? Welfare? Health? Transport? What is the magic of the age pension in that context? Is it because our age pension looks a bit like a private sector pension scheme (which must be pre-funded)?

Muldoon was right to scrap the 1975 scheme. After more than 50 years, Douglas continues to misdiagnose the disease and is still trying to 'cure' it.

Describing PAYGO as a Ponzi scheme is alarmist nonsense and sets up another straw man. In a Ponzi scheme, investors expect to get the offered return and their capital back one day, but sadly their money is embezzled or used to pay prior investors. Any repayments are reliant on attracting contributions from new investors. That flow suddenly stops and remaining investors lose everything. That's what makes it a Ponzi scheme. But that is not how NZS works.

The government should focus on doing things that only a government can do. Collecting taxes this year and paying a pension this year from those taxes is one of those things.

In fact, in any year, the total amount that taxpayers allocate to NZS in that year divided by the number of people who taxpayers decide are qualified to receive it gives the value of the average pension. Both the numerator and the denominator in that equation are for taxpayers of the day to decide and no amount of pre-funding can (or should) change that. On that argument, there is no such thing as an unfunded age pension.

A 'promise' to pay a pension in 2066 is not actually a commitment, any more than a promise to provide your child with education from ages 5 to 18. Both may be current policy but you can't sue anyone if a government of tomorrow changes that policy.

Let's put Douglas's 'crisis' rhetoric to one side.

NZS cost us a net 4.5% of GDP in 2026 and the Treasury guesses that will rise to a net 6.7% by 2066<sup>2</sup>. That's a lot of dollars, both now and in the future.

But what really matters is the strength of the contemporary economy to deliver those dollars. That's why we should talk about cost relative to GDP and then get busy figuring out how to grow the economy by more than we currently expect. A larger pie means bigger slices are possible for everyone, including pensioners.

So how do our current and expected costs compare to the other 37 OECD countries? In 2025, the average net cost of governments' age pensions across all 38 countries in the OECD, including New Zealand, was 7.4% of GDP<sup>3</sup>. In other words, other equivalent countries, on average, already pay more today for their age pensions than we expect to pay in 40 years' time. That doesn't make 6.7% by 2066 'right' but it does make it achievable, if that's what we decide.

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<sup>2</sup> *New Zealand Superannuation Fund Contribution Rate Model BEFU 2026*, The Treasury, accessible [here](#)

<sup>3</sup> *Pensions at A Glance, OECD and G20 Indicators*, OECD, 2025; cost comparison table accessible [here](#).

Remember too that other countries also pay subsidies for private provision that aren't included in the OECD's numbers. We don't have those subsidies for private saving for retirement in New Zealand, other than a small KiwiSaver subsidy.

Let's just forget Douglas's pre-funding argument - it's an irrelevant distraction. Besides which, for a given amount of pension, pre-funding doesn't change its cost. It changes the incidence of that pension's cost but not the cost itself.

I think NZS is the best government-provided, age pension in the world but it can certainly be improved.

Here are some ideas for discussion:

- Collect MUCH better data to support reviews.
- One rate of NZS (no married rate and no living-alone rate).
- Limit overseas payments to non-residents.
- Reform the method of indexation to wages alone.
- Reform section 70 deductions for overseas' pensions.
- Disband the New Zealand Superannuation Fund, sell the assets and repay debt.

I want to talk about those instead.