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A commentary from the Retirement Policy and Research Centre

The NZ Super Fund and cookie-jar economics

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Budget 2020

Buried in Budget 2020's eye-watering numbers was news that, despite the economic catastrophe we are about to endure as a consequence of COVID-19, the Government intends to keep up its contributions to the New Zealand Superannuation Fund (NZSF).

The 2020 to 2023 contributions total $8.03 billion, the Treasury's New Zealand Superannuation Fund contribution rate model shows,[2] with further contributions of another $17.1 billion between 2023 and 2036. That's a total of $25.13 billion over the next 16 years.

On top of this, the fund has just announced investment losses for the first four months of 2020 of $4.6 billion[3] and there may be more to come in the rest of 2020 and beyond.

Can someone in the Government please explain to New Zealanders why we taxpayers will be borrowing $25.13 billion to pass on to the fund's Guardians to invest on our behalf?

The NZSF was set up in 2001 to, in the words of finance minister, Sir Michael Cullen, "*smooth the future increase in the cost of superannuation over time*".

However, the fund will not reduce the future cost of New Zealand Superannuation (NZS) by one dollar – it may very partially 'smooth' the incidence of funding that cost but will not change it. The Government's contributions won't change the cost of NZS; neither will a stellar nor a poor investment performance by the fund's guardians.

The cost of any pension scheme, private or public, is the benefits actually paid by the scheme (plus administration costs) and that doesn't have anything to do with how it is

[1] PensionCommentaries are opinion pieces published as contributions to public debate, and do not necessarily reflect the view of the RPRC.
[2] Available at https://treasury.govt.nz/publications/model/new-zealand-superannuation-fund-contribution-rate-model-befu-2020.
[3] *NZSUPERFUND Monthly Returns*, accessible here.

paid for. So, in the absence of a future reduction in the NZS pension itself, having the fund doesn't reduce the economic implications of an ageing population.

On current settings, the Treasury expects the real cost of NZS to grow from a net 4.5% of GDP today to a net 6.5% of expected GDP by 2060. The fund does not affect those numbers, even if we doubled the contributions to this fund or eliminated them altogether.

There are so many problems with the mere presence of the fund, apart from its inability to reduce the future cost of the pension. Space precludes a detailed explanation but, in summary:

- The fund attempts to constrain the ability of tomorrow's taxpayers to reduce the pension.
- What looks like prudence is really a set of pension-design handcuffs for future governments.
- It's a perpetuity fund and will, the Treasury thinks, be more than twice today's size in real terms in 2116 than it is today.
- Why will it even be there in nearly 100 years, long after the last of the baby-boomers have died?
- The fund is effectively 100 per cent leveraged – every dollar in the fund is effectively a dollar borrowed in the rest of the Government's books.
- Leverage magnifies investment risk – great in good times; terrible in the bad.
- The fund costs quite a lot to run - $109 million in 2019, including $50.4 million in salaries and people-related costs.[4]

This is an example of cookie jar economics.

If we put money aside for pensions, it can seemingly be used only for pensions. But government spending doesn't work like that. Having the cookie jar in the presence of higher debt doesn't improve the security for tomorrow's pensioners.

Total taxes will probably be higher in the presence of the fund over its lifetime.

Why pre-fund just pensions? What about the future costs of health, infrastructure, policing or the armed forces? What particularly is it about the age pension that deserves this special treatment?

Tomorrow's taxpayers decide spending priorities of tomorrow's governments

Tomorrow's taxpayers will (and should) decide their governments' spending priorities. Those will, as now, balance all the different claims against revenues, electoral appeal etc. That will be the case for health, defence, policing, prisons, education and all of the government's other activities.

And that should also be the case for pensions. Nothing that today's taxpayers decide should interfere with that process in 2060, and it will not, even in the presence of the fund.

That is the essential pointlessness of the fund, which, if it achieves anything at all, will only get in the way of sensible, future decisions. Its presence has mistakenly led some to

[4] Annual report, *NZSUPERFUND, 2019* accessible here at pp 180,201.

believe that the fund makes NZS more secure and sustainable. It doesn't. The fund is a political placebo; a fiscal hall of mirrors.

The Government should wind the fund up, sell the current assets in an orderly fashion ($42.1 billion at April 30) and repay debt.

That will offset a fair chunk of the $62.1b the Government says it needs to borrow to help the country navigate the post-Covid-19 world.

It is just madness to borrow money to contribute to the fund.

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