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A commentary from the Retirement Policy and Research Centre

The New Zealand Super Fund

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This commentary focuses on the role of the New Zealand Superannuation Fund in the retirement incomes framework and asks whether it is fulfilling its initial promise. Is it time to revisit the purpose and formula of this fund or is it an opportunity to capitalise on the fact we have a fund and repurpose it for the benefit of all?

There is little policy debate around the New Zealand Superannuation Fund (NZSF), New Zealand's largest publicly-owned financial asset (currently \$58 billion) sitting on the Crown balance sheet. The purpose has been widely understood as helping us meet the future fiscal demands of an ageing population. Paradoxically NZSF assets are treated differently to other Crown financial assets: they are not netted off against gross debt in the official net debt calculation. Does that mean they are not going to help us?

The [NZSF website](#) has very little analysis on what the fund is in fact going to do for us, being largely concerned with investment returns. Most people have a vague idea that the fund is going to [make their NZ superannuation affordable](#). It won't. Others think, equally misguidedly, that it guarantees there will be no changes to the full wage-linked, individual universal pension at 65 today's retirees now enjoy. It doesn't.

When the fund was established two decades ago, (Sir) Dr Cullen claimed ["By setting aside some Crown resources toward retirement income now, while we can afford it, we will be able to smooth out the cost over time."](#) The idea was that workers of the 2000s should pay tax not only to cover the pay-as-you-go superannuation payments of the already retired, but a bit more to store up for the future when they themselves retired when there would be relatively more older people supported by the working age population.

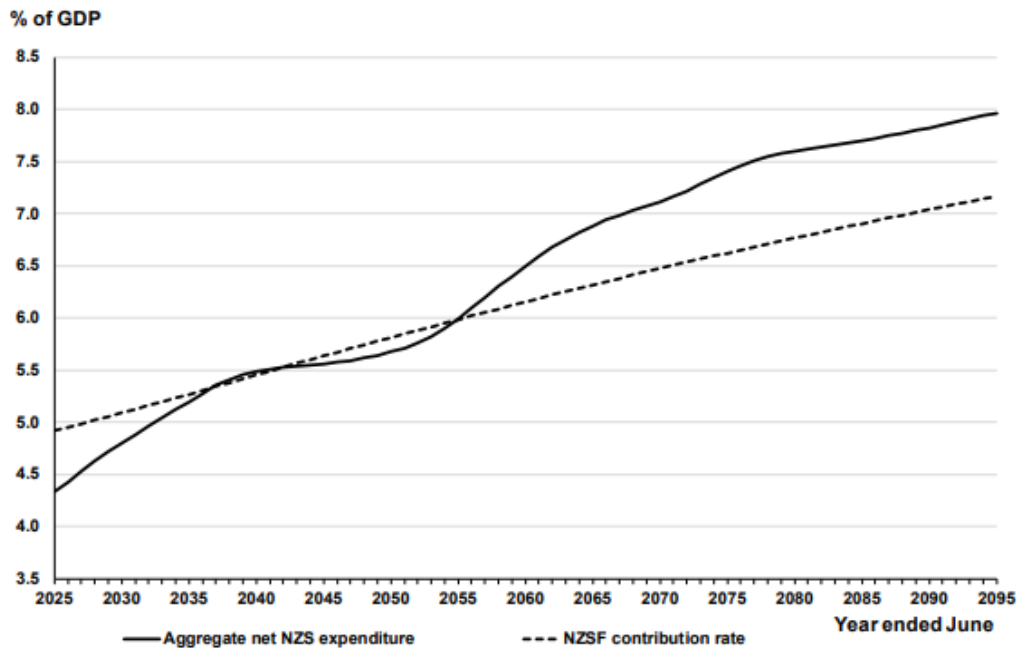
The policy was based on arcane economic theory about deadweight costs that claims a steady tax rate paid over a time period is better for society than a low tax rate today and a high one tomorrow that produces the same average tax rate.

A recent report (June 2021) from Treasury: [The Golden Years: Understanding the New Zealand Superannuation Fund](#) by Matthew Bell shows that under the current formula

¹ PensionCommentaries are opinion pieces published as contributions to public debate, and do not necessarily reflect the view of the RPRC. This commentary was originally published in an earlier form at St John, S (2021) [Will the New Zealand Super Fund help pay the costs of the babyboom retirement?](#) interest.co.nz 16th August, 2021. Also see RPRC's contribution to the Auckland Business School Alumni series Shaping our Futures: ["Pressure Points in our Policies: Facing up to the Ageing Population."](#)

taxpayers will contribute to the fund until around 2055, when just *small* withdrawals begin (shown by the difference between the dotted and the heavy lines in the figure from this report). But 2055? By that time, any remaining baby boomers will be aged between 90 and 110 years.

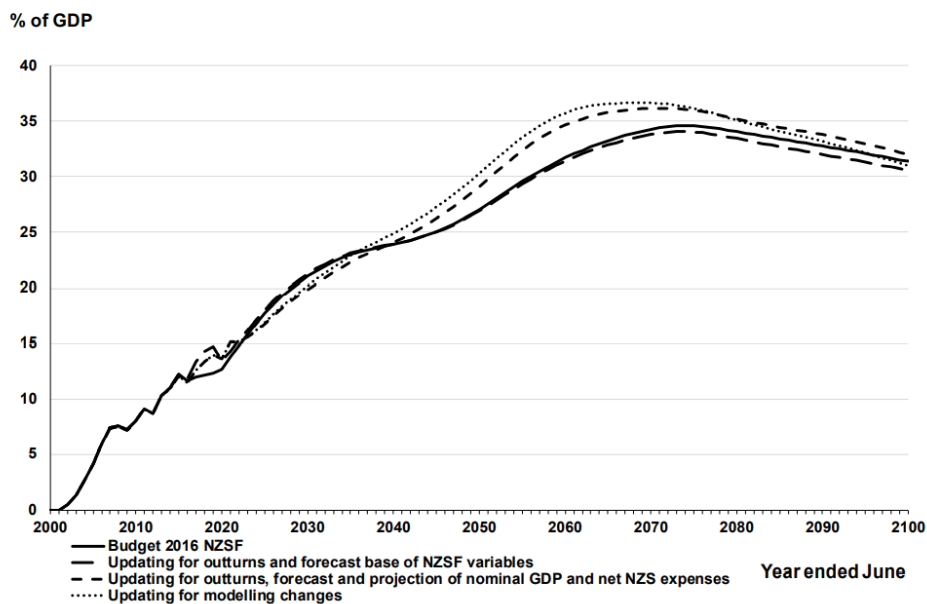
Figure 6 – NZSF contribution rate compared with net NZS to GDP



Source: The Treasury

Even by the end of the century, in 80 years' time, the fund withdrawals supply only 11% of the net cost of NZS and the fund itself is projected to be a massive treasure chest worth 30% of GDP (compared to 14% today) as shown in Treasury figure.

Figure 27 – Updating NZSF closing balance between Budgets 2016 & 2020



Source: The Treasury

In times of genuine budgetary surpluses, it may have made sense to set some cash aside to strengthen the Crown's balance sheet. There is nothing wrong with fiscal prudence in times of economic good fortune. But why ring fence this fund and pretend it can only be used to pay for New Zealand Superannuation (NZS)?

It is a myth that the withdrawals post 2055 make the NZSF more affordable and lessen the competition for scarce real resources. The fund itself is unlikely to have any impact on the growth of output. Moreover, the claims on future output are NOT reduced because the expenditure on NZS itself is not reduced (the way it would be if NZS were cut or the age raised).

The NZSF is not like a sovereign wealth fund that holds rental income from a fortunate local natural resource like North Sea gas. In contrast, the ongoing contributions to NZSF are made at the expense of other things that would better prepare us for the [fiscal pressures of an ageing population](#).

Whether there are surpluses or not today, taxpayers contribute around \$2 billion a year to this fund today. This contribution is made when the need for investment in the real economy in housing, health, education infrastructure and poverty alleviation and has rarely been more pressing nor so vital if we are to prepare for the real needs of the ageing population.

It is time for an honest analysis of who pays and who benefits from the NZSF. Economists usually do separate the real economy from the financial one. As economist Nick Barr ([Myths my grandpa taught me](#)) famously said of setting up funded pension schemes "you can't eat pound note butties." What Barr means is that a store of paper assets including money itself is not a guarantee of the expected standard of living. The future depends on there being actual "butties" to consume. Translating his message for New Zealand: having a massive fund by the end of this century won't help us at all if the brightest and best young skilled workers seek greener pastures where they can at least house themselves and see a future. The ageing of the population will mean competition for scarce resources intensifies regardless of the fund especially because society will also be coping with the impact and prevention of future catastrophic climate change.

The emerging poverty among older New Zealanders was highlighted in [the RPRC report on fiscal sustainability](#) for the 2019 Retirement Income Policies Review. Much of this poverty is driven by the inadequacy of the welfare system for those aged 50-65, and the way the housing market has become a speculative bonanza for the well-off instead of providing basic healthy housing for everyone.

Imagine if instead of squirrelling away \$2 billion a year to this ring-fenced fund, the money was used to shore up the health system so it was capable of handling the pandemic and the future demands of an ageing population. Instead [nurses](#), [midwives](#) and [doctors](#) warn daily of the impending crisis in medical services. Having money in a fund won't stop the spread of the Delta virus in the fertile ground of poverty, existing ill-health and overcrowding. Imagine the saving on social costs if we had protected the welfare system, [taxed housing properly](#) and built social housing so we didn't have a large number of families ill, and subsisting in overcrowded, badly built slums and motels.

The major challenges we now face include designing enduring redistributive packages, keeping up the supply of basic commodities and essential services, strengthening the public sector especially health and education, and preparing for challenges that private enterprise is clearly incapable of solving. The solution is not to be found in storing up treasure on earth "where rust doth corrupt and moth decay" for some mythical future.

The first step may be to remove the straight jacket of the imaginary ring around the NZSF assets on the Crown balance sheet. The fund is how we prepare for the future so in logic it's assets should be netted off against gross debt as it is in other countries. The International Monetary Fund comparisons show that on this basis New Zealand has very low net figures today and projected for the future.²

Then let's have a clear-sighted debate about the way we can capitalise on our past sacrifices represented by the fund instead of being a captive to a [redundant funding formula](#). It is an opportunity to think creatively. A future pensions commentary will explore constructive ideas.

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² See [Draft Statement for Consultation: He Tirohanga Mokopuna 2021 \(treasury.govt.nz\)](#) p. 11.