Potential future fiscal pressures – the ageing population and more

Presentation to the Retirement Policy & Research Centre's "*Facing up to the ageing population*" seminar

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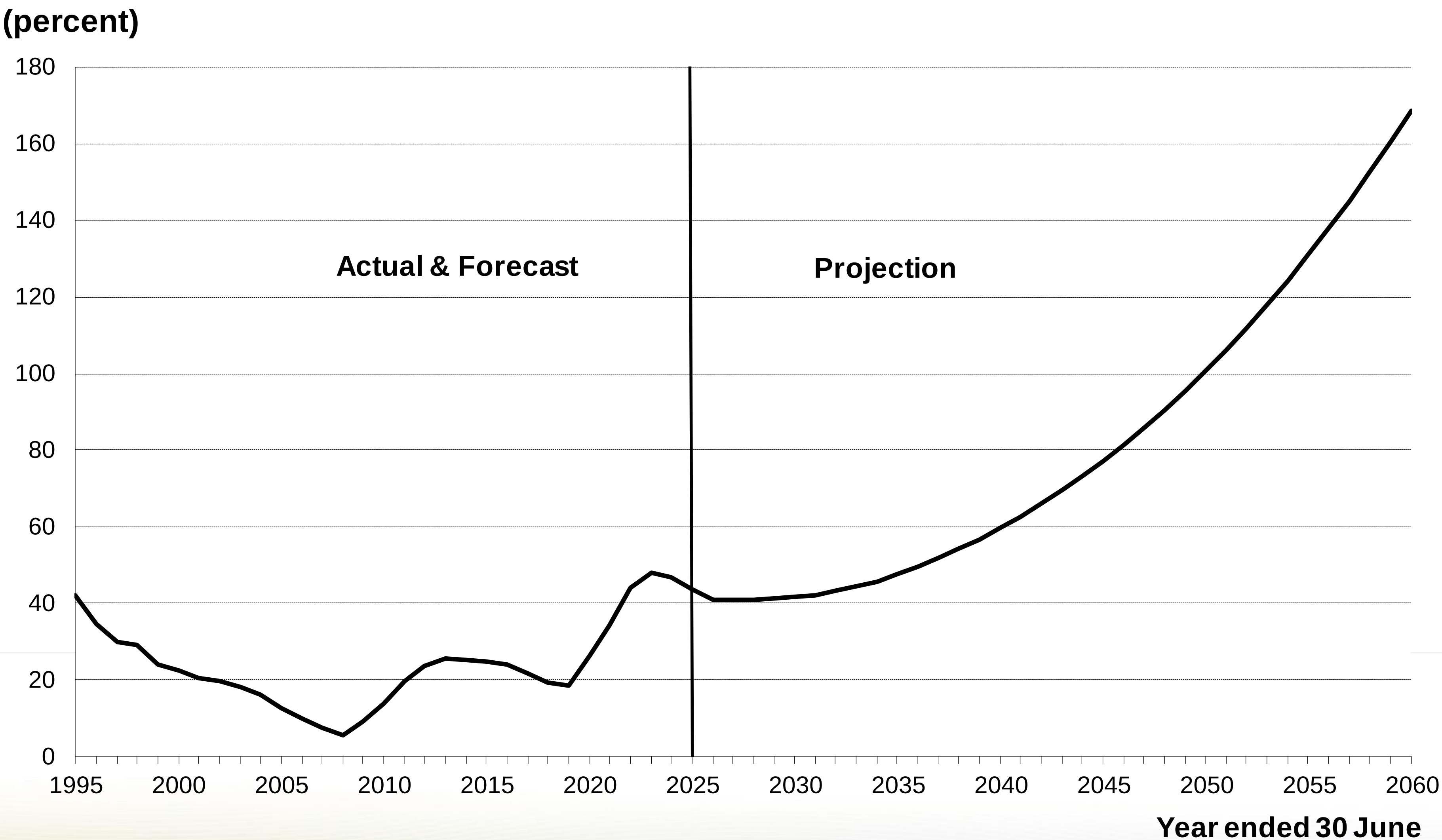
The 2021 Draft Long-Term Fiscal Statement projection of net core Crown debt to GDP



Is this really the future?

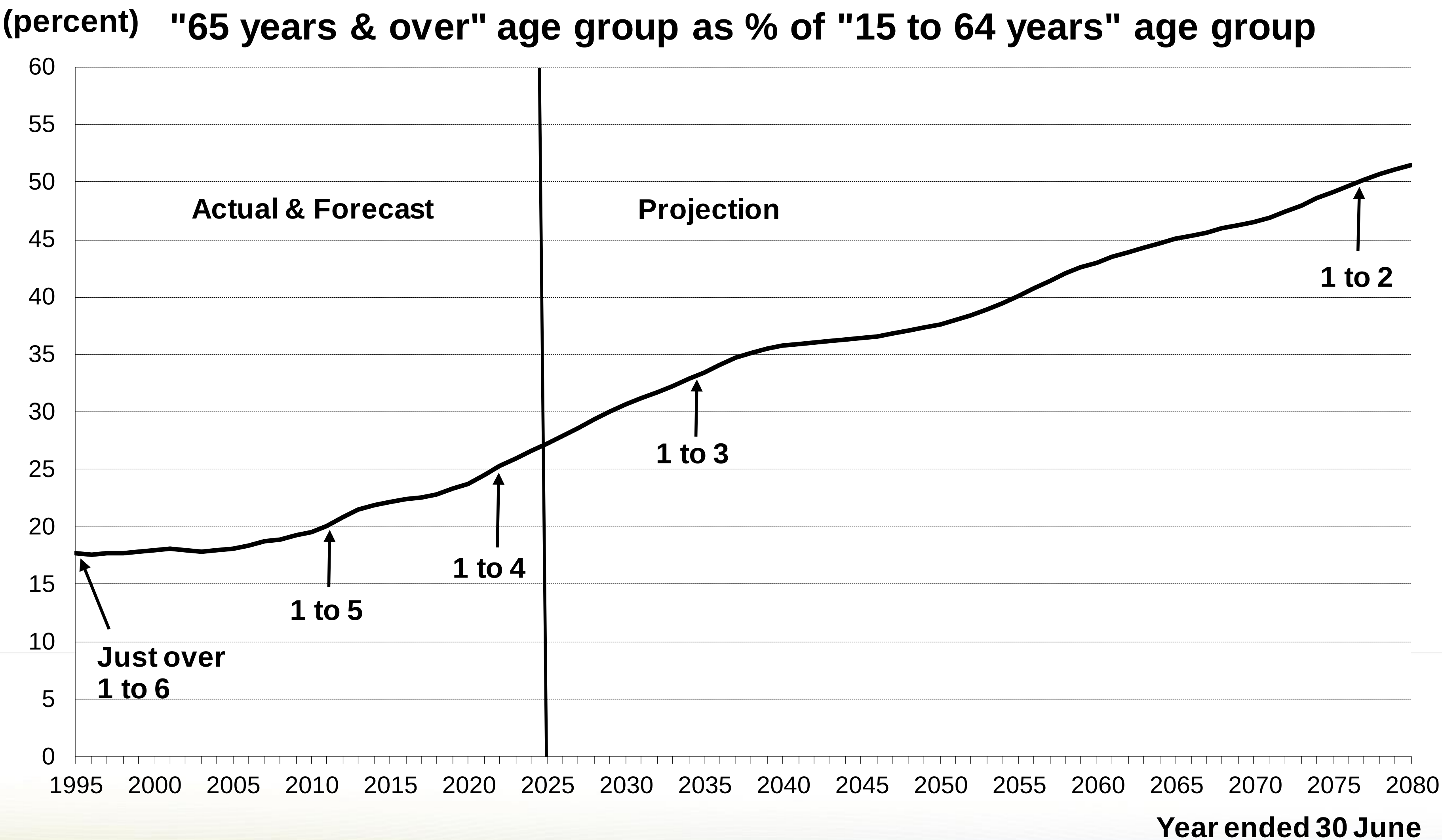
Short answer is “No”. The Long-Term Fiscal Statement (LTFS) projections, produced by the Treasury’s Long-Term Fiscal Model (LTFM), should be viewed as warning signals, NOT FORECASTS

Our fiscal history has, at least since the mid-1980s, been one of constraint, “balancing the books” and reducing public debt

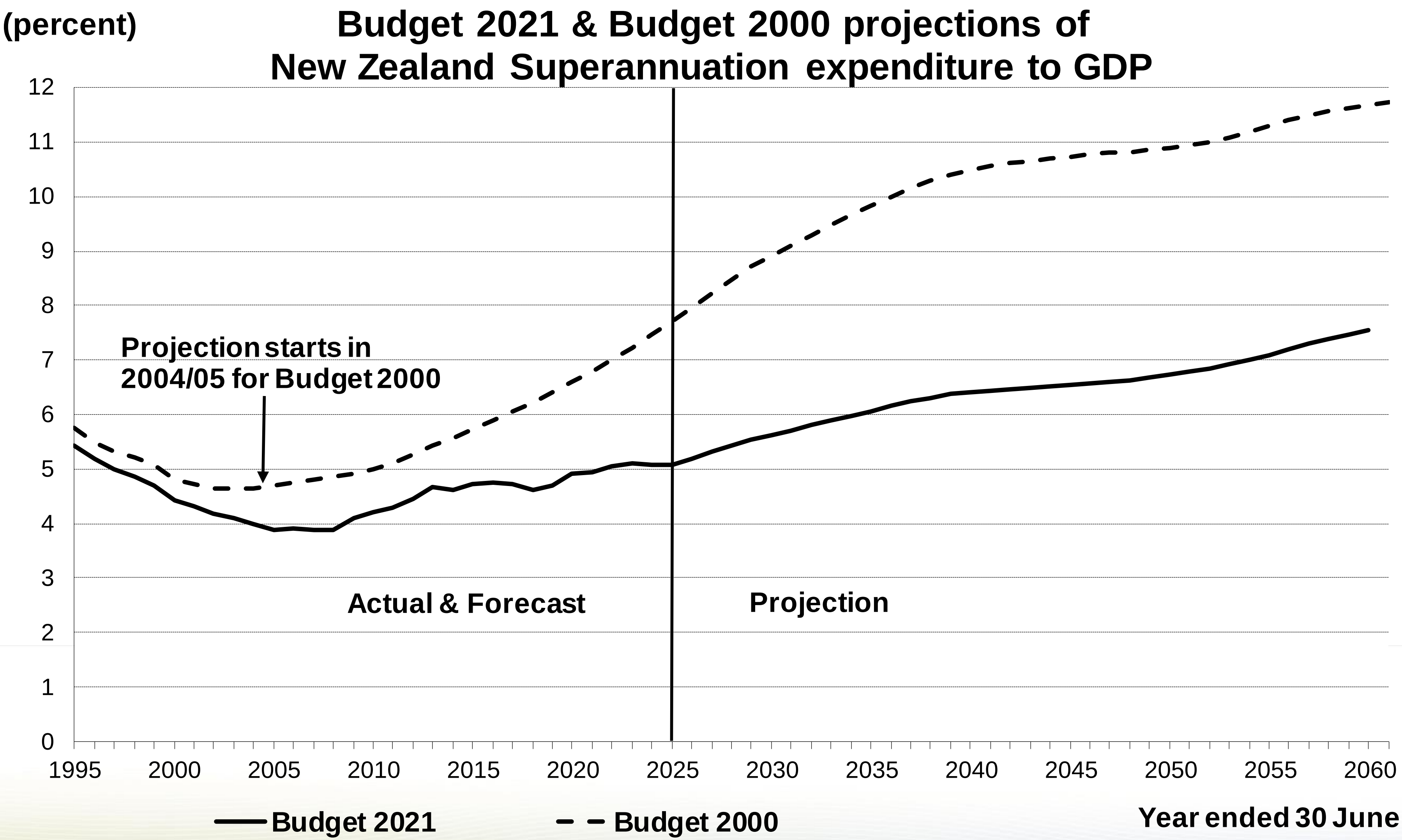
But there are pressures coming in the future, and not just from an ageing population structure, but also in maintaining strong public health services, addressing disparity through the welfare system, and adapting to climate change, to name just a few!

LTFS projections indicate policy change will be needed – current tax & spending settings are not sustainable under these pressures

It isn't all about the ageing population structure – but that is a challenge



One obvious impact of this is rising cost of NZS



Different messages from the same picture

The previous graph makes it clear that expenditure on NZS is projected to lift by around 50% between now (5%) and 2060 (7.5%)

That is one of the major public spending areas where significantly higher costs will be caused by an ageing population over time

But this graph contains another important message. The Budget 2000 projection had NZS to GDP at 7% by now and at over 11.5% by 2060.

Much stronger labour force growth driving GDP, but not NZS, changed this view. A major source of this was significantly increased older age & female labour force participation rates.

“Growing the pie” allows everyone a greater share

Where are other fiscal pressures occurring?

The LTFS is not solely focussed on NZS, nor does it only discuss fiscal pressures, and potential solutions, due to population ageing.

2021 LTFS will be the 5th edition, with the first published in 2006. Each has discussed future fiscal pressures, the reasons behind them, and suggested options for addressing them. The 2021 version will do the same, including discussions on climate change.

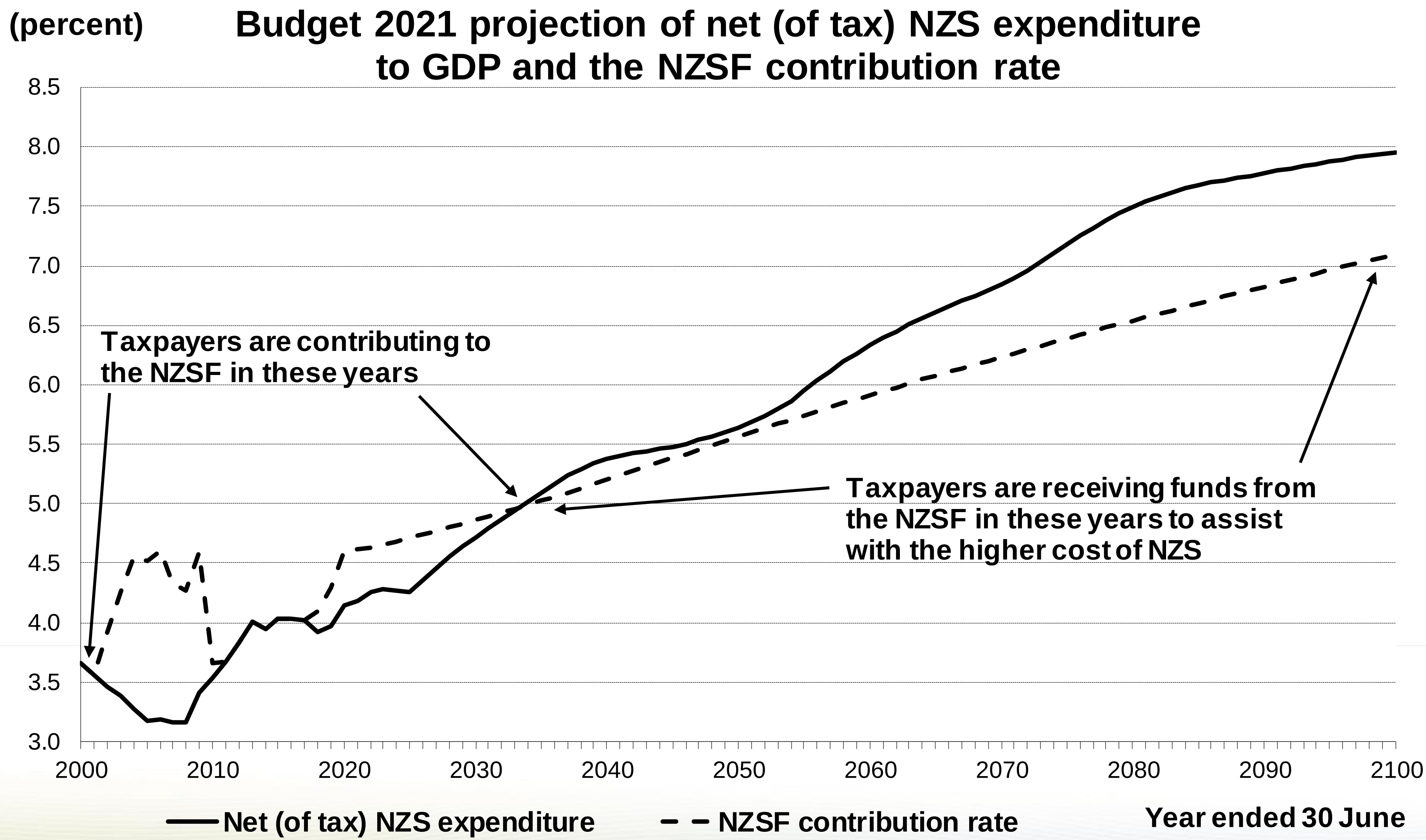
Health spending is another area projected to rise relative to GDP. The ageing population is only part of the reason here. Increased demand for care, expansion of treatments, high labour costs and many other factors lift it from 6.3% today to 10.4% by 2060.

Non-NZS welfare, education, capital investment, interest costs and tax revenue are all important parts of the future fiscal position.

2021 Draft Long-Term Fiscal Statement main LTFM projection scenario results

Fiscal variable	2009/10	2019/20	2029/30	2039/40	2049/50	2059/60
NZS	4.2%	4.9%	5.6%	6.4%	6.7%	7.5%
Health	6.7%	6.3%	6.8%	8.0%	9.1%	10.4%
Education	6.0%	5.2%	4.9%	4.9%	5.2%	5.6%
Non-NZS welfare	6.6%	9.0%	5.1%	5.0%	5.0%	5.0%
Interest costs	1.2%	1.0%	1.2%	2.6%	4.4%	7.2%
Other expenses	8.0%	8.0%	7.0%	7.0%	7.0%	7.0%
Tax revenue	25.8%	26.9%	27.6%	27.6%	27.6%	27.6%
Other revenue	2.8%	2.2%	1.8%	1.9%	1.9%	2.0%
Total Crown OBEGAL	-3.2%	-7.3%	-2.0%	-6.0%	-10.1%	-16.2%
PP&E asset	15.2%	14.3%	14.0%	14.0%	14.0%	14.0%
Net core Crown debt	13.6%	26.3%	41.6%	59.5%	100.6%	168.8%
Net debt incl.NZSF	6.4%	11.5%	19.6%	33.1%	68.9%	131.9%
Net worth	22.7%	14.9%	9.0%	-7.2%	-44.9%	-109.3%

What the New Zealand Superannuation Fund (NZSF) can (and cannot do) to help



Interpreting the NZSF picture

The NZSF graph shows withdrawals not reaching any significant levels until beyond 2060. And by 2100 they only pay for 11% of the net NZS cost, which by then is nearly twice today's % of GDP

Neither of those outcomes aligns with the perception that having the NZSF means that NZS in its current form is sustainable

But tax smoothing does not mean future taxpayers should provide no NZS funding. It is more useful to measure NZSF assistance as % of increase in net NZS to GDP since superannuitant population growth increased around 2009/10. NZSF withdrawals cover 15% of this rise by 2060 and fund around 22% of it from 2075 onwards

NZSF aids future pension funding, but does not alleviate all fiscal pressures from an ageing population nor mean NZS policy should not be part of the discussion around long-term fiscal sustainability