

An introduction to New Zealand Superannuation

SUMMARY

The paper aims to provide a simple description of New Zealand Superannuation [NZ Super] for the purposes of understanding the policy situation. It aids well-informed discussion of NZ Super by outlining the details of the policy, especially as there are a variety of superannuation systems around the world, and ours has some unique features.

KEY POINTS

- Under the OECD's classifications of retirement income schemes, which is based on the objectives they aim to achieve, NZ Super is a tier 1 scheme and it has served well to prevent pension poverty.
- NZ Super is designed relatively simply with broad eligibility and administrative simplicity. It does not impact labour market participation.
- NZ Super has been present since 1938 and no political party is suggesting removing it. There is no definitive reason why it will not be in place for future generations.
- As of June 2021, there are 837,549 superannuitants, with females making up 53.5% and males 46.5%. Māori only make up 5.9% and Pacific Peoples 2.6%, whereas NZ European account for 62.4% of superannuitants.
- Government gross expenditure on NZ Super for 2020/21 is \$16.58 billion – 5% GDP.
- As our population ages, the percentage of GDP represented by the expenditure on NZ Super will increase, but will be offset by drawdowns from the NZ Super Fund. This will provide a smoothed PAYG financing model for NZ Super.
- Other options, such as increasing GDP, borrowing, or expanding the tax base (by taxing capital or wealth), are also available to assist in the financing of NZ Super. Any of these options would also help address other rising expenditure, such as healthcare.

MAIN MESSAGE

NZ Super is a foundational part of the retirement income framework in Aotearoa New Zealand but demographic and economic changes have implications for the policy. There will be more superannuitants in future years, as we have an ageing population, and superannuitants will face different costs in retirement. For some these costs will include rent, as home ownership rates have fallen, and others will still be paying off their mortgages. Whether NZ Super will continue to provide poverty alleviation for future superannuitants is uncertain but appears to be at risk. In addition, the expenditure on NZ Super will increase, and this has led to discussion of raising the age of eligibility or means-testing. However, reduced access to NZ Super could simply result in government expenditure in other areas, or tax planning practises. Further, any changes to retirement policy should always be based on a principled approach, and signalled well in advance, so that people have time to plan. They should also be considered in terms of the Crown's obligations to Māori under Te Tiriti o Waitangi.





NZ Super myth-busting

The Super Fund pays for NZ Super	MYTH	NZ Super is paid for from tax revenue.
The Super Fund will pay for NZ Super in the future	MYTH	The Super Fund will reduce the tax revenue required to pay for NZ Super payments (but was never designed to pay for all of them – it provides ‘tax-smoothing’).
Anyone can get NZ Super	MYTH	There are eligibility criteria (age, residency status, number of years spent in NZ).
NZ Super is expensive	WHAT DO YOU MEAN BY EXPENSIVE?	NZ Super provides older people with a guaranteed income that alleviates poverty, reduces insecurity and enables ongoing participation in society.
NZ Super is unaffordable	MYTH	Affordability depends on how much money you have to spend – we could raise more tax revenue (or borrow more) – or GDP might rise more than forecast. Can we afford not to have NZ Super? How would older people pay for their retirement (especially those with limited labour market participation or low remuneration)? The state would still have to provide support.
The age of eligibility for NZ Super needs to rise	MYTH	There is no definitive reason why the age of eligibility for NZ Super has to rise. Questions of equity would arise for those who die earlier than others - who we know are disproportionately Pacific Peoples and Māori. For questions of affordability – see above.
NZ Super won’t be there in the future	MYTH	There is no reason why NZ Super should not be available in future. NZ Super has been around in more or less its present form since 1938 and no political party is suggesting removing it.
NZ Super isn’t enough to live on today	IT DEPENDS ON YOUR SITUATION	The income adequacy of NZ Super depends on many factors including where you live, whether you own your home or rent, your health needs, and your lifestyle.
A lot of people don’t need NZ Super	MYTH	For many older people, NZ Super is their only, or most significant form of income. There are some people with wealth but means-testing them would add layers of complication to an administratively simple transfer.

