SALT INSIGHT

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NZ Needs a Retirement Income Strategy, Not Three Separate Debates

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It is encouraging to see retirement income policy back on NZ's political agenda. With an ageing population, rising fiscal pressures and a growing role for KiwiSaver, now is the time to ask a simple question: What should NZ's retirement income system look like over the next 50 years?

Too often, we debate retirement policy one institution at a time. One month the focus is KiwiSaver. The next it is the age of eligibility for NZ Superannuation. Occasionally attention turns to the NZ Super Fund. Rarely do we step back and ask whether all three still work together as a coherent system.

NZ's retirement income system has three principal components: KiwiSaver, NZ Super and the NZ Super Fund. The mistake we keep making is debating each independently when, in reality, they are part of the same system. Changing one component inevitably changes the role of the other two.

A stronger KiwiSaver is a good place to start

KiwiSaver has been one of NZ's most successful public policy initiatives. Participation is high, balances continue to grow and millions of New Zealanders are building retirement wealth.

Gradually increasing contribution rates is a logical next step. As New Zealanders live longer and spend more years in retirement, asking people to save a little more through their working lives is reasonable. Other recently proposed ideas also deserve consideration, including automatic enrolment, targeted kick-starts for children and greater financial education.

The details are debatable. The direction is not. KiwiSaver should play a larger role in funding retirement.

Retirement policy, like all economic policy, involves trade-offs. Asking people to save more today inevitably means they have less to spend today. Higher KiwiSaver contributions also increase labour costs for employers at a time when many households and businesses are still adjusting to a higher cost of living. The challenge is finding the right balance between improving long-term financial security and recognising the pressures people face in the present.

But one important economic point is often overlooked. Higher KiwiSaver contributions improve private retirement savings. They do not, by themselves, reduce the Government's future retirement income obligations.

If NZ asks individuals to save more while making exactly the same promise through NZ Super, we simply end up with two increasingly important retirement income systems rather than one integrated system. That may improve retirement adequacy, but it does little to address the fiscal challenge of an ageing population.

KiwiSaver should not simply increase the total amount spent on retirement. It should change who funds retirement and, in doing so, create fiscal capacity for the next generation's priorities. Every dollar future governments do not need to spend on NZ Super is a dollar that can instead be invested in healthcare, more competitive salaries for teachers and nurses, reducing child poverty, improving infrastructure or strengthening the Crown's balance sheet. A stronger KiwiSaver system only makes economic sense if it also moderates the future growth of taxpayer-funded retirement income.

Rethinking NZ Super

If KiwiSaver is to play a larger role in retirement, it is reasonable to ask whether NZ Super should continue to play exactly the same role it does today.

Put differently, if individuals contribute more throughout their working lives, should taxpayers continue making exactly the same promise in retirement, or should stronger KiwiSaver balances allow governments to redirect some future fiscal capacity towards other pressing national priorities?

Any change should recognise that retirement is no longer a single event. It is increasingly a transition. To illustrate what a more integrated retirement income system might look like, consider the following framework.

- At age 65, New Zealanders would gain access to their KiwiSaver savings, recognising that these balances have been accumulated over an entire working life specifically to support retirement.
- From age 67, a targeted form of New Zealand Superannuation could become available for those with limited private resources or for those genuinely unable to continue working because of poor health or the physical nature of their occupation.
- From age 70, NZ Super would become universal.

Importantly, I would retain universality rather than move to permanent means testing. Universality remains one of the strengths of NZ's retirement income system. It is simple, inexpensive to administer, avoids discouraging private saving and has helped make NZ Super politically durable by reinforcing the idea that it is part of the social contract rather than a welfare benefit.

The challenge is not whether universality should survive, but how it can be preserved in a fiscally sustainable way. Gradually increasing the age at which universal entitlement begins is preferable to replacing it with a complex permanent means-testing regime.

This framework asks more of individuals through stronger KiwiSaver. It asks those able to remain in work to do so a little longer. It provides targeted support for those who genuinely cannot. And it preserves the principle that every New Zealander is ultimately entitled to a universal pension in retirement. Rather than choosing between universality and affordability, it seeks to balance both.

Revisiting the NZ Super Fund

The third component is perhaps the least discussed. The NZ Super Fund has been an outstanding investment success. Its long-term returns have exceeded expectations and it has become one of the Crown's largest financial assets.

But good public policy should never assume that success places an institution beyond review.

The Fund was established to help pre-fund the future cost of NZ Super. Since then, NZ's economic and fiscal circumstances have changed considerably. Public debt is higher, infrastructure deficits more acute, productivity growth weaker and demands on public spending greater.

The question is not whether the Fund has performed well. It clearly has. The question is whether maintaining one of the world's largest sovereign investment portfolios continues to represent the highest and best use of public capital.

This is not an argument for dismantling the Fund. It is an argument for reviewing its role within a redesigned retirement income system and the Crown's broader balance sheet.

Would NZ be better served by continuing to pre-fund future pension costs? Should reducing public debt become a higher priority? Could directing more capital towards nationally significant infrastructure deliver stronger long-term economic returns? Or does the existing approach remain the best option? There is no single right answer. But these questions deserve serious debate.

Designing a system

A stronger KiwiSaver changes the role of NZ Super. Changes to NZ Super alter the purpose of the NZ Super Fund. Reviewing the Fund changes how we think about the Crown's balance sheet.

Because every reform affects every other, retirement income policy should be designed as an integrated system rather than a collection of separate institutions.

No retirement income system is perfect because every policy choice involves trade-offs. Greater private saving means lower disposable incomes today. More generous public pensions require either higher taxes or less spending elsewhere. Preserving universality means accepting a larger long-term fiscal commitment, while greater targeting introduces complexity and can weaken incentives to save.

Good public policy is not about pretending these trade-offs do not exist. It is about making them explicit, debating them honestly and choosing them consciously.

The debate should no longer be about KiwiSaver, NZ Super or the NZ Super Fund in isolation. It should be about how all three work together.

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