

Why are Politicians Resisting Mandatory Savings as Pay-As-You-Go Welfare Falter? An NZ Case Study

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ABSTRACT

Why are nations failing to resolve the fiscal crisis caused by population ageing? Many economies are struggling with rising costs to the government budget of pension and healthcare due to population ageing. A potential solution is greater emphasis on mandatory private savings so future generations are not so dependent on a dwindling proportion of youth to pay taxes to support their welfare needs. However, few nations have buttressed Pay-As-You-Go (PAYG) public systems the past two decades in this way. We use New Zealand as a case study to highlight three salient political-economy barriers. First, ideology leads many right wingers to oppose mandatory savings due to a desire not to curtail personal freedom of choice, but also left-wingers who prefer reliance on State pensions. Second, planners have been largely unable to design reforms that minimize loss of current disposable income to the median voter as savings are built for workers whilst at the same time public pensions for the existing retired, paid out of current taxes, are continued. Third, the long time period required to deliver significant savings boosted by compound returns deters politicians with short horizons.

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1. Introduction

Across many countries, ageing populations have caused the cost of publicly funded pension and healthcare programmes, paid out of current taxes and debt, to put rising pressure on government budgets. Threats of large cuts in welfare generosity, or tax hikes, or both, are now common. However, over the past two decades as such pressures intensify, few, if any, nations have reformed welfare to place significantly greater reliance on private mandatory savings. This paper uses a New Zealand case study to answer the question as to why so many governments have refrained from ensuring individuals build greater savings to enable them to have more funds for their own welfare needs, particularly, in retirement, given public welfare is in such jeopardy. The macroeconomic backdrop to this reluctance includes NZ Treasury forecasts of the public debt to GDP ratio rapidly rising to nearly 100% of GDP by 2045, driven by outlays chiefly on pensions and healthcare.¹

Why has greater substitution toward mandatory savings-based schemes been rare, not only in NZ but around the world, as population ageing has accelerated in so many countries, especially when nations ranked as having the most sustainable pensions systems implemented such schemes long ago? We provide three reasons rooted in political economy to explain this reluctance. They are based on the ideologies of NZ's left and right parties, pressure from pivotal voter groups, and short government time horizons. These factors may presently be threatening long-run welfare.

2. The Fiscal Crisis Enveloping Nations with Ageing Populations that are Reliant on Pay-As-You Go Welfare: A Brief Background

The problem of fiscal sustainability has become so challenging that the prospect of sovereign debt default is being raised, even in America.² In his 2025 Feldstein lecture, Greg Mankiw addressed its “*fiscal future*”. Over half the budget is Federal spending on healthcare and pensions. In NZ it is two thirds. He notes that the Department of Government Efficiency (“DOGE”) downsizing initiative, driven for a time by Elon Musk, would only ever have had “*limited*” impact on the overall budget since the “*compensation of government employees makes up only about 4 percent of the federal budget*”. In NZ it is a similar figure. Downsizing has likely been a response, both here and in America, since as Mankiw notes, “*Enacting large cuts in entitlement programs [like health and pensions] is politically treacherous*”.

A reform that can help fiscal sustainability due to an ageing population, without endangering the

¹ See, *He Tirohanga Mokoopuna, Log Term Fiscal Statement 2025*, September, Te Tai Ōhanga, NZ Treasury, Wellington.

² See Poot (2026) and Buckle and Creedy (2014) for other economic impacts and need for an electoral reform mandate.

welfare state, is more emphasis on mandatory savings. This approach can have desirable long-term fiscal discipline properties, since with more private funds dedicated to retirement, the more substitution away from public assistance can occur as those in need falls due to greater self-reliance.

A leading example is Australia, where Labor Prime Minister Paul Keating enacted mandatory savings in 1992, supplementing an existing mean-tested PAYG public pension. Keating argues its advent slashed reliance on taxpayer-funded pensions, noting “*France spends 14% of its GDP on public pensions, Germany 10%, and the US 7%. Australia’s pension-call on the budget is currently just 2.3% of GDP - a sunken level thanks entirely to universal superannuation*”.³ Australia’s reform is lauded by its citizens and press as a “*superannuation system that became today’s extraordinary financial force - one increasingly powerful internationally as well as domestically, with more massive growth guaranteed into the future*”.⁴ Super wealth is estimated to reach \$8 trillion by 2035, becoming second-largest in the world (after the US).

Indeed, pension systems ranked as the world’s best combine PAYG social security, together with mandatory individual savings or occupational pension schemes, and supplemented by voluntary savings.⁵ Ageing population nations like Japan and Italy have the lowest grades, “D” and “E”, respectively, for the sub-category, “*sustainability*”, in Mercer’s (2025) ranking. They have PAYG systems without mandatory private components. The highest grades for this sub-category include the likes of Australia, The Netherlands, Iceland and Singapore, which all have mandatory features.⁶

However, Australia’s reform has not been matched by others these past two decades as ageing population pressures rose. Led by academics like Peter Diamond in America, mandatory accounts were set up in Chile in 1981, but under dictatorship without democratic mandate. Unlike Australia, Chile did not have a robust existing PAYG pension. After the Soviet Union’s fall in 1989-90, Barr and Diamond (2016) note other nations started down this road in Latin America and East Europe. There has since been backward regression. Post-2008 financial crisis, Estonia, Latvia, Lithuania, Poland and Romania either, “*retained individual accounts but changed the balance of contributions so that less went to individual accounts and more to finance PAYG benefits*” or, like Hungary and Argentina, “*abandoned individual accounts altogether*”, transferring contribution flows and asset stocks to the PAYG system.⁷

³ See, “Paul Keating Says Young Australians are Guaranteed to have \$3 Million in Super by Retirement - But Not Everyone Agrees”, *The Guardian*, Monday 30 June 2025.

⁴ See, “Australia’s Super Juggernaut is Just Getting Started”, *The Australian Financial Review*, 7 September 2022.

⁵ Although there is no statutory obligation for employers to offer a pension scheme in The Netherlands, industrial-relations agreements mean about 90% of employees are covered so “*these schemes are best thought of as quasi-mandatory*” (*OECD Pensions at a Glance*, 2023). For a ranking, see the [Mercer CFA Institute Global Pension Index 2025](#).

⁶ For reviews of this field, see Feldstein (1998) and Shiller (2003).

⁷ For detailed accounts of the retreat, see Bielawska et al. (2016) and Simonovits (2011).

3. Why has Mandatory Savings Met with Stiff Political Resistance? An NZ Case Study

Using New Zealand as a case study, we highlight three reasons why politicians have been unwilling to implement mandatory savings to bolster its PAYG flat rate (not means-adjusted) pension.

3.1 Political Ideology Restraining a Shift to Mandatory Savings

New Zealand's voluntary KiwiSaver individual retirement accounts savings scheme was introduced by Prime Minister Helen Clark's Labour government in 2007. It is automatic enrolment whereby one has the option not to join, but to do so one must formally opt out. The scheme is an example of "*benign paternalism*", pioneered by the likes of Thaler and Sunstein (2009). Although PM Clark's government promoted savings in this way, a mandatory scheme was a step too far. Part of the reason may be related to suspicions about "privatizing welfare". The preference of many politicians on the left in NZ is still to prioritize reliance on a PAYG public pension

On that note, prominent New Zealand academics and retirement experts who are more associated with the left of politics, like Emeritus Associate Professor Susan St John, remain wary of adopting Australian-style mandatory savings. St John argues the adoption of such accounts would be "*deeply scary*", basing her argument on a belief that they would weaken the existing flat-rate public PAYG pension by leading to means-testing to alleviate strains on the public purse, a feature that former Australian PM Keating describes as a great virtue of his country's scheme (see above).⁸

On the other side of politics, mandatory savings have also not sat comfortably with National Party ideology. In 1976, during the oil shocks, Prime Minister Sir Robert Muldoon abolished the scheme set up two years previously by Labour PM Norman Kirk.⁹ When KiwiSaver was first proposed, National opposition leader Sir John Key called it a "*glorified Christmas club*". His party voted against. Although the current National government increased minimum contributions by employees and employers from 3% to 3.5% of wages in 2026, it also ended subsidies and amended the KiwiSaver Act (2006) to create new first-home withdrawal pathways. The party currently states, "*KiwiSaver contributions would [still] be much lower than the equivalent scheme in Australia*".¹⁰

Ironically, the NZ Initiative, a "free market" think-tank arising from the Business Round Table of

⁸ See, "It is Time for Economists to Stop Trying to be Accountants", October 2025, <https://susanstjohn.substack.com/p/it-is-time-for-economists-to-stop>

⁹ It was not based on individually managed accounts, but instead a State fund into which contributions were paid.

¹⁰ Australia's mandatory scheme requires employers to pay 12% employee wages into their individual accounts.

the 1980s, whose initial members funded the formation of the (self-described) “classically liberal” ACT Party, concurs with many on the left in critiquing mandatory savings, but for very different reasons.¹¹ It emphasizes the rationality assumption of classical economics, whereby people optimally choose consumption and savings. The Initiative writes, “*In 1954, Franco Modigliani showed households plan their savings across a lifetime. If forced to save through one account, they save less through others*”, thereby expressing the view mandatory savings maybe offset one-for-one by cuts in voluntary savings.¹² Forced savings can reduce welfare in such models. For those who don’t defend rationality so strongly, believing myopia is common-place, and wish to promote saving but only with gentle State “nudges”, KiwiSaver-style schemes are an acceptable option.¹³

The importance of political ideology in favouring mandatory savings is seen in the ethos underlying Singapore’s mandatory savings system which was created in 1955 on a founding principle of people taking “*responsibility for themselves and their families*” (see Prime Minister Lee Kuan Yew, 2000, and Hong, 2024). In a different setting, the Netherlands’ quasi-mandatory private work-place pensions, together with its PAYG welfare system, established after World War II, reflected a national unity Polder model of consensus decision-making by firms, government and unions. Australian PM Keating also invokes a unity ideal, arguing savings accounts for all are, “*like Medicare, an Australian community standard, binding the whole population as a national economic family, with each person having a place*”.

3.2. Loss of Disposable Income for Politically Influential Voter Groups

When implementing mandatory savings reform, contributions are made by employees, employers, or both. Adding these payments onto taxes paid to fund existing PAYG welfare payments to the elderly can cause cuts in disposable incomes for workers. So how can the reform win majority support? Former Australian PM Keating argues political feasibility depended on his reform being included in a package of tax and tariff cuts, and a shift to union enterprise bargaining. His 1995 Budget proposed 3 per cent tax cuts which would be paid into people’s super accounts to raise contributions by 3 per cent. However that leaves government with a revenue shortfall, so to maintain fiscal balance must be accompanied by cuts to groups currently receiving public support.¹⁴

¹¹ See, “David Seymour: From Frontier Centre for Public Policy to the Heart of New Zealand Politics”, *The News Wire*, Winnipeg, Manitoba, Canada, August 14, 2023. [https://www.thenewswire.com/press-releases/1A\]6Fv9\]Q-david-seymour-from-the-frontier-centre-for-public-policy-to-the-heart-of-new-zealand-politics.html](https://www.thenewswire.com/press-releases/1A]6Fv9]Q-david-seymour-from-the-frontier-centre-for-public-policy-to-the-heart-of-new-zealand-politics.html)

¹² See, “A \$110 Billion Illusion”, *Insights Newsletter*, 20 March 2026, NZ Initiative, Wellington. A former staffer of the Initiative served as Prime Minister Luxon’s Chief Policy Adviser from 2024 to 2025.

¹³ Shiller (2004) endorses NZ’s KiwiSaver in his *Project Syndicate* (2004) article, “Saving a World that Doesn’t Save”.

¹⁴ In 1997 a referendum in New Zealand gave voters the option to choose an Australian-style compulsory retirement scheme, which was rejected. For a history of the debate, see Andrew Coleman, *Interest.co.nz*, July 2025. Keating’s 1995 Budget plan was rejected the following year by the incoming Liberal government under PM John Howard.

In NZ's case, this could be done by targeting high income groups receiving welfare, like tertiary students from wealthy families on interest-free loans and fee subsidies, movie grants, winter energy subsidies to the wealthy and accelerated depreciation allowances to chosen industries.¹⁵ Although these groups are a minority, ending such subsidies would be met with fierce resistance. Interest-free tertiary loans were offered leading up to NZ's election in 2005, won by PM Helen Clark's Labour. Upon National later gaining power, the policy continued. Ending movie subsidies has met with threats to go elsewhere, even though grants totalling \$300 million have already been made for Avatar films and Amazon's Lord of the Rings. All political parties appear keen to continue them.

3.3. Short Time Horizons of Political Parties

The Australian 1992 mandatory savings reform has achieved world prominent status since the average balance for 65 years old people is now \$A 421,000 (\$NZ 505,000).¹⁶ Compound returns of about \$255,000 have contributed over 60 per cent of that value. Given it took 34 years, "selling" such a reform, especially in NZ with three-year government terms, and probably elsewhere, maybe unappealing to politicians. Either their myopia, or that of voters, appears a barrier. Nineteen years after NZ's voluntary KiwiSaver was set up, a relatively low default rate of (employer and employee) contributions of 3% of wages (from 2009 onward), has meant average balances now sit at about \$NZ 69,100 for 65 years old people, with incomplete coverage and 39% of people in the scheme not contributing due to legally permitted circumstances. In Australia, average retirement savings at 65 years old is now nearly 5 times the average annual salary, whereas in NZ it is closer to one.

4. Conclusion

Whatever one's views on the best structure of a pension system, it is hard to deny relying on each young generation to support the elderly through current taxes ("Pay-As-You-Go") is more than ever threatened by population ageing. Prospects of severe cuts in welfare, or steep tax rises that would be fought, are now faced throughout the world. This future notwithstanding, the past two decades have witnessed few, if any, moves to mandatory savings. We highlight three salient reasons for the reluctance in NZ. First, both left and right political ideology has opposed it. Second, no party has proposed popular designs of a transition to minimize costs to median income workers. Third, myopia in political decision-making underestimating compound returns maybe prevalent.

¹⁵ See Douglas and MacCulloch (2020) for a proposal along these lines. Coleman (2011) gives an excellent discussion of different transition paths.

¹⁶ See Keating (2007) and Love (2009) for an overview of Australian compulsory superannuation.

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