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# Pension problem is choice: the fiscal arithmetic of preserving universal superannuation

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## ABSTRACT

New Zealand's pension debate rests on promises that cannot all be kept. Major political parties offer incomplete solutions: preserving NZS from 65 through taxation; raising eligibility to 67; spending restraint; lower taxation; or compulsory saving. This paper uses an age-structured fiscal model to stress-test policy alternatives. Higher fertility and migration ease pressure but do not eliminate it. NZS is projected to absorb nearly one-third of core tax revenue by 2065. Raising eligibility to 67 reduces this pressure but is insufficient alone. We propose a mixed strategy: increase eligibility by one month annually from 2029, moderate indexation, compulsory KiwiSaver with support for lower-income workers, continue Crown contributions to the NZ Superannuation Fund, retain universal NZS, and protect those unable to work longer. The choice is not whether adjustment occurs, but whether it is managed gradually now through this policy mix or imposed later through disruptive tax rises and spending cuts.

## ARTICLE HISTORY

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## 1. Introduction

New Zealand's political debate rests on an increasingly untenable combination of promises: preserve universal and wage-linked New Zealand Superannuation ('NZS') from age 65, avoid major tax increases, protect health, education and other public services, and maintain fiscal discipline. These commitments cannot all be honored simultaneously. Major political parties currently offer incomplete solutions, leaving the remaining fiscal gap and the supplementary policies needed to close it largely unspecified. As retirees receive NZS for longer periods of time and the retired population grows relative to the working-age tax base, maintaining current settings will place increasing pressure on public finances (Buckle & Creedy, 2014).

NZS nevertheless has major institutional strengths. It is simple, universal, administratively efficient, and effective in limiting poverty among older New Zealanders. The objective should therefore be to preserve NZS as a universal public floor while reducing its growing claim on future tax revenue.

The fiscal problem is better understood in relation to government revenue than GDP alone. Governments do not spend GDP; they spend tax revenue. If revenue remains

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broadly stable as a share of GDP, rising expenditure on NZS and other age-related commitments will leave less fiscal space for health, education, infrastructure, debt servicing, and other public services. This is also an intergenerational problem. Because the eligibility age has changed little while average life expectancy has increased, successive cohorts can expect to receive NZS for longer, raising its lifetime fiscal cost.

Governments have a finite set of choices. They can raise taxes, reduce other expenditure, borrow more, change pension eligibility, or strengthen household savings. Higher productivity, labor-force participation, fertility, and migration can moderate the pressure, but cannot remove the budget constraint.

This paper uses an age-structured population and fiscal model to stress-test the long-run cost of NZS under alternative demographic, eligibility-age, and indexation settings. It shows that neither favorable demographic assumptions nor the delayed increase to age 67 provides a sufficient standalone response. An earlier rules-based adjustment – raising eligibility by one month each year from 2029 – produces greater fiscal relief but still leaves a substantial public obligation.

We argue that the most credible response is a package of policy reforms combining gradual eligibility adjustment, moderated indexation, compulsory KiwiSaver, continued contributions to the New Zealand Superannuation Fund (‘NZSF’), and targeted early-access protections. Compulsory KiwiSaver should complement rather than replace NZS by allowing accumulated household wealth and investment returns to provide a larger share of retirement income over time (Hong & MacCulloch, 2026). The choice is not between preserving NZS or dismantling it, but between gradual reform now or harsher adjustment later.

This paper makes four contributions to New Zealand’s retirement income debate. First, it evaluates NZS against the Government’s revenue base and the fiscal space remaining for other public services. Second, it stress-tests the official demographic baseline and shows that plausible changes in fertility and migration alter the scale of the problem. Third, it compares the delayed increase to age 67 with an earlier rules-based adjustment and situates both within a broader political-economic framework involving taxation, expenditure restraint, borrowing, indexation, and compulsory saving. Fourth, it explains how stronger private provision can complement moderated public pension growth and gradual eligibility reform, while considering the fiscal and political conditions required for such a transition to endure.

## **2. New Zealand’s superannuation system and the fiscal demographic challenge**

### **2.1. Institutional design and strengths**

NZS is a universal pay-as-you-go (‘PAYG’) pension financed from general taxation. It was established in 1977 after Prime Minister Robert Muldoon abolished the compulsory scheme introduced by the Labor government in 1974 (Gayner, 2007). The replacement program provided universal benefits above the eligibility age, with payments linked to average wages (Jeram, 2018; Thomson, 1996). Although this produced a simple and politically durable pension, it also left retirement provision heavily dependent on transfers from current taxpayers to current retirees and removed what could have developed

into a funded second pillar pension scheme set up by employers to help employees save for retirement – alongside NZS (Brash, 2010). The potential role of KiwiSaver alongside NZS has also been considered in earlier New Zealand policy work (Bayly, 2018)

That simplicity remains a major strength. Eligibility depends solely on age and residence rather than contribution history, income, or assets, reducing administrative complexity and providing recipients with certainty (Retirement Commission, 2024). Universality also avoids many of the work and saving disincentives associated with means testing because payments are not withdrawn as private income or the value of personal assets increase in value. NZS has contributed to relatively low elderly poverty, with pensioner incomes at approximately 63% of the average wage, a comparatively high level by OECD standards (OECD, 2025, p. 50). The policy objective should therefore be to preserve universality while reducing the scheme's growing claim on future tax revenue.

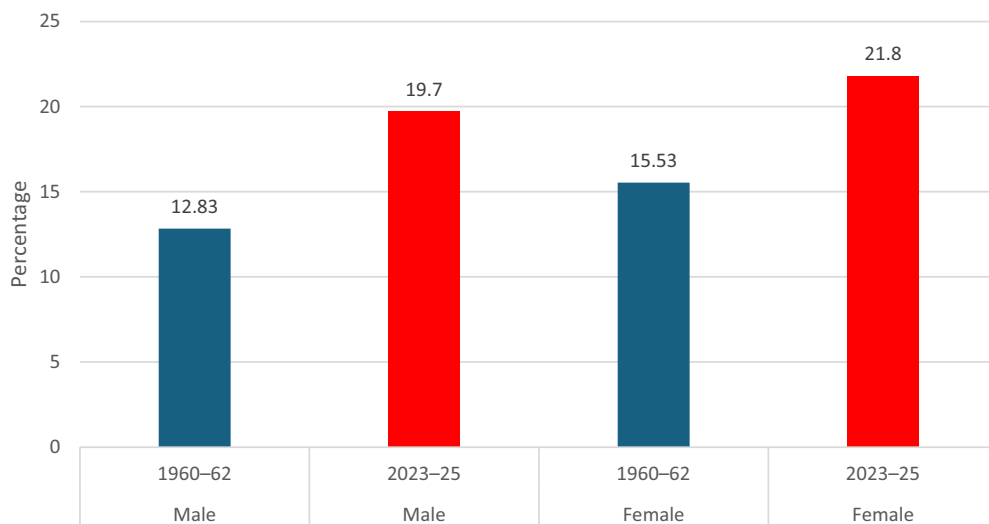
There have been some changes to NZS over time. One recent change was extending the residency requirements for immigrants to automatically access NZS. The passage of *The New Zealand Superannuation and Retirement Income (Fair Residency) Amendment Act 2021* in the name of co-author Andrew Bayly as a Member's Bill, increased the residence requirement from 10 to 20 years after age 20 and phased the change in gradually (2021). Published estimates suggested annual savings of approximately \$162.6 million by 2041/42, with an earlier Treasury estimate of \$195 million by 2041 (Sepuloni, 2021; Tibshraeny, 2020). These savings are modest relative to the overall fiscal challenge, but the reform improves the perceived fairness of NZS.

The other potential change often mentioned by commentators is the move to means-testing of NZS. Such a policy shift would certainly reduce expenditure but would transform NZS into a targeted, income-tested public pension, increasing administrative complexity and distorting incentives around income and asset thresholds (Atkinson, 1995). It could also weaken support for compulsory KiwiSaver if accumulated balances were later used to reduce pension entitlements. The other consideration is the political dimension. The possibility of getting support across the House for such a radical change in approach would be exceedingly difficult. As a result, we have discounted this policy option in our analysis, as we also believe it is important to preserve universality while making gradual adjustments to eligibility and indexation.

## 2.2. Demographic pressure and PAYG financing

The central issue is not whether NZS is affordable today, but whether its financing structure remains sustainable with demographic pressure. NZS competes with health-care, education, infrastructure, welfare, defense, and other services for revenue from the same tax base. Low fertility, rising longevity, and growth in the retired population weaken the relationship between contributors and recipients. Lala et al. (2026) emphasize that much of the workforce in the 2030s and 2040s has already been born, meaning that low fertility will constrain the future tax base for decades. Although migration can moderate this pressure, its fiscal contribution depends on migrants' characteristics, such as age, skills, employment status, and use of public services.

Longevity creates a second pressure.<sup>1</sup> With eligibility broadly unchanged, successive cohorts have received NZS for considerably longer periods of time, substantially increasing the lifetime fiscal cost of the entitlement. As shown in Figure 1, based on Statistics



**Figure 1.** Remaining life expectancy at age 65 by sex, 1960–62 and 2023–25.

New Zealand period life tables (Statistics New Zealand, [various years](#)), remaining life expectancy at age 65 increased from 12.83 years for males and 15.53 years for females in 1960–62 to 19.7 and 21.8 years, respectively, in 2023–25. It represents an increase of approximately six to seven years – or around 1.2 to 1.3 additional months of expected life for each elapsed year over the period.

Longer life expectancy is a major social achievement but has increased the lifetime fiscal cost of the entitlement. Political controversy has often obstructed structural pension and healthcare reform (Feldstein, [1998](#); Hong & MacCulloch, [2026](#)). Without adjustment, the resulting burden must ultimately appear through higher taxes, additional borrowing, lower pension generosity, or reduced expenditure elsewhere.

### **2.3. Compulsory KiwiSaver**

Another important consideration in the overall pension debate is its intersection with KiwiSaver. With total KiwiSaver balances approaching \$138 billion, this form of independent wealth is increasingly becoming an important feature in retirement arrangements, although they remain modest at an individual level at approximately \$41,000 per account (Retirement Commission, [2026](#)).

While the recent announcements by the National Party to ensure mothers receive a KiwiSaver contribution from the Government while on maternity leave and to confirm that those aged 65 years and over are entitled to employer contributions if they continue to work are important, the proposals to make KiwiSaver contributions compulsory and increase them over time are the most significant changes that will materially improve New Zealanders' financial position when they reach retirement.

Notwithstanding this, compulsory KiwiSaver will not by itself reduce statutory NZS expenditure while existing pension settings remain unchanged. Its purpose is to change the composition of retirement income over time. As household balances and compound

investment returns accumulate, funded assets can provide a larger share of retirement income and reduce reliance on transfers from future taxpayers (Hong & MacCulloch, 2026). Its role would instead be to supplement a more moderately indexed public pension and help preserve total retirement income.

The principal difficulty is the transition. Working-age households would continue paying taxes to finance current retirees while also contributing more toward their own retirement. Higher contributions could therefore reduce disposable income, particularly for low- and middle-income workers. This double burden helps explain why mandatory saving has faced persistent political resistance.

The transition should therefore be gradual. Contribution increases should be predictable and accompanied by support for lower-income workers, low and transparent fees, strong fund governance, disciplined withdrawal rules, and careful integration with the tax system. Delay carries its own cost – every year without reform reduces the period over which contributions and compound returns can accumulate, leaving future governments with fewer options when fiscal pressure becomes more severe.

#### **2.4. The New Zealand superannuation fund: partial pre-funding**

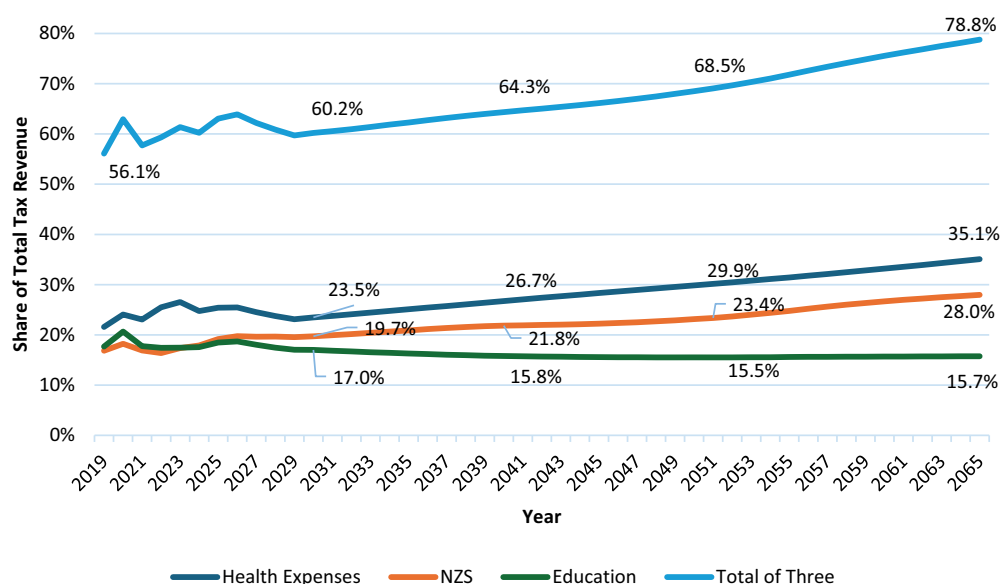
The New Zealand Superannuation Fund (‘NZSF’) partially addresses the limitations of PAYG financing by accumulating public assets and using investment returns to smooth the fiscal burden across generations (Coleman, 2011; Cullen, 2013). However, it does not make NZS fully funded, as most expenditure will continue to be financed from current taxation, and its effectiveness depends on sustained Crown contributions. Under Treasury’s current projections, contributions to the NZSF continue until around 2055, after which withdrawals begin. By 2065, withdrawals are projected to cover only around 6% of gross NZS payments, or 7.5% of the net cost, reducing NZS expenditure by approximately half a percentage point of GDP. These benefits should be assessed against the Crown’s overall balance sheet. Where contributions coincide with fiscal deficits and rising debt, they increase both public assets and liabilities and do not necessarily represent genuine net public saving.

The Fund nevertheless illustrates a broader principle of state investment vehicles – universal welfare commitments are more durable when supported by accumulated capital returns and investment income (Hong, 2024a). The NZSF remains a valuable complementary institution, particularly where contributions are consistent with a credible long-run public debt path.

#### **2.5. Treasury baseline and fiscal space**

The Treasury’s *He Tirohanga Mokopuna 2025* provides the external benchmark (NZ Treasury, 2025). Under current settings, NZS expenditure is projected to rise from about 5.1% of GDP to 7.8% by the 2060s, while healthcare expenditure rises from around 7.1% to 10%. As illustrated in Figure 2, if tax revenue remains near 29% of GDP, NZS, health, and education together could reach roughly 24% of GDP but, much more importantly, absorb around four-fifths of total tax revenue by 2065 (NZ Treasury, 2025).

In other words, this would leave only about 21% of the Government’s total tax revenue available to fund all other government functions, including infrastructure, defense, debt servicing, working-age welfare, law and order, and environmental protection. Using current



**Figure 2.** Treasury's projected share of total tax revenue absorbed by NZS, health and education, 2019–2065.

figures, of the estimated \$125 billion in government tax revenue for the year ended 30 June 2026, only around \$25 billion would remain available for these activities. By comparison, the Government is budgeted to spend \$27 billion on social security and welfare services in the year to 30 June 2026.

Protecting NZS unchanged is therefore not fiscally neutral. Unless taxation rises accordingly, the adjustment must come through lower expenditure elsewhere, greater borrowing, or a larger burden on future taxpayers.

### 3. Methodology

This paper reports the results of using an age-structured population and fiscal model to stress-test the long-run cost of NZS. It complements rather than replaces Statistics New Zealand's official population projections and the Treasury's long-term fiscal forecasts. The underlying population and fiscal model is documented separately in Bayly et al. (2026). Official projections establish the aggregate challenge; the model tests whether plausible demographic variation and the principal pension reforms materially change the outcome.

#### 3.1. Population and fiscal calibration

The population model is calibrated to each year's exact total from Statistics New Zealand's 2024-base national age projections, using the median projection (Statistics New Zealand, 2025). Official historical data on births, deaths, and migration has also been obtained from Infoshare and incorporated to produce a population prediction model (Statistics New Zealand, 2026). It projects the population from 2025 to 2065 by aging cohorts and applying assumptions for age-specific fertility rates, mortality, arrivals, and departures, as well as their trends.

The central scenario assumes a total fertility rate of 1.55 births per woman declining to 1.36 births by 2065 and a migration path calibrated to the Statistics New Zealand median projection. A lower-long-term fertility scenario of 1.10 births per woman by 2065 tests the consequences of New Zealand moving toward rates observed in several other developed economies. This lower birth scenario should be interpreted as an adverse sensitivity rather than a central forecast.

Annual NZS expenditure is calculated by multiplying the projected eligible population by the average payment per recipient. Under the baseline, the eligibility age remains at 65 years and payments continue to rise with wages. Nominal GDP, core tax revenue, wages, and consumer prices indexes are projected using historical growth rates calculated from Treasury data for 2005–2024. The model begins in 2025, when NZS expenditure is estimated at 5.33% of GDP and 19.06% of core tax revenue.

| Fiscal indicator             | Interpretation                                                      |
|------------------------------|---------------------------------------------------------------------|
| NZS as % of GDP              | Measures the size of NZ Super relative to the whole economy         |
| NZS as % of core tax revenue | Measures the claim NZ Super places on the Government's revenue base |

We have reported the results as NZS expenditure relative to GDP and core Government tax revenue. The revenue measure is particularly important because it captures the program's direct claim on the resources available to finance other government functions.

### 3.2. Policy scenarios

Policy comparisons hold the central demographic assumptions constant and test four settings:

| Scenario                                 | Assumption                                                                                          |
|------------------------------------------|-----------------------------------------------------------------------------------------------------|
| Status quo                               | Eligibility remains at 65 and payments remain wage-indexed                                          |
| Increasing eligibility age to 67 years   | The eligibility age begins to rise in 2044 and reaches 67 under the proposed phased timetable.      |
| Gradual adjustment in Age of Eligibility | Eligibility rises by one month each year from 2029                                                  |
| CPI indexation                           | Eligibility remains at 65 and payments increase with consumer prices rather than being wage indexed |

Under the gradual scenario, the eligibility age rises from 65 years and one month in 2029 to approximately 68 years and one month by 2065. CPI indexation preserves the purchasing power of NZS but allows payments to grow more slowly than wages.

### 3.3. Interpretation and limitations of the model

The model estimates the direct fiscal effects of demographic change, eligibility reform, and CPI indexation. It does not provide a complete welfare calculation or quantify all effects on labor-force participation, household saving, investment, infrastructure demand, or income distribution. The results are therefore interpreted alongside qualitative assessments of retirement adequacy, equity, political feasibility, and intergenerational fairness.

## 4. Specific base case assumptions

### 4.1. Demographic scenarios under current policy settings

Table 1, shows the central baseline of our modeling assumes fertility of 1.55 births per woman, migration calibrated to Statistics New Zealand's median projection, eligibility at 65, and wage-linked payments through to 2065. The proposed increase to age 67 is treated separately because it has not been implemented.

As shown in Table 2, under the status quo, NZS alone would absorb almost 30 cents of every core-tax dollar by 2065. Combined with projected health and education spending, this leaves much less room for infrastructure, defense, working-age welfare, debt servicing, and other public functions. Maintaining the age of eligibility at 65 and wage indexation therefore requires higher taxation, lower spending elsewhere, greater debt, or some combination of the three.

**Table 1.** Central baseline assumptions.

| Assumption           | Central baseline                               | Rationale                                                             |
|----------------------|------------------------------------------------|-----------------------------------------------------------------------|
| Base year            | 2025                                           | Starting point for the fiscal projection                              |
| Projection horizon   | 2065                                           | Captures the long-run effects of demographic aging                    |
| Total fertility rate | 1.55 births per woman reducing to 1.36 by 2065 | Central demographic assumption based on recent New Zealand conditions |
| Migration            | Central calibrated migration path              | Calibrated to the Statistics New Zealand median population projection |
| Eligibility age      | 65                                             | Existing NZS setting                                                  |
| Indexation           | Wage-linked                                    | Existing NZS setting                                                  |

**Table 2.** NZS expenditure under status quo central baseline.

| Fiscal indicator                        | 2025   | 2065   | Increase                 |
|-----------------------------------------|--------|--------|--------------------------|
| NZS as a percentage of GDP              | 5.33%  | 8.23%  | +2.90 percentage points  |
| NZS as a percentage of core tax revenue | 19.06% | 29.42% | +10.36 percentage points |

### 4.2. Demographic sensitivity

The central scenario is a benchmark rather than a precise forecast. A lower-fertility case of 1.10 births per woman tests convergence toward rates already observed in several developed economies. The OECD fertility rate currently averages approximately 1.40, while rates of around 1.2 or lower are already recorded in several member countries. The 1.10 assumption is therefore a plausible adverse sensitivity rather than an extreme forecast and is only 0.26 below the central model assumption of 1.36 in 2065. Its effect emerges gradually because newborn cohorts do not enter the workforce for roughly two decades.

As shown in Table 3, lower fertility means that the projected cost of NZS increases to 8.36% of GDP and 29.89% of core tax revenue. Based on GDP of approximately \$450 billion as of 31 March 2026, the additional 0.13 percentage points of GDP is equivalent to around \$585 million annually in current-dollar terms. More favorable fertility or migration assumptions can moderate the increase but do not restore NZS to its current fiscal position.

**Table 3.** Demographic sensitivity of NZS expenditure to lower fertility, 2065.

| Scenario                                                  | NZS as % of GDP         | NZS as % of core tax revenue |
|-----------------------------------------------------------|-------------------------|------------------------------|
| Medium fertility: 1.55 gradually reducing to 1.36 by 2065 | 8.23%                   | 29.42%                       |
| Lower fertility: 1.55 gradually reducing to 1.1 by 2065   | 8.36%                   | 29.89%                       |
| Additional cost relative to central scenario              | +0.13 percentage points | +0.47 percentage points      |

### 4.3. Migration and residency

Migration is a very significant factor when assessing future NZS costs. Because of relatively high net migration over past years, New Zealand has been successful at maintaining the average age of the population at approximately 39.5 years. To achieve this, it has necessitated the attraction of younger couples or individuals to strengthen the working-age tax base, particularly where migrants are skilled, employed, and successfully integrated into the economy. It is essential that New Zealand continues this path or we will ultimately end up with fewer working-aged people supporting the retiree population over the next decades.

Based on our model and its calculations, to maintain the average age of the population at approximately 39.5 years, our population forecast model shows that a net migration rate of 33,022 is required in 2027, rising to 145,000 in 2028 and 170,000 by 2065. These figures are significantly more than forecast by Stats NZ which assumes net migration increasing to only 55,000 people in 2065. Under Stats NZ's modeling, the average age of New Zealanders will gradually increase, effectively reducing the number of working New Zealanders supporting those on a retirement benefit.

Migration can strengthen the tax base, but cannot plausibly substitute for pension reform once housing, infrastructure, public-service, and labor-market constraints are considered.<sup>2</sup> Migration should complement rather than substitute for pension reform.

## 5. Model results: the fiscal effects and trade-offs of reform

This section compares reforms to the eligibility age and indexation.

The principal policy question is whether the main responses currently offered in New Zealand's political debate are proportionate to the projected fiscal pressure. The analysis therefore compares the status quo at age 65, the delayed increase to age 67, an earlier annual adjustment, and CPI indexation. It tests the principal pension settings that can be changed by government.

### 5.1. Policy reform scenarios

The model also compares reforms that governments can implement directly while holding the central demographic assumptions constant. The central policy failure may not be simply that the proposed terminal eligibility age is too low, but that adjustment begins too late.

### 5.1.1. Increase age of eligibility to 67 in 2044

The National Party has for some time advocated increasing the age of eligibility for NZS from 65 to 67. Bill English's original proposal provided for a phased increase beginning on 1 July 2037 and reaching an eligibility age of 67 by 2040. More recently, Prime Minister Christopher Luxon announced that the phased increase would instead commence in 2044, meaning the change would affect only those born in 1979 or later.

We modeled this proposed policy shown in Table 4. This shows that it will result in a reduction in the cost of NZS in 2065. However, there is no broad support for this policy at a political level, and it is at risk of being further delayed, the closer the due date comes to upcoming elections.

### 5.1.2. Gradual increase in eligibility by one month a year

We modeled an alternative in which the eligibility age rises by one month annually. Under this scenario, eligibility increases from 65 years and 1 month, starting in 2029, to 68 years and 1 month by 2065. Payments remain wage-linked, allowing the fiscal effect of eligibility reform to be distinguished from changes in payment generosity. The rule broadly reflects the historical increase in remaining life expectancy at age 65, which has risen by approximately 1.2 to 1.3 months per year since the early 1960s.

Table 5 indicates that this gradual change in the age of eligibility reduces the 2065 cost by 1.22 percentage points of GDP and 4.37 percentage points of core tax revenue relative to the status quo. Compared with the delayed increase to age 67, it produces a further reduction of 0.40 percentage points of GDP and 1.45 percentage points of core tax revenue. This is significant – reflecting an annual saving of \$8.1 billion.

This policy option does not fully offset longevity gains, but it prevents the expected duration of pension receipt from continuing to expand without adjustment. The approach is gradual, planned, and provides successive cohorts with greater certainty for retirement planning. It also offers a more politically acceptable solution as the policy introduces gradual change that is easily understood and implementable, grounded on a basis that is factually supportable.

**Table 4.** Fiscal impact of delaying the NZ Superannuation eligibility age to 67, 2065 (Bayly et al, 2026).

| Policy setting                 | NZS as % of GDP, 2065 | NZS as % of tax revenue, 2065 |
|--------------------------------|-----------------------|-------------------------------|
| Age 65, wage indexation        | 8.23%                 | 29.42%                        |
| Delayed increase to age 67     | 7.41%                 | 26.49%                        |
| <b>Reduction from baseline</b> | <b>0.82%</b>          | <b>2.93%</b>                  |

**Table 5.** Fiscal effect of a gradual eligibility-age increase.

| Scenario                                              | NZS as % of GDP, 2025 | NZS as % of GDP, 2065 | NZS as % of tax revenue, 2025 | NZS as % of tax revenue, 2065      |
|-------------------------------------------------------|-----------------------|-----------------------|-------------------------------|------------------------------------|
| Status quo: age 65, wage-indexed                      | 5.33%                 | 8.23%                 | 19.06%                        | 29.42%                             |
| Eligibility age rises by one month annually from 2029 | 5.33%                 | 7.01%                 | 19.06%                        | 25.05%                             |
| <b>Total Saving</b>                                   | –                     | <b>1.22% of GDP</b>   | –                             | <b>4.37% as a % of tax revenue</b> |

### 5.1.3. Changing from wage indexing to CPI indexing of future NZS payments

We modeled the financial impact of indexing future NZS payments to CPI rather than wages. This is in line with many countries, including most OECD countries, which use CPI or hybrid systems (e.g. US and Canada use CPI; Australia and many European systems combine CPI with wage benchmarks or adjustments) to index their pension payments.

A hybrid model typically applies CPI annually to protect purchasing power, while periodically benchmarking or partially linking to wages to prevent pensions drifting too far behind community living standards. This does not undermine a CPI approach significantly because the core compounding driver remains CPI, with wage adjustments applied only intermittently or partially capturing most fiscal savings while maintaining social and political legitimacy.

As shown in Table 6, CPI indexation produces the largest direct saving because it changes the growth path of every payment. It lowers NZS to 5.38% of GDP and 19.24% of core tax revenue, around 35% below baseline. Indexation reform has a larger fiscal effect because it changes the growth path of every payment.

## 5.2. Summary of policy options

As shown in Table 7 below, the deferral in the age of eligibility to 67 years produces meaningful savings but still leaves more than one-quarter of core tax revenue committed to NZS. It is insufficient as a standalone strategy.

Adopting a policy of a monthly increase in the age of eligibility from 2029 produces a far more meaningful improvement. It reduces the 2065 cost by 1.22 percentage points of GDP and 4.37 percentage points of core tax revenue relative to the status quo. Compared with the delayed increase to age 67, the additional reductions are 0.40 and

**Table 6.** Indexing to CPI rather than wages.

| Policy setting          | NZS as % of GDP, 2065 | NZS as % of tax revenue, 2065 | Reduction from baseline, percentage points of GDP | Reduction from baseline, percentage points of tax revenue |
|-------------------------|-----------------------|-------------------------------|---------------------------------------------------|-----------------------------------------------------------|
| Age 65, wage indexation | 8.23%                 | 29.42%                        | —                                                 | —                                                         |
| Age 65, CPI indexation  | 5.38%                 | 19.24%                        | <b>2.85%</b>                                      | <b>10.18%</b>                                             |

**Table 7.** Incremental policy comparison under the updated central scenario.

| Policy setting                                                    | NZS as % of GDP, 2065 | NZS as % of tax revenue, 2065 | Reduction from baseline, percentage points of GDP | Reduction from baseline, percentage points of tax revenue |
|-------------------------------------------------------------------|-----------------------|-------------------------------|---------------------------------------------------|-----------------------------------------------------------|
| Age 65, wage indexation                                           | 8.23%                 | 29.42%                        | —                                                 | —                                                         |
| Delayed increase to age 67                                        | 7.41%                 | 26.49%                        | <b>0.82%</b>                                      | <b>2.93%</b>                                              |
| One-month annual increase from 2029                               | 7.01%                 | 25.05%                        | <b>1.22%</b>                                      | <b>4.37%</b>                                              |
| Age 65, CPI indexation                                            | 5.38%                 | 19.24%                        | <b>2.85%</b>                                      | <b>10.18%</b>                                             |
| One-month annual increase from 2029 & inflation adjusted increase | 4.58%                 | 16.38%                        | <b>3.65%</b>                                      | <b>13.04%</b>                                             |

1.44 percentage points respectively. This is a central finding: modest changes introduced earlier generate greater long-run relief than a larger reform postponed for many years.

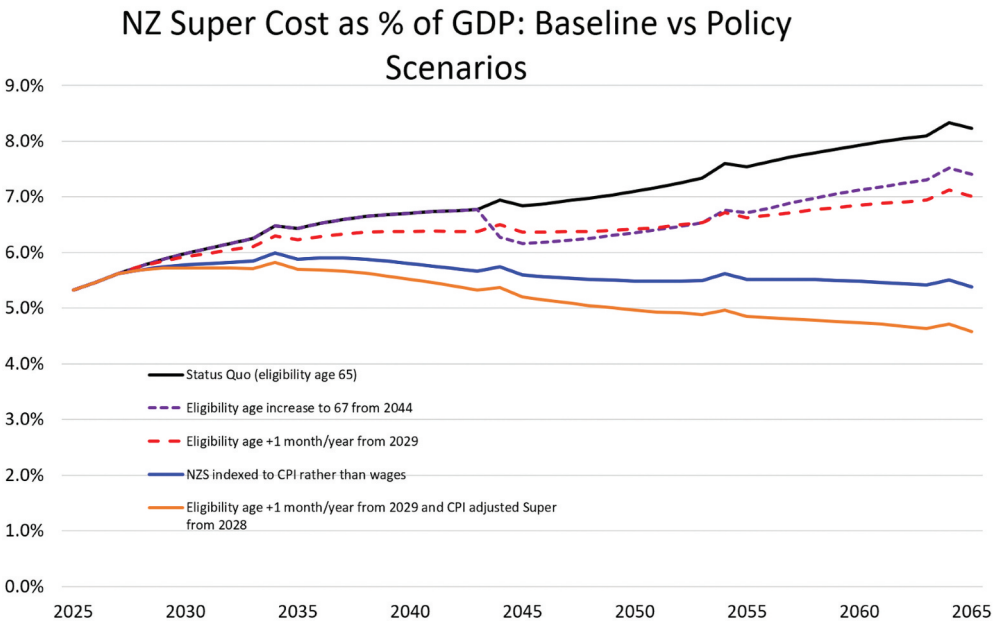
The implications of the policy alternatives are best exhibited diagrammatically in Figure 3.

The fiscal benefit comes from moving the indexing of NZS from wages to CPI. CPI indexation strengthens fiscal sustainability by slowing the compounding growth of superannuation costs and ensuring payments keep pace with inflation, but it gradually reduces superannuation relative to wages, risking lower relative living standards and future political pressure to reverse. Wage indexation, by contrast, preserves retirees’ share of rising prosperity but is significantly more expensive over time.

**5.3. Interpretation of the model results**

The model identifies no painless or mechanically optimal reform. Maintaining the status quo substantially increases the fiscal burden, while lower fertility intensifies it. More favorable demographic conditions do not restore NZS to its current fiscal position. A delayed increase to age 67 produces meaningful savings but is insufficient as a standalone fiscal strategy. It still leaves NZS absorbing 26.49% of core tax revenue by 2065. CPI indexation is fiscally powerful but would cause NZS to decline relative to wages, potentially weakening retirees’ relative living standards. Compulsory KiwiSaver could partly offset this effect by allowing funded income to supplement a more slowly growing public pension.

Of the eligibility reforms modeled, increasing the eligibility age by one month annually from 2029 offers substantial savings in the annual cost of NZS. It generates savings earlier, performs better than raising the retirement age to 67 and distributes



**Figure 3.** NZ superannuation cost as % of GDP: baseline verses alternative policy scenarios.

adjustment more predictably across successive cohorts. However, it still leaves NZS absorbing approximately one-quarter of core tax revenue. It must therefore form part of a broader package combining moderated indexation, compulsory KiwiSaver, continued Crown contributions to the NZSF, and targeted equity protections.

The model quantifies the direct expenditure effects of eligibility and CPI indexation. Moderated or hybrid indexation, compulsory KiwiSaver, NZSF pre-funding, and early-access protections are assessed institutionally and would require further modeling of their transitional and distributional effects. Further work could estimate the contribution rates required for CPI- or hybrid-indexed NZS plus KiwiSaver income to replicate the retirement incomes provided under wage indexation.

## 6. International approaches

The international lesson is not that New Zealand should copy another country's pension age, means test, contribution rate, or indexation formula. Pension systems reflect different labor markets and political and fiscal institutions. The broader lesson is that durable systems spread risk across several mechanisms including the combination of a public pension, compulsory or quasi-compulsory saving, state investment vehicles, predictable adjustment rules, and targeted equity protections.

### 6.1. *Australia's system*

Australia provides the closest comparator. Its system combines a means-tested Age Pension, available from age 67, with compulsory superannuation contributions of 12%. The public pension provides a safety net, while compulsory superannuation builds household retirement assets and reduces reliance on the state. Public Age Pension spending is projected to fall from 2.4% of GDP in 2025 to 2% by 2060.

Paul Keating's 1992 reforms were intended to supplement public provision, increase household wealth, deepen domestic capital markets, and reduce future reliance on public pension expenditure rather than dismantle the welfare state (Hong & MacCulloch, 2026; Keating, 2013; Love, 2009). Australia still faces problems involving adequacy, fees, housing, distribution, and the interaction between private assets and the means-tested pension. Nevertheless, its experience shows that compulsory saving can broaden retirement provision while retaining a substantial public safety net. A funded pillar takes decades to mature, but delaying its introduction prolongs dependence on future taxation.

### 6.2. *Singapore's system*

Singapore's Central Provident Fund is a mandatory savings scheme financed through employer and employee contributions of up to 37% and used for retirement, housing, and healthcare (Chia, 2016; Douglas & MacCulloch, 2025). Its underlying principle is that mandatory savings can be an unorthodox form of social security based on accumulated assets and investment returns.

PAYG pensions also involve compulsion because current workers are taxed to finance current retirees. The relevant question is therefore how that compulsion should be distributed across generations. A funded component allows retirement

income to rely less heavily on future taxation (Hong, 2024b; Lee, 2000; Micklethwait & Wooldridge, 2014). However, Singapore also shows the risks of using retirement accounts for several objectives, as housing and healthcare withdrawals can reduce balances available in old age.

### **6.3. Other OECD retirement income systems**

Across the OECD, countries have responded to demographic aging through multi-pillar pension systems, funded saving, later eligibility ages, and rules-based adjustment. Sweden combines contribution-linked public pensions, funded components, occupational pensions, and private saving, with adjustment mechanisms that spread demographic and fiscal risks across contributions, benefits, and retirement timing (Micklethwait & Wooldridge, 2014).

Germany is gradually raising its statutory retirement age to 67. Denmark and the Netherlands link eligibility more directly to life expectancy, while Finland and Italy incorporate longevity into retirement ages or benefit calculations. These systems differ in their design, but they show that gradualism, predictability, funded saving, long notice periods, and explicit adjustment for demographic change are increasingly common across developed economies.

## **7. Equity, healthy life expectancy, and early-access pathways**

Eligibility-age reform cannot assume that all workers experience aging equally. A uniform pension age can impose disproportionate costs on people with lower healthy life expectancy, reduced work capacity, or long histories in physically demanding employment. This is particularly relevant for Māori, Pacific peoples, manual workers, and people in arduous occupations.

International practice shows that a universal pension age can coexist with targeted safeguards. Denmark combines a rising, longevity-linked pension age with early-access pathways for people with long labor-market attachment or severely reduced work capacity (European Commission, 2021; Preisler, 2020). Finland provides partial old-age pensions and a 'years-of-service' pension for workers with long histories in demanding employment (Finnish Center for Pensions, 2026).

New Zealand should retain a universal pension age while creating a narrow, evidence-based early-access pathway for people unable to remain in work until the general eligibility age. Qualification could depend on verified work history, occupation, reduced capacity, and medical evidence. This would address the main equity objection to a later eligibility age without abandoning NZS's universal structure. It would also make reform more politically durable: people who can work longer would be expected to do so, while those who demonstrably cannot have a dignified and administratively disciplined pathway to receive their pension entitlement at an earlier age.

## 8. Policy implications

The central question is how the unavoidable fiscal adjustment should be distributed across retirees, taxpayers, public services, and future generations. Persistent fiscal imbalances must ultimately be addressed through some combination of higher taxation, lower expenditure, borrowing, inflationary adjustment, entitlement reform, and stronger funded provision (Mankiw, 2025). Productivity, labor-force participation, fertility, and migration may moderate the pressure, but they cannot remove the intertemporal budget constraint.

### 8.1. *The fiscal alternatives*

An increase in tax revenue could preserve more of the current NZS settings but would transfer a larger share of the burden to workers, households, businesses, and asset owners.<sup>3</sup> Broader income or consumption taxes – such as GST – could raise substantial revenue, while taxes on assets, land, capital or wealth would distribute the burden differently. Each option carries behavioral, administrative, and distributional costs. This revenue generating strategy must therefore identify a revenue base sufficiently large, durable, and economically sustainable to finance a structurally rising obligation rather than assume that narrowly targeted taxes can close the long-run fiscal gap. The financing choice is therefore partly between compulsory taxation used to fund current transfers and compulsory saving used to accumulate assets for future retirement; both reduce current disposable income but have different behavioral and intergenerational effects.

An expenditure-oriented adjustment must identify which programs will receive less government funding if NZS remains protected. Under current trends, healthcare expenditure is already projected to rise with population aging, while higher debt-servicing costs will further constrain future budgets. Maintaining existing pension settings without substantial tax increases would place greater fiscal pressure to cut funding for education, infrastructure, defense, unemployment benefits, justice and other public services. Younger taxpayers may therefore be required both to finance longer periods of retirement and to accept lower public investment and services during their own working lives.

Additional borrowing can postpone the adjustment but cannot remove it. Persistent deficits increase debt-servicing costs and reduce governments' capacity to respond to recessions, natural disasters, financial crises, and other emergencies. Inflation may reduce the real value of fixed nominal debt, but its direct effect on NZS is limited where payments remain linked to prices or wages. At the extreme, a prolonged failure to reconcile expenditure and revenue can lead to monetary financing, financial repression, inflationary adjustment, debt restructuring, or sovereign debt default (Reinhart & Rogoff, 2009). These are hypothetical worst-case scenarios rather than central forecasts, but they show that the fiscal adjustment cannot be deferred indefinitely.

### 8.2. *Political commitments and the missing adjustment*

The modeling exposes a central inconsistency in New Zealand's political debate. Parties cannot simultaneously promise fiscal discipline, preserve wage-linked NZS, rely only on a delayed increase to age 67, oppose material tax increases, and protect all other public services.

The same standard applies across the political spectrum. Proposals relying on taxes on wealth, capital, land, or high incomes must demonstrate that the revenue would be sufficiently large, durable, and economically sustainable. Parties favoring lower taxes must identify which expenditure commitments they are prepared to moderate. Those supporting the status quo implicitly leave the adjustment to debt, future taxation, or cuts imposed by later governments.

The government budget constraint is not ideological. Political disagreement can determine how the burden is distributed, but it cannot make the burden disappear. The repeated postponement of reform increases the likelihood that future adjustment will be larger, faster, and less equitable.

Political durability also requires a credible transition. Existing recipients should be protected, while cohorts approaching retirement should receive sufficiently long notice to adjust their saving and employment plans. Current retirees and those approaching retirement should be protected from abrupt changes, while younger cohorts must be shown that a different combination of public NZS and funded saving can provide comparable retirement security on a more sustainable basis.

### **8.3. Preferred policy package**

No single reform resolves the challenge without economic, political, or distributional costs. Age 67 is insufficient on its own; migration can moderate but not eliminate demographic pressure; CPI indexation generates large savings but reduces pensions relative to wages; and means-testing weakens universality. Taxation, expenditure restraint, borrowing, and inflation merely distribute the adjustment through different channels.

We therefore recommend a mixed strategy comprising:

- an increase in the NZS eligibility age of one month annually from 2029;
- moderated or hybrid indexation rather than indefinite full wage indexation or immediate CPI-only indexation;
- a compulsory KiwiSaver system phased in gradually to supplement moderated NZS indexation and provide greater flexibility over retirement timing;
- sustained Crown contributions to the NZSF where consistent with a credible long-run fiscal and debt strategy; and
- targeted early-access protections for people with impaired work capacity, lower healthy life expectancy, or long histories in physically demanding employment.

The purpose is not to eliminate NZS or transform it into a residual welfare payment. It is to preserve NZS as a universal public floor while gradually increasing the role of funded household and public assets. Distributing adjustment across several mechanisms is less economically and politically costly than relying on any single instrument.

## **9. Conclusion**

New Zealand's pension debate is built around promises that cannot all be maintained. A universal and wage-linked pension from age 65 cannot be preserved indefinitely while

governments also avoid major tax increases, protect other public services, and maintain fiscal discipline.

Under the central scenario, NZS rises to 8.23% of GDP and 29.42% of core tax revenue by 2065. The delayed increase to age 67 produces meaningful savings but still leaves the program absorbing 26.49% of the tax base. It is therefore insufficient as a standalone fiscal strategy. Plausible variations in fertility and migration alter the scale of the problem but do not remove it.

The central finding is that the timing of reform matters. Increasing eligibility by one month annually from 2029 produces greater fiscal relief than waiting to implement a delayed step to age 67. It begins adjustment earlier, distributes the burden more gradually across cohorts, and gives households greater certainty. Even this reform, however, leaves NZS consuming approximately one-quarter of core tax revenue.

Political parties must therefore identify where the remaining adjustment will fall. Tax-led strategies require a revenue base large and durable enough to finance a structurally rising obligation. Low-tax strategies must specify which expenditure will be moderated. Preserving the status quo leaves future governments to rely on debt, later tax increases, or abrupt cuts to public services. The government budget constraint is not ideological.

We recommend a mixed strategy combining gradual eligibility adjustment, moderated indexation, compulsory KiwiSaver, continued Crown contributions to the NZSF, and targeted early-access protections. Compulsory KiwiSaver should complement rather than replace NZS by allowing accumulated household wealth and investment returns to provide a larger share of retirement income over time. The choice is not between preserving NZS unchanged and dismantling it, but between gradual reform now and harsher adjustment later.

## Notes

1. Life expectancy at birth rose by approximately 11.7 years for males and 9.7 years for females between 1960 and 2020–22. These figures demonstrate the broader improvement in longevity, but remaining life expectancy at age 65 is the more relevant measure for pension analysis because it better approximates the expected duration of NZS receipt.
2. The model estimates New Zealand's mean population age at approximately 39.5 years in 2026. Under the low-fertility scenario, maintaining that mean age would require net migration of approximately 33,000 people in 2027, rising sharply to around 145,000 in 2028 and approximately 170,000 annually by 2065. Our modeling implies a gross annual arrival rate of roughly 4.8% of the population.
3. Recent New Zealand examples include Labor's October 2025 proposal for a 28 per cent tax on profits from property sales, excluding the family home and farms, with the revenue intended to help fund three free GP visits each year. Labor chose this narrower capital-gains proposal while ruling out a wealth tax. The Green Party has instead advocated an annual wealth tax and, in its 2026 tax package, also proposed increased corporate and inheritance taxation.

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