

Media Fact Sheet

New Zealand Superannuation Fund

May 2022

This document is a reference sheet for stakeholders to inform public discussion of the purpose and performance of the NZ Superannuation Fund.

Who we are

- The New Zealand Superannuation Fund is a Sovereign Wealth Fund (owned by the Government).
- Its specific legal purpose is to partially pre-fund the cost of national superannuation in order to reduce the burden on future taxpayers. It is not being drawn on to pay for current pension payments – these are funded out of current taxes.
- The future capital withdrawals from the Fund cannot be used for other purposes (such as economic development or fiscal stabilisation). However, taxes paid by the Fund to the Government go back into general Government revenue.

Government contributions

- The [New Zealand Superannuation and Retirement Act 2001](#) sets out the legal requirements for capital contributions and withdrawals by the Government. The funding formula is set out in the Act ([Sections 42 to 44](#)).
- The legislation provides for an annual savings commitment to meet future Superannuation costs. This currently equates to approximately \$2b per annum.
- Sections 42 and 43 of the Act set out the process by which the Treasury calculates the amount of the annual capital contribution to the Fund.
- The Treasury is responsible for maintaining the funding model, and the Government's legislated capital contributions, withdrawals, and any related disclosures.
- The Treasury's funding model is based on the Government's fiscal forecasts and is updated every six months. The model is set out on its web site www.treasury.govt.nz, under the section on [Government assets](#). The Treasury publishes its [contribution models](#) twice yearly.
- Section 44 of the Act provides that the Government may pay lesser amounts into the Fund in any financial year than the annual capital contribution calculated under the Act. If it intends to pay a lesser amount than the required annual contribution, the Minister of Finance is required to disclose the amount required under the legislated formula; the amount actually being paid; a statement for the reasons there is a difference; a statement on the Government's intentions on future contributions; and a statement of the approach the Government intends to take to ensure that the Fund will be sufficient to meet payments of NZ superannuation entitlements expected to be made over the next 40 years.

- The Government, using section 44 of the Act, suspended capital contributions from 2009 until December 2017.
- \$2.345 billion was contributed to the Fund in the 12 months to 31 March 2022.

Our contribution to New Zealand superannuation

- Treasury's current modelling expects drawdowns to commence in 2034, at which point it forecasts the Fund's closing balance will be \$139 billion, or 21 percent of GDP. Substantial draw-downs do not begin until the 2050s and the Fund is expected to peak as a proportion of GDP in the 2080s.
- On current Treasury projections, capital withdrawals from the Fund will be meeting 2.7 percent of the net cost of Super in 2040, peaking at 11.7 percent in 2084, and averaging 6.4 percent for the 50 years between 2040 and 2090 (or 76% of the increasing costs of superannuation as a result of the aging population).
- The Fund will also be paying tax to the New Zealand government. In 2084, capital withdrawals and tax payments combined are forecast to equal 19.4 percent of the total annual net cost of pensions.

Fund performance

- The Fund uses two benchmarks to assess performance: the 90-day Treasury Bill return (a measure of the cost of [Government debt-servicing](#)) and a passive Reference Portfolio, a proxy for the market.
- Since inception and within all established risk parameters, the Fund has generated \$40.76 billion more than the Treasury Bill return for the same period, and \$10.64 billion more than the Reference Portfolio benchmark (after costs, before NZ tax, as at 31 March 2022). This out-performance shows wealth has been created relative to the opportunity cost of lowering debt, and relative to managing the Fund passively.
- Active investments, where they align with the Fund's competitive advantages as an investor (e.g. long time horizon, certain liquidity), mean the Fund can benefit from value-adding returns in addition to the equity risk premium^[1] available. See <https://www.nzsuperfund.co.nz/how-we-invest/actual-portfolio> for information.
- Markets are volatile as short-term returns go up and down, and not every investment has or will be a success. However, the Fund's long horizon means it can invest in illiquid assets, exploit short-term market movements, and make counter-cyclical investments.
- The Fund has returned 6.65% over the last 12 months, 10.59% over the last 5 years p.a., 12.56% over the last 10 years p.a., and 10.23% since inception p.a. (after costs, before NZ tax as of 31 March 2022). On average these returns are well in excess of the estimated cost of Government debt (the risk-free comparison and opportunity cost).

How we invest

- If the Fund were managed passively, it would have very few investments in New Zealand due to the small capital weighting of NZ in global listed equity benchmark indices (0.1%).

- The NZ Super Fund is one of few Sovereign Wealth Funds in the world that pay tax in their home jurisdiction. Since it was established the Fund has paid \$9.61 billion to the Government in tax.
- The Guardians has a long-standing commitment to Responsible Investment. We believe environmental, social and governance considerations, including climate change, are fundamental to long-term risk and return. Our governing legislation also requires us to avoid prejudice to New Zealand's reputation in the world community. ESG considerations are therefore integrated into all aspects of the Fund's investment activities, from investment selection and due diligence to ownership activities such as monitoring our external investment managers, exercising our voting rights and engaging with companies to improve their ESG policies and practices.

Background reading

- [Smoothing the future cost increases of providing universal superannuation to New Zealanders](#) (Produced by the Guardians of New Zealand Superannuation for the Commission for Financial Capability's 2019 Review of Retirement Income Policies)
- [Golden Years – Understanding the New Zealand Superannuation Fund](#) (New Zealand Treasury Working Paper 21/01)

NZSF Key Facts (Unaudited, as at 31 March 2022. Performance returns are quoted after costs, before NZ tax)	
Fund size	\$59.64 billion
Government contributions (suspended 2009)	\$21.8 billion
Return since inception (September 2003)	10.23% p.a.
Returns last 10 years	12.56% p.a.
Return over 12 months to 31 March 2022	6.65%
NZ Treasury Bill return	3.40% p.a.
Net return (actual return minus Treasury Bill)	6.83% p.a.
Value added compared to Treasury Bill return (since inception)	\$40.76 billion
Value add vs passive reference portfolio	\$10.64 billion

NZ investments by value	\$8.7 billion (16.2%)
NZ tax paid (since inception)	\$9.61 billion

For more information: www.nzsuperfund.nz

^[1] Treasury's 2005 paper on the [equity risk premium](#) is a helpful resource on this topic.