Media Fact Sheet
New Zealand Superannuation Fund
March 2018

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

- 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 tax payers. 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.
- 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.
- 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.
- 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 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 current Treasury forecasts are as at December 2017.
- The Government, using section 44 of the Act, suspended capital contributions from 2009 until 2017. In December 2017 contributions resumed, with the Fund to receive an initial $500 million payment in the financial year to 2018. Contributions will increase over the next four years, with $1 billion planned for the Fund in 2019, $1.5 billion in 2020 and $2.2 billion in 2021.

- Under current commitments, The Treasury model shows the Fund is expected to peak as a share of GDP in the 2070s, even though it starts making payments to the Government from the 2030s (the actual date varies in line with the Government's fiscal forecasts). Substantial draw-downs do not begin until the 2050s.
- On current Treasury projections, capital withdrawals from the Fund will be meeting 10% of the net cost of Super by 2066, peaking at 12.8% in 2078, and averaging 11.2% for 50 years 2060-2110.
- The Fund will also be paying tax to the New Zealand government in addition to the capital withdrawals. At the Fund's peak in the 2070s, the capital withdrawals and tax payments combined total 21% of the total net cost of pensions, and more than 40% of the incremental cost increase due to the rising proportion of retirees in the population.
- 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 $22 billion more than the Treasury Bill return for the same period, and $7 billion more than the Reference Portfolio benchmark (after costs, before NZ tax, as at 31 December 2017). 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.
- In recent years Fund returns have been very high: 15% p.a. (after costs, before NZ tax) over the last five years. While we estimate more normal returns in the future (circa 8%-9% p.a. over the long term), on average these returns are well in excess of the estimated cost of Government debt (the risk-free comparison and opportunity cost).
- If the Fund was 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 $6.25 billion to the Government in tax.
- Some commentators draw an analogy between government accounts and household accounts when arguing it is better to repay debt (home mortgage) than to save for

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

future Superannuation (retirement income). This analogy is partial and can be misleading.

- Compared to a household, governments have many diversified income streams, can generally borrow at the lowest cost of any participant in the economy, and have a long-term, inter-generational investment horizon. As an agent of government, the Fund is highly diversified and has a high level of liquidity – making its investment proposition very different to a household.

Background reading:

2013 Treasury Working Paper, Dr Andrew Coleman: "To Save or Save Not: intergenerational neutrality and the expansion of New Zealand Superannuation".

2016 NZ Super Fund submission to the 2016 Retirement Policy Review: "The NZ Super Fund and the partial pre-funding of universal superannuation. Prepared at the request of the Commission for Financial Capability.

NZSF Key Facts **(Unaudited, as at end December 2017 Performance returns are quoted after costs, before NZ tax)**	
Fund size	$37.91 billion
Government contributions (suspended 2009)	$14.95 billion
Return since inception (September 2003)	10.52% p.a.
Returns last 10 years	9.71% p.a.
Return over 12 months to 31 December 2017	19.77%
NZ Treasury Bill return	4.14% p.a.
Net return (actual return minus Treasury Bill)	6.38% p.a.
Value added compared to Treasury Bill return (since inception)	$22.1 billion
Value add vs passive reference portfolio	$6.9 billion
NZ investments by value	$5.3 billion (14.3%)
NZ tax paid (since inception)	$6.25 billion

For more information: www.nzsuperfund.co.nz