

THE BASICS

1. The New Zealand Superannuation Fund has nothing to do with Kiwi Saver

The New Zealand Superannuation Fund is entirely separate from Kiwi Saver. Kiwi Saver is a scheme by which New Zealanders save, into individual accounts, for their own retirement and with some Government assistance. It is offered by a number of different investment managers, but the Fund is not one of them

The role of the Fund is to contribute to the future cost of New Zealand Superannuation (NZS), which is the Government provided retirement entitlement paid to all qualifying New Zealand residents.

All New Zealanders who meet the eligibility criteria for NZS will receive it from the age of 65. It is likely that many of those New Zealanders will also receive the benefits from their savings into the Kiwisaver scheme.

2. The New Zealand Superannuation Fund does not pay nor determine eligibility for New Zealand Superannuation

This is the responsibility of Work and Income New Zealand (contact them on 0800 552 002 or the relevant part of their website is: <http://www.winz.govt.nz/individuals/65-years-or-older/>)

The Fund's relevance to NZS is to contribute to the cost of paying out that entitlement in the future (a consequence of this, is that less taxation has to be imposed on future taxpayers to meet that cost). We do this by investing Government capital contributions and by reinvesting the returns we make from those investments. However, while the Fund contributes to the cost of the payments, the actual source of them is Work and Income New Zealand.

3. The difference between the Guardians and the Fund

Put very basically, the New Zealand Superannuation Fund is the money and the Guardians of New Zealand Superannuation is the organisation set up to manage the money. Both the Fund and the Guardians were established under the New Zealand Superannuation and Retirement Income Act 2001 (the Act).

The respective purposes of the Fund and the Guardians are as follows:

The purpose of the Fund is to reduce the tax burden on future taxpayers of the cost of NZS.

The purpose of the Guardians is to manage and administer the Fund. More specifically, the Act states that the Guardians must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:

- (a) Best-practice **portfolio** management;
- (b) Maximising **return** without undue **risk** to the Fund as a whole; and
- (c) Avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

4. Why the Fund was established

The purpose of the New Zealand Superannuation Fund is set out at 3. But what is the reason for that purpose?

Because Government projections show that between 2005 and 2050 the number of New Zealanders eligible to retire (aged 65+) is expected to double and the associated cost of providing their retirement income – New Zealand Superannuation (NZS) – is also expected to double.

This is important because not only will there be more New Zealanders aged over 65: they will also increase as a *proportion* of the population through and beyond the 2005-2050 period. This is because New Zealanders as a whole are not having enough children to maintain the current weighting of 'working age' people i.e. those aged 15-64 through the same period.

This means there will be less 'working-age' people whose productivity can be tapped (through taxation) to fund not only NZS for a greater number of people than ever before in New Zealand's history, but also Government expenditure on health, education, law enforcement and other vital core services. This is therefore a situation which is relevant to you and to future generations.

5. How the Fund is supposed to work

The creation of the Fund recognizes the situation set out at 4 as a significant, multigenerational, social and financial challenge.

It attempts to address this situation by 'smoothing' the tax burden between generations of the future cost of New Zealand Superannuation (NZS). It does this by investing Government contributions received during the early period of the Fund and, through returns generated over decades of investing, by growing the size of the Fund. At a certain point – currently from 2031 – the Government then begins making withdrawals from the Fund to help to meet the cost at that time of NZS (which, as set out in 4, is expected to have significantly increased).

'Pre-funding' the future cost of NZS in this way means that future Governments do not have to seek as much from future New Zealand taxpayers (or from other sources, such as raising debt) to meet the cost of NZS when it is increasing most sharply.

6. Independence from the Government

Appointments

Members of the Board are appointed by the Governor-General on the recommendation of the Minister of Finance.

The Minister's recommendation follows nominations from an independent nominating committee. On receiving those nominations, the Minister must consult with representatives of other political parties in Parliament before recommending the Governor-General appoint a person to the Board.

Board members are chosen for their experience, training, and expertise in the management of financial investments.

The Board must comprise of at least five, but no more than seven, members. Each Board member is appointed for a term of up to five years and is eligible to be reappointed. The first Board members were appointed in August 2002.

Arm's-length operation

While accountable to the Government, the Guardians operate at arm's length from the Government. The Guardians' Board is required to report on the Fund to the Minister of Finance as required by the Minister – currently this is quarterly and takes the form of a written report on the Fund's progress.

Under the Act, the Minister of Finance may give directions to the Guardians regarding the Government's expectations as to the Fund's performance, including its expectations as to risk and return. However, the Minister may not give any direction that is inconsistent with the duty to invest the Fund on a prudent and commercial basis. The Guardians must have regard to any such direction, and must notify the Minister how they propose to do this, as well as report any direction in the Annual Report. Directions given by the Minister must be tabled in Parliament.

To date the Guardians have received one direction from the Minister. A copy of that can be found [here](#) and a copy of the Guardians response can be found [here](#).