Policy Note

Analysis of KiwiSaver changes:

Budget 2025

TE ARA AHUNGA ORA
Retirement Commission

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This report contains analysis of data from a variety of sources including:

- Data provided by Inland Revenue in response to customised requests from Te Ara Ahunga Ora Retirement Commission. Inland Revenue can disclose this revenue information in accordance with section 18(3) of the Tax Administration Act 1994 as it is 'revenue information' (as defined in the Act) and release of the revenue information will not adversely affect the integrity of the tax system or prejudice the maintenance of the law.
- IDI research that was conducted by the New Zealand Policy Research Institute at Auckland University of Technology on behalf of Te Ara Ahunga Ora Retirement Commission

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  The results are based in part on tax data supplied by Inland Revenue to Stats NZ under the Tax Administration Act 1994 for statistical purposes. Any discussion of data limitations or weaknesses is in the context of using the IDI for statistical purposes, and is not related to the data's ability to support Inland Revenue's core operational requirements.

Executive summary

Te Ara Ahunga Ora Retirement Commission (the Commission) is required by law to independently monitor the effects of retirement income policies that are being implemented in New Zealand.

Changes to the KiwiSaver scheme are being introduced as part of Budget 2025.

The changes will see employee and employer contribution rates increase over time to 4% for employees and 4% for employers, which aligns with the Commission's recommendations made in 2024, and should generally lead to higher KiwiSaver retirement savings for salary and wage earners.

The changes could result in retirement funds lasting on average approximately 30% longer than under the pre-Budget 2025 settings for a median salary and wage earner who contributes without interruption over a 40-year working life.

However, another change, the decrease in the government contribution, will mean that (absent of behavioural changes) some KiwiSaver members will have lower retirement savings than would otherwise have been expected, including members who are self-employed. Low-income members also tend to be impacted more as the government contribution makes up a greater portion of their eventual retirement savings.

We estimate that in total the changes in the Budget will increase KiwiSaver retirement savings for around 80% of currently contributing KiwiSaver members and reduce KiwiSaver retirement savings for around 20% relative to what would have been expected without the changes. These estimates do not account for any possible changes in saving behaviour as a result of the policy changes.

The Commission's view is that it would be possible to improve the retirement outcomes for this 20% of members through improving the targeting of the remaining funds for the government contribution.

The Commission will develop proposals in this area as part of the 2025 Review of Retirement Income Policies, which will be submitted to the Government by December 2025.

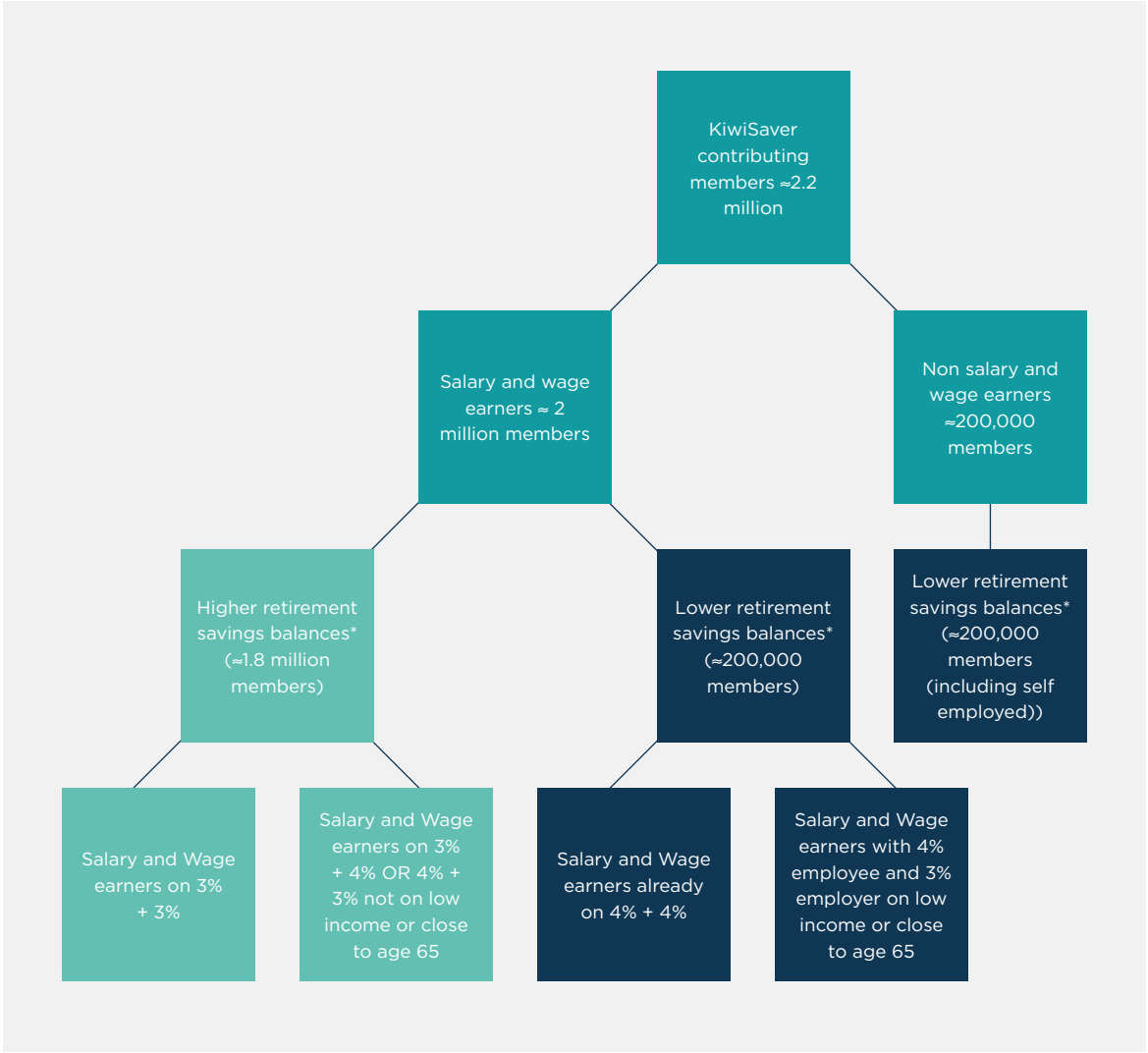
Note on measurement

There are approximately 3.4 million KiwiSaver members. Contributing members who received an employer and a government contribution, or only a government contribution, totalled approximately 2.2 million in 2024, and this provides us with an estimate of the group who are expected to be impacted by the changes (referred to in this paper as "contributing members").

Key points

- The impact will be different depending on whether someone receives an employer contribution and a government contribution (salary and wage earners) or only a government contribution (for example the self-employed).
- The net effect of the changes will be to:
  - increase KiwiSaver retirement savings for about 80% of contributing members (because the increase in employer and employee contributions offsets the decrease in government contribution)
  - decrease KiwiSaver retirement savings for about 20% of contributing members compared to what would have been expected without the changes. These estimates do not account for changes in saving behaviour.
- For salary and wage earners the net effect of the change will generally result in increased future KiwiSaver retirement savings for most (including those with incomes above $180,000):
  - 90% of salary and wage earners (approximately 1.8 million members), are expected to have higher eventual KiwiSaver retirement savings balances.
    - Generally, both low- and high-income earners will benefit from the change, but low-income earners are impacted more than higher income earners by the decrease in government contribution as this makes up a greater portion of their eventual retirement savings.
  - About 10% of salary and wage earners (approximately 200,000 members) aren't expected to benefit from the change including:
    - People who already have employer and employee contributions at 4% or more.
    - People who have an employee contribution at 4% and who are on low incomes or are close to age 65.
- For self-employed people or those not currently in paid work, who only receive the government contribution and no employer contribution, the change will result in a decrease in their KiwiSaver retirement savings balance compared to what would have been expected if there was no change
  - In 2024 approximately 200,000 members received only a government contribution, including approximately 125,000 self-employed people.
- The changes are positive for young members who will be eligible for the employer match and government contribution from age 16, rather than age 18. While there are already some salary and wages earners aged 16 and 17 who currently contribute, we anticipate that the policy change will encourage more to join and contribute.

Overview of the potential impact of the net effect of Budget 2025 KiwiSaver changes compared to pre-budget settings on eventual KiwiSaver retirement savings balances at age 65



*Relative to the KiwiSaver balance that would have been expected without the change in settings

Background

Te Ara Ahunga Ora Retirement Commission (the Commission) is required by law to independently monitor the effects of retirement income policies that are being implemented in New Zealand. Changes were announced in Budget 2025 to KiwiSaver settings focused primarily on increasing contribution rates for employees and employers and decreasing the government contribution. This paper provides an overview of the changes and the implications for various groups of KiwiSaver members.

KiwiSaver is a voluntary, opt-out, portable retirement savings scheme that operates mainly through contributions the employer deducts directly from salary and wages and sends to Inland Revenue. Non-salary and wage earners can also enrol directly with a scheme. KiwiSaver is a very popular scheme with very high enrolment levels and the vast majority of people in paid employment actively contributing to the scheme.

While the majority of KiwiSaver settings are working as intended, in 2024 the Commission identified that some settings could be improved. The key recommendation was to introduce a higher default member contribution rate of at least 4% (with a minimum employer rate at this level), while retaining the 3% member contribution rate as the minimum in cases of hardship. The changes to employee and employer contributions announced in Budget 2025 largely align with this recommendation.

While increasing contribution rates is generally beneficial for salary and wage earners who qualify for an employer contribution, not everyone benefits from this change. There is a risk that existing gaps in retirement income outcomes could increase as a result of the changes. It is thus important to ensure that any potential gaps in retirement outcomes are identified and mitigated where possible.

In this context the reduction in the government contribution announced as part of Budget 2025 is relevant, particularly for groups like low-income earners, Māori, women, and the self-employed.

The Commission will continue to explore the impacts of these changes as part of the 2025 Review of Retirement Income Policies (RRIP) with a focus on how governments could most effectively reduce gaps in retirement income outcomes.[1]

The rest of the paper is organised as follows: the paper begins with a summary of the recent changes to KiwiSaver. A high-level overview is provided to summarise, as a result of the changes, whose KiwiSaver retirement savings can be expected to increase and whose decrease compared to what would have been expected if no changes had been made. Next, we provide a distributional analysis of the impact of the changes on retirement balances. The paper then considers how the changes may impact on retirement adequacy, before highlighting the work that will continue to be carried out by the Commission as part of the 2025 RRIP.

1 More details relating to the performance of the scheme and how the current changes align with the Commission's recommendations are outlined in Appendix A. In addition, as part of the work for the 2025 RRIP the Commission carried out a distributional analysis of the KiwiSaver government contribution and the key findings from this work are set out in Appendix B.

Approach followed in this paper

There are approximately 3.4 million KiwiSaver members. Contributing members who received an employer and a government contribution or only a government contribution totalled approximately 2.2 million in 2024 and this provides us with an estimate of the group who are expected to be impacted by the changes (referred to in this paper as "contributing members"). In this paper, the number of members potentially impacted by the changes is estimated based on these 2.2 million members. This number excludes under 18s and over 65s who would not have been eligible for employer or government contributions in 2024. However, 16- and 17-year-olds will be eligible for the government contribution and the employer contribution in future, therefore the number could be higher in future.

The modelling scenarios included in this paper consider members across a range of income bands and ages (from 16 to 65[2]).

Given time and data constraints, the analysis in this paper does not account for any possible changes in saving behaviours as a result of the policy changes. The effect of the policy changes on non-contributing members are also not considered.

The data used in this paper has been sourced from Inland Revenue (IR) KiwiSaver statistics[3], customised requests from IR made by the Commission in 2024 and 2025, and an analysis of IDI data.[4]

2 The impact on those over the age of 65 is not considered as part of this paper. Employer contributions are not mandatory for this group, however some salary and wage earners over the age 65 do receive an employer contribution, employers might decide to increase contributions for this group too (although they would not be required to make any changes or even to continue these contributions), which could result in larger retirement savings balances for this group.

3 KiwiSaver statistics

4 Carried out by the New Zealand Policy and Research Institute (NZPRI) at AUT.

Summary of the Budget 2025 changes

- Employee and employer contributions move to 3.5% from 1 April 2026 and then to 4% from 1 April 2028.
- A new temporary savings reduction will be introduced, modelled on the existing temporary savings suspension, allowing members to opt to reduce their contribution rate to 3% for a period of up to 12 months. Members can take multiple temporary reductions. If a member takes a savings reduction their employer can match them at that rate.
- The government contribution matching rate is reduced to 25% (i.e. 25 cents for every $1 contributed up to a maximum government contribution of $260.72) from the year commencing 1 July 2025.
- Members with an annual income of more than $180,000 will no longer be eligible for the government contribution from the year commencing 1 July 2025.
- 16- and 17-year-olds become eligible for employer contributions from 1 April 2026 (note they will not be auto-enrolled, the age for auto-enrolment remains at 18, but if they join, or have already joined, and contribute, they will be eligible for the matching employer contribution).
- 16- and 17-year-olds become eligible for the government contribution, if they contribute, from the year commencing 1 July 2025.

The government spent $1 billion on the KiwiSaver government contribution in 2024. The changes proposed to the contribution could potentially halve this cost.[5] A full analysis of the distribution of the government contribution prior to the Budget changes can be found in a supporting paper.[6]

The Commission has updated the Sorted KiwiSaver Calculator to take into account the Budget 2025 KiwiSaver changes, and individuals who would like to see the impact of the changes for their specific circumstances can go to KiwiSaver calculator » Sorted.

5 While the policy change reduces the maximum contribution that an eligible member is entitled to receive by 50% (and those with incomes above $180,000 no longer qualify, while 16 and 17 year olds will now qualify) the total contributions paid by the government is driven primarily by the number of eligible contributing members in any given year, and what percentage of these members receive the full versus a partial contribution.

6 https://assets.retirement.govt.nz/public/Uploads/Retirement-Income-Policy-Review/2025-RRIP/KiwiSaver-Government-Contribution-Distributional-Analysis-2025.pdf

Impact on retirement savings balances

There are approximately 3.4 million KiwiSaver members, of this group 2.2 million received an employer and a government contribution or only a government contribution in 2024 (the median income of non-contributors was $4,000 in 2024 indicating that many in this group are not in paid work and therefore would not be expected to be contributing to the scheme[7]).

The changes in Budget 2025 will therefore impact on approximately 2.2 million KiwiSaver members.

The impact will be different depending on whether someone receives an employer contribution and a government contribution (salary and wage earners) or only a government contribution (for example the self-employed).

We expect that (absent behavioural changes) the eventual retirement savings of self-employed people in KiwiSaver will fall relative to what could have been expected without the change as they will now receive a lower government contribution, without the benefit of any increase in employer contributions.

- Our analysis of government contribution data shows that about 210,000 KiwiSaver members are defined as self-employed. Of this, 40% received no government contribution, 40% received a full contribution, and 20% received a partial contribution, implying that approximately 125,000 self-employed people could have lower KiwiSaver retirement savings as a result of the change compared to what would have been expected without the change.

Salary and wage earners account for more than 90% of contributing members (totalling just under 2 million members in 2024). Due to the sequencing of the changes (the government contribution reduces in 2025 and the increase in employee and employer contributions occurs in 2026 and 2028) the short-term impact of the change will result in lower KiwiSaver retirement savings balances, compared to what would have been expected if the settings had not changed, for most contributing members. However, over time, the net effect of the changes will generally result in higher KiwiSaver retirement savings balances of salary and wage earners compared to what would have been expected if the settings had not been changed.

- About 90% of contributing salary and wage earners (approximately 1.8 million members) could have improved KiwiSaver retirement savings due to the increase in contributions, which will generally offset the decrease in the government contribution.
- About 10% of contributing salary and wage earners (approximately 200,000 members) are not expected to have increased KiwiSaver retirement savings following the change relative to what would have been expected without the change:
  - There is a small group of salary and wage earners (6%, approximately 120,000 members) who are already contributing at 4% or more and who already have an employer contribution of 4% or more. Their KiwiSaver retirement savings will likely be lower compared to what they could have been without any change to the settings as the government contribution decrease is not offset with an employer increase, unless their employer chooses to contribute at higher than the new default.

7 See appendix A and B for further detail.

- There is also a small group of salary and wage earners (3%, approximately 60,000), who are either close to age 65 or on a low income, who are already contributing at 4% themselves. For this group, the increase in the employer contribution to 4% will not offset the reduction in the government contribution.[8]

While generally both low- and high-income members will have higher KiwiSaver retirement savings balances, due to the net effect of the change, low-income members are impacted more than higher income members by the decrease in government contribution as this makes up a greater portion of their eventual retirement savings.

- For members currently earning less than $30,000[9] the government contribution is currently expected to accumulate, over a 40-year time-period, to 15-20% of total KiwiSaver balances at age 65. After the changes, this reduces to 6-11%.
- For members earning $100,000, the percentage point change is much smaller, with the government contribution reducing from 5% down to 1% of accumulated balance, and from 3% down to 0% for members with earnings of $180,000.[10]

While all salary and wage earners may find that the increase in employer contributions is offset to some degree against future salary increases,[11] people on total remuneration contracts will probably experience a specific decrease in take home salary at the same time as the increases to employer contributions.[12] However they should generally benefit from higher KiwiSaver retirement savings balances in the future provided they contribute at the new default contribution rate levels.

- Our survey data show that 25% of employers use total remuneration for all employees, and 20% use it for some employees (when both approaches are used, lower-level roles are more likely to be total remuneration than senior level roles).[13]

The changes are positive for young members who will be eligible for the employer match and government contribution from age 16, rather than age 18.

- While we don't have specific data on 16- and 17-year-olds, it is expected that the new incentives that apply from age 16 will see the number of 16- and 17-year-olds contributing to KiwiSaver increase noting however, that auto-enrolment will not apply to this group.

The next section provides more detail on the distributional impact of the changes.

8 Generally those contributing 3% whose employer contributes 4% will almost always be better off, there is a very small group who are close to age 65 earning around $30,000 who are slightly negatively impacted.

9 approximately 20% of contributing members had incomes lower than $30,000 in 2024

10 Less than 4% of contributing members had incomes of $180,000 or more in 2024

11 the increase to the employer contribution may be absorbed by wage growth over time as occurred in Australia where studies find that around 80% of the increase in the Superannuation Guarantee is passed on to workers through lower wage growth (Lessons from the Australian retirement income system NZIER WP 2024-01.pdf)

12 Total remuneration contracts are generally structured to allow the increase in employer contribution to be deducted from take home pay at the time when the increase is made, leaving these members with less take home pay, potentially encouraging them to reduce their contribution or take a savings suspension

13 TAAO-RC-Policy-Brief-2023_Kiwisaver_4.pdf

Distributional impact of the changes

The net impact of the changes depends on the existing contribution rates of salary and wage earners. About 91% of employees have an employer contribution of 3% and 9% have an employer contribution of more than 3%. Approximately 63% of employees contribute at 3% while 37% contribute at more than 3%.

This means there are four main groups of KiwiSaver members who will be impacted in different ways by the change depending on their and their employer's existing contribution levels:

- 60% of employees contribute at 3% and have an employer contribution of 3%.
- 31% of employees contribute at more than 3% with an employer contribution of 3%.
- 6% of employees contribute at more than 3% with an employer contribution of more than 3%.
- 3% of employees contribute at 3% with an employer contribution of more than 3%.

Impact on salary and wage earners across income bands and age bands

This section explores the impact of the net change (decrease in government contribution and potential increase in employer and employee contribution) across a range of ages and salaries to provide an overview of the impact of the changes for the four groups of salary and wage earners.

All scenarios assume a balanced portfolio, and balances are reflected at age 65. The changes are sequenced to align with the timing announced by Government (see previous section for specific timing). The modelling assumes no behavioural changes.

The results are based on a model that uses the same base assumptions as the Sorted KiwiSaver calculator, and outputs are expressed in today's dollars. When considering the policy change, balances from 2025 onwards are compared as existing balances will not be affected. The graphs showing percentage changes are the percentage change in the balance accumulated since 2025 and can be considered the difference in balance at age 65 for an individual joining KiwiSaver in 2025. Adding an existing balance will simply reduce the percentage change in balance (but not the dollar amount of the change). The Sorted calculator has been updated to take account of the changes and can be used by individuals to assess the impact based on their existing balance: KiwiSaver calculator » Sorted

The 16-year-olds included in the following sections represent those who have both employee and employer contributions prior to the Budget 2025 changes as there is evidence that there is employer matching for this group (even though this is not a legal requirement prior to Budget 2025), and it is reasonable to assume that contributing members under 18 have an incentive to do so. The new incentives for 16- and 17-year-olds will in all probability lead over time to more people contributing from age 16 (noting that auto-enrolment will not apply to 16- and 17-year-olds), and we briefly discuss this as part of this paper.

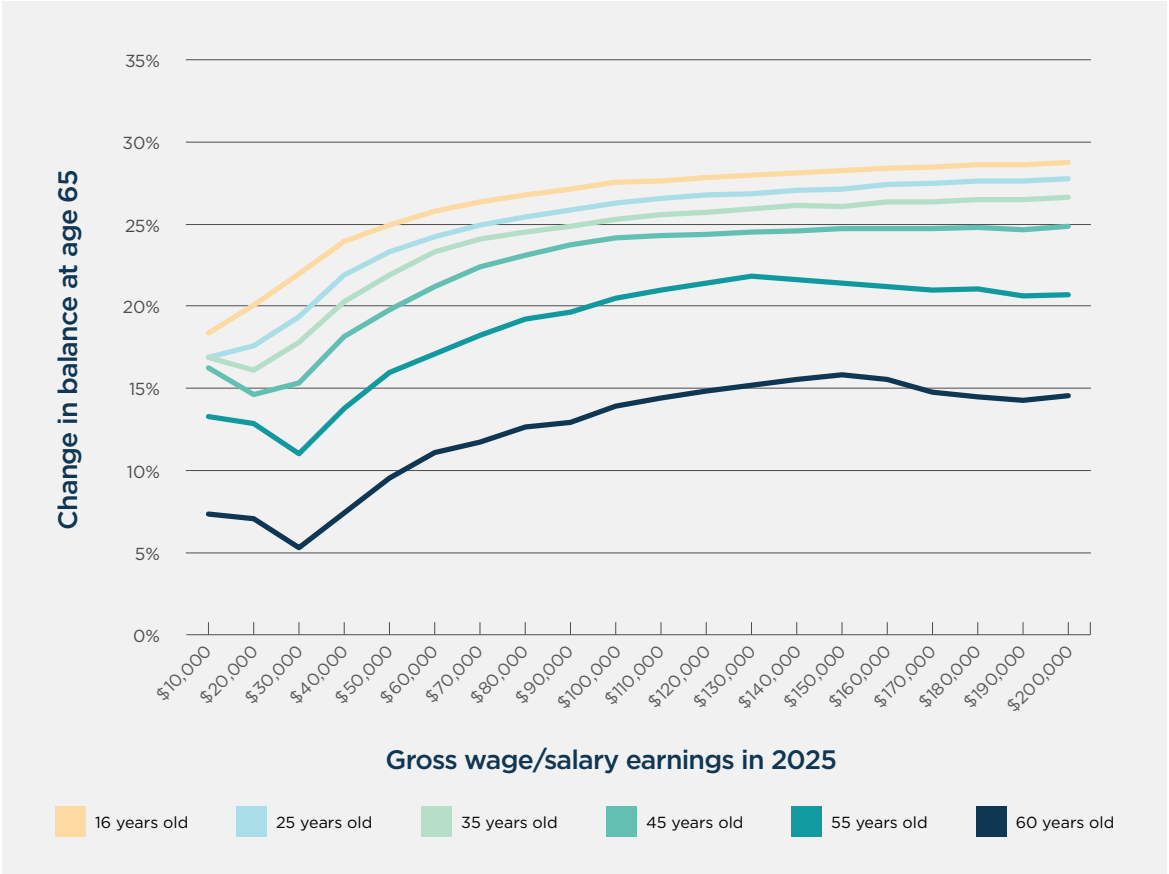
More details regarding the modelling are available in a separate technical appendix.

Salary and wage earners contributing 3% with a 3% employer contribution

This scenario is applicable to the majority (60%) of contributing KiwiSaver salary and wage earners (equating to approximately 1.2 million members).

Figure 1 shows how the net effect of the change is expected to affect members of varying ages and income levels when contributions increase for both the employer and employee from 3% to 4%, and the government contribution reduces.

Figure 1 – Percentage change in KiwiSaver balance at age 65 for members where contributions increase from 3% to 4%



Explanation of the graph: A person who is currently 35 years old and earning $10,000 joining KiwiSaver from 2025 could expect their retirement savings balance at age 65 to be about 17% higher than under the current settings, whereas a 35-year-old who is earning $200,000 joining KiwiSaver from 2025 could expect their balance at age 65 to be about 27% higher than under the current settings.

- The changes are generally positive for the eventual retirement savings balances of salary and wage earners who are currently contributing at 3% with an employer match of 3% as the benefit of the higher employer contribution offsets the decrease in the government contribution.

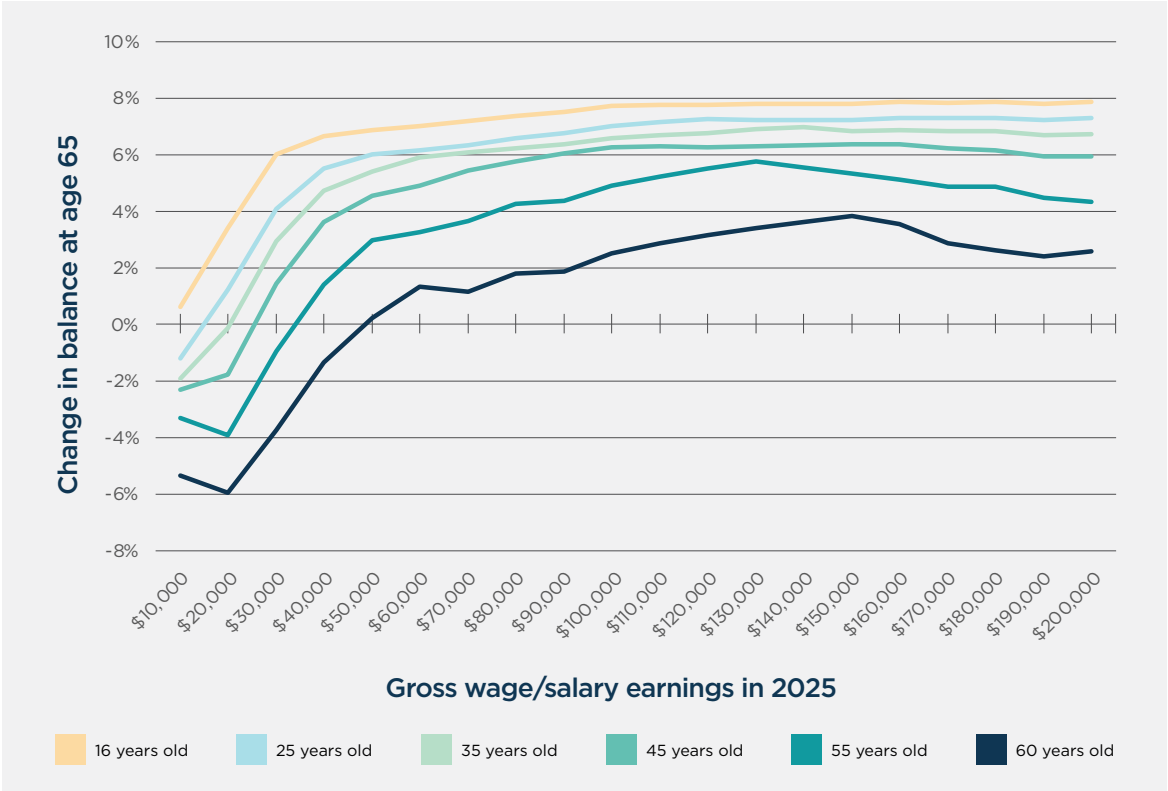
- The median earnings for this group are around $55,000.
- People closer to age 65 may see less of a benefit due to the sequencing of the changes, which see the government contribution reduced before the increase in employer contributions, and a shorter time period for the beneficial effects of earnings growth and compounding to be observed.[14]
- Note that the 16-year-old represented in Figure 1 is a currently contributing member that receives the matching employer contribution prior to the policy change.
  - The effect on 16- and 17-year-olds who intended to join at 18 prior to the policy change, who opt to join sooner due to earlier eligibility to employer and government contributions, has been considered. These members will have larger increases in eventual balances than reflected in Figure 1. For example, a 16-year-old earning $30,000 who is not currently contributing, but intended to begin contributions at 18 pre-change, is modelled to have about 26% more in additional savings between 2025 and age 65, compared to 22% for a currently contributing 16-year-old.

Salary and wage earners contributing 4% with a 3% employer contribution

This scenario is applicable to 31% of contributing KiwiSaver salary and wage earners (approximately 625,000 members).

Figure 2 shows how the net effect of the change is expected to affect members of varying age and income levels when contributions increase for the employer from 3% to 4% (with no change to the employee contribution as it is already at 4%) and the government contribution reduces.

Figure 2 - Percentage change in KiwiSaver balance at age 65 for members that contribute 4% whose employer contribution increases from 3% to 4%



14 The dips in the graph for those closer to age 65 are as a result of different income thresholds for receiving the maximum government contribution (between pre and post change) interacting with the stepwise increase to the full 1% increase in employer contribution.

Explanation of the graph: A person who is currently 35 years old and earning $10,000 joining KiwiSaver from 2025 could expect their retirement savings balance at age 65 to be about 2% lower than under the current settings, whereas a 35-year-old who is earning $200,000 joining KiwiSaver in 2025 could expect their balance at age 65 to be around 7% higher than under the current settings.

- While there is less upside for people who are already contributing at 4%, as their employer was only contributing at 3%, the majority of people in this group will still generally have higher retirement savings due to the increased employer contribution offsetting the decrease in government contribution.
- Again, members close to retirement may see less benefit due to the government contribution reduction occurring before the employer contribution reaches its new default of 4%.
- However, as shown in Figure 2, generally people on low incomes are modelled to have lower balances, compared to what would have been expected without the changes.
  - For this group, this is largely due to the reduction from the government contribution not being offset by the employer contribution as the taxation on the employer contribution reduces it to below the level where it would have offset the government contribution.[15]
  - However, two factors combine for members on lower incomes who are nearing age 65: the employer contribution not offsetting the reduction in the government contribution; and the sequencing of the changes.
  - While we don't have direct estimates for the age-by-income distribution of this group, we estimate that a plausible range for the number of members whose balances are modelled to be lower under the post-budget policy settings than would otherwise be the case is 57,000 – 63,000 members, of which 40-45% are aged 55 or older.
  - Contributing 16- and 17-year-olds are a special case in this group of people on low incomes. They are modelled to have a higher KiwiSaver balance at age 65 due to becoming eligible for the government contribution between the ages of 16 and 18. They gain enough from this to offset the sequencing of the change including the tax impact on the employer contribution.

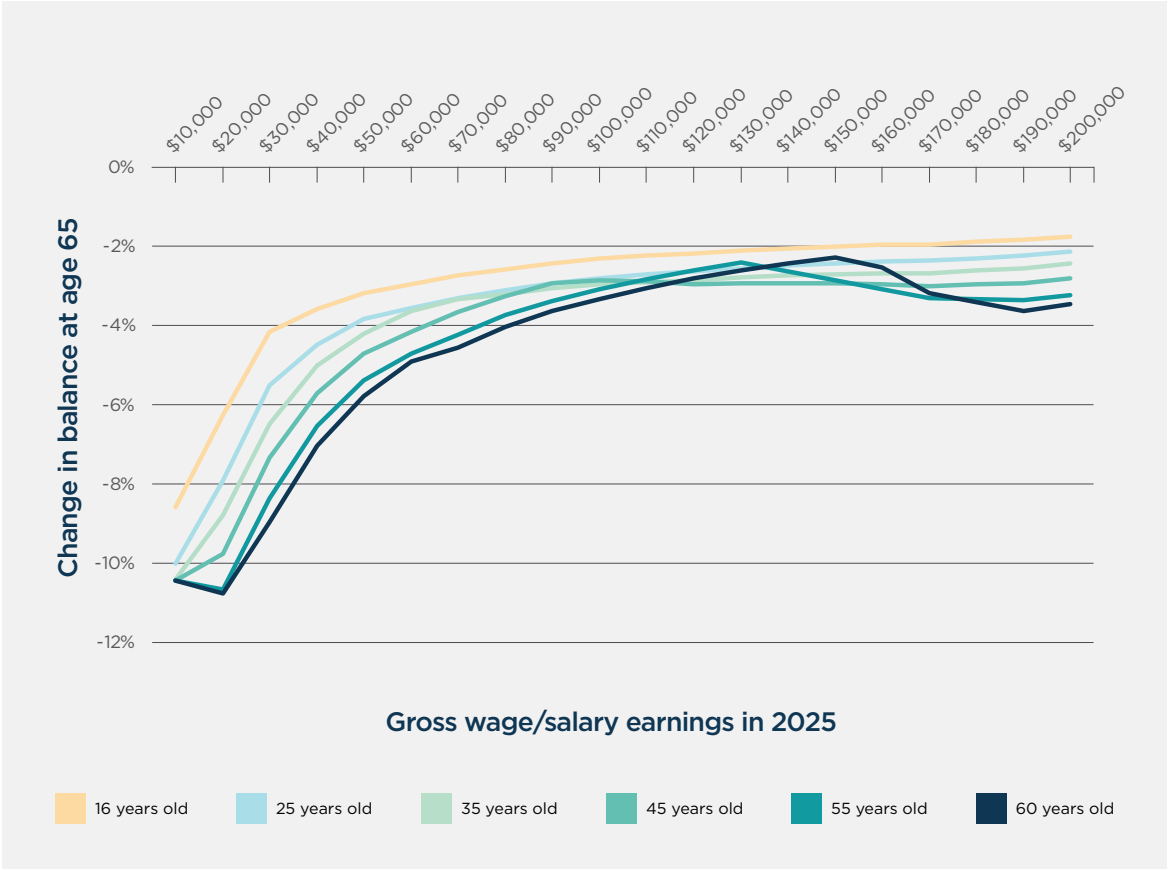
15 Employees in this group (4% employee, 3% employer contributions) have their government contribution reduce by 1 % of their gross earnings. The increase in employer contribution from 3 to 4% of gross earnings becomes 0.895% after tax, which is not enough to offset the reduction in government contribution of 1% of gross income.

Salary and wage earners contributing 4% with a 4% employer contribution

This scenario is applicable to about 6% of contributing KiwiSaver salary and wage earners (equating to approximately 120,000 members).

Figure 3 shows how the net effect of the change is expected to affect members of varying ages and income levels when there is no change to the contribution levels as both employers and employees are currently contributing at 4%, but the government contribution reduces.

Figure 3 - Percentage change in KiwiSaver balance at age 65 for members that have employer and employee contributions at 4%



Explanation of the graph: A person who is currently 35 years old and earning $10,000 joining KiwiSaver in 2025 could expect their retirement savings balance at age 65 to be about 10% lower than under the current settings, whereas a 35-year-old who is earning $200,000 joining KiwiSaver in 2025 could expect their balance at age 65 to be just over 2% lower than under the current settings.

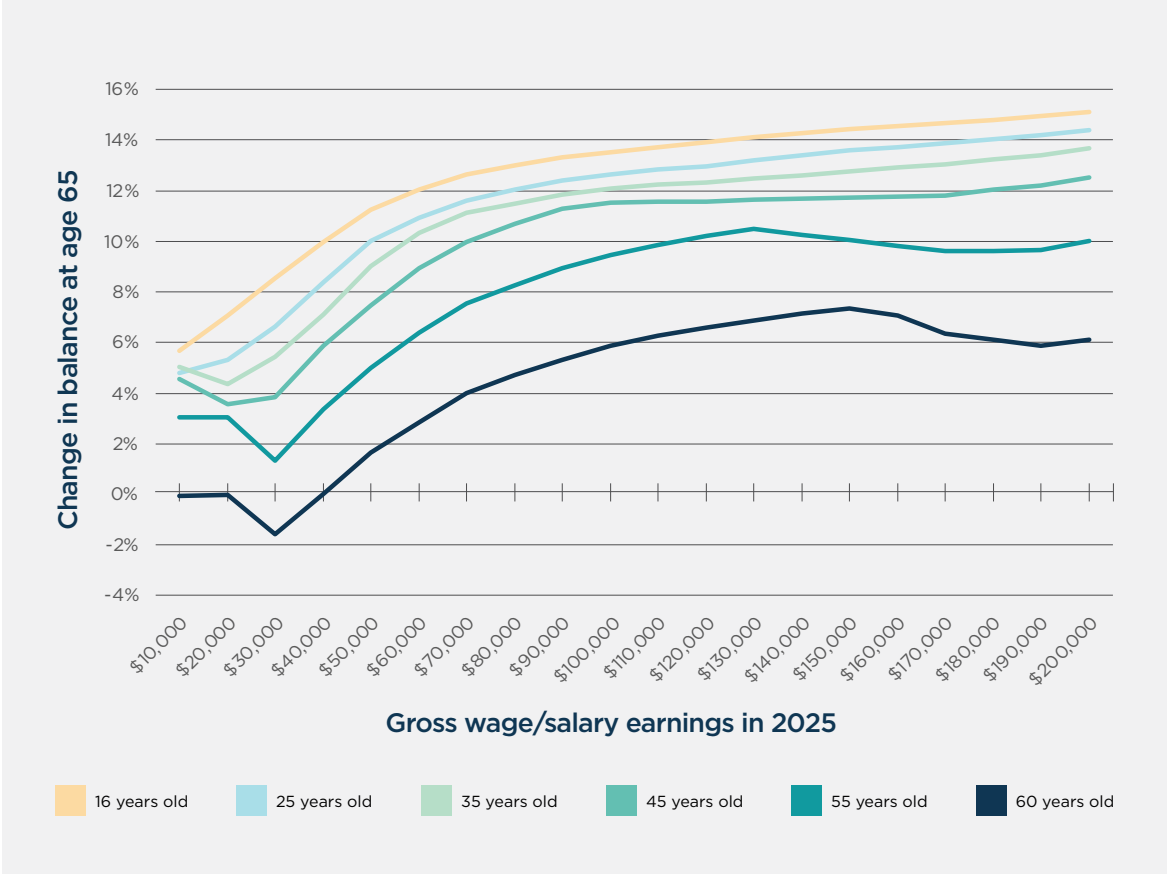
- People who already contribute at 4% with an employer match of 4% will generally have a lower balance at age 65 than they would have had if no settings had been changed as they experience a reduction in government contribution without any benefit from an increased employer contribution.

- The members in this group members tend to have higher incomes, with a median of around $75,000 (compared with $55,000 for the 3+3 group).
- Figure 3 illustrates that the reduction in retirement savings, relative to what would have been expected with no change, increases with age and decreases with income. Members aged over 45 who are earning less than around $50,000 are modelled to accumulate 5-10% less between 2025 and age 65 with Budget 2025 policy changes than would otherwise have been the case.
- However, there may be employers who decide to contribute above the new default of 4% which could offset the reduction that results from the lower government contribution.

Salary and wage earners contributing at 3% with a 4% employer contribution:

This scenario is applicable to 3% of KiwiSaver salary and wage earners (approximately 60,000 members).

Figure 4 – Percentage change in KiwiSaver balance at age 65 for members that have employer contributions at 4% and employee contributions increase from 3% to 4%



Explanation of the graph: A person who is currently 35 years old and earning $10,000 joining KiwiSaver in 2025 could expect their retirement savings balance at age 65 to be about 5% higher than under the current settings, whereas a 35-year-old who is earning $200,000 joining KiwiSaver in 2025 could expect their balance at age 65 to be just under 14% higher than under the current settings.

Generally, people contributing 3% whose employer contributes 4% will almost always be better off by the time they reach age 65. The exception is a very small group (fewer than 500 people) who are between age 59 and 65 who are modelled to have a slight reduction in retirement savings compared to what would have been expected without the changes. This is due to the sequencing of the changes, and the change in threshold for receiving the maximum government contribution.[16]

What is driving the change in eventual balances

To show the impact of the various elements of the Budget 2025 changes on eventual retirement savings balances, Figure 5 breaks down the change in accumulated balances at age 65 into employee, employer and government contributions across a range of ages, assuming an average income for each age. This figure shows the policy change relative to the case where employee and employer contribute 3%, the scenario that is applicable to approximately 60% of salary and wage earners.

Figure 5 – Breakdown of the change in KiwiSaver balance at age 65 for members where contributions increase from 3% to 4%

Explanation of the graph: A person who is currently 35 years old, with average earnings for their age, could expect their retirement savings balance at age 65 to be approximately $50,000 higher (in today's dollars) than under the current settings. This is the net effect of the higher accumulated totals for the employee contribution ($35,000 higher) and employer contribution ($24,000 higher), offset slightly by the lower accumulated total amount of the government contribution ($9,000 lower).

16 Members earning between $26,071 (new threshold for maximum government contribution if contributing 4%) and $34,762 (pre-change threshold for maximum government contribution if contributing 3%) have a relatively larger reduction in the government contribution, and it takes longer for the beneficial effect of higher employee contributions to offset this (in this case employers already contribute 4%). For members close to retirement, beneficial effects might not be realised, although the modelled balance compared with status quo is lower by no more than around $220 accumulated over 5 years in today's dollars.

- The change in the accumulated employee contribution generally makes up the bulk of the net increase in balance for members who increase their contributions from 3% to 4%.
- Although the change in the government contribution has the smallest effect in a relative sense, it will be felt more by members with low incomes and members who are closer to retirement.

Analysis of the distributional effect of the change to the government contribution

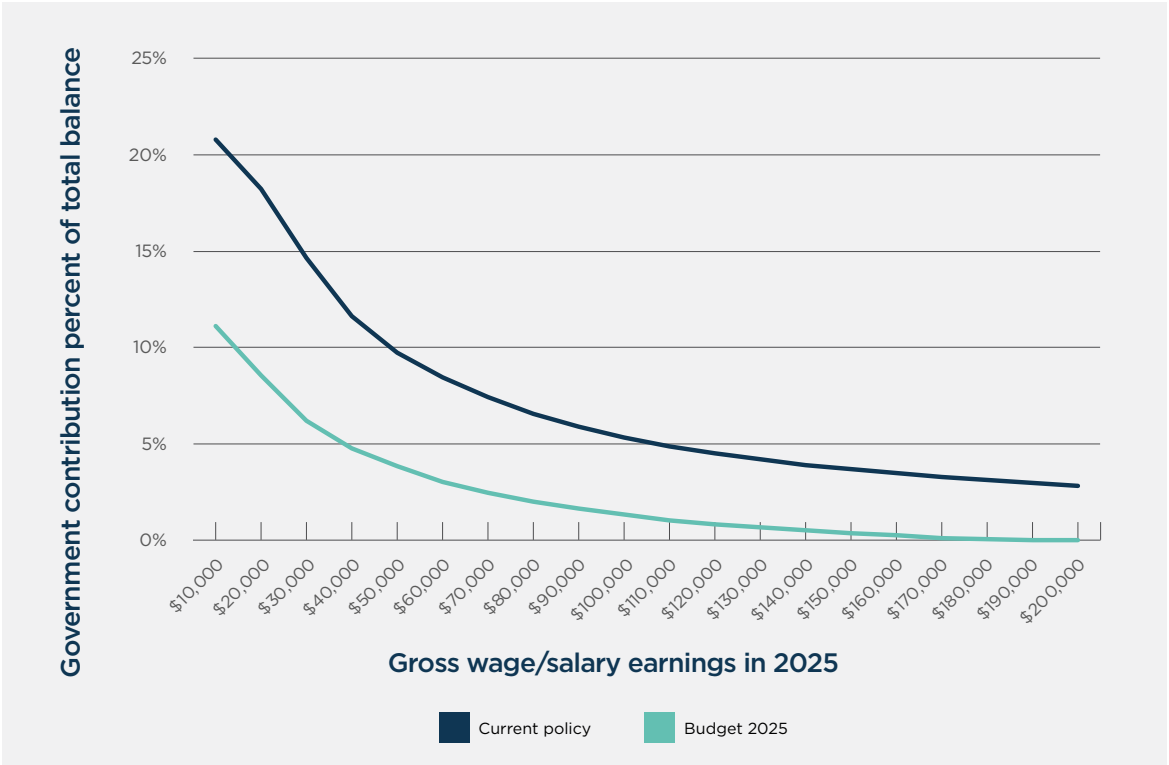
Under pre-Budget policy settings, the Government contribution accumulates to around $20,000 over 40 years (in today's dollars[17]) for anyone who contributes at least $1,042 per year.[18]

The reduction in the Government contribution is expected to reduce this to approximately $11,000, for a member earning $30,000 and to less than $5,000 for members earning $115,000 or more (in today's dollars). Members earning over $180,000 will no longer be entitled to the Government contribution.

Figure 6 compares the accumulated value of the Government contribution under current policy settings with Budget 2025.

- For members earning less than $30,000, the Government contribution is currently expected to accumulate, over a 40 year time-period, to 15-20% of total KiwiSaver balances at age 65. After the Budget 2025 policy change, this reduces to 6-11%.
- For members earning $100,000, the percentage point change is much smaller, with the government contribution reducing from 5% down to 1% of accumulated balance, and from 3% down to 0% for members with earnings of $180,000 (over the full 40 year time period).

Figure 6 – Government contribution as a percentage of total balance after 40 years



17 the nominal value is $44,000 in 2065

18 individuals earning $34,762 or more who make an employee contribution of 3% of their salary will generally contribute enough to receive the maximum government contribution

Analysis of the impact of the change on self-employed

In the absence of behavioural change, the impact of the policy change will reduce the retirement savings of self-employed KiwiSaver members compared to what would have been expected without the change, as they face the reduction in the government contribution with no increase in employer contributions to offset this.

Table 1 shows the accumulated value of KiwiSaver balances between 2025 and age 65 both pre and post Budget 2025 for six different ages in today's dollars.

Table 1 – Indicative effect on self-employed KiwiSaver members by age

		Pre-Budget 2025 policy			Budget 2025 policy				
Age	Self-employment earnings	Self-employed member contribution	Government contribution	Balance at 65	Self-employed member contribution	Government contribution	Balance at 65	Difference	Percentage difference
16	12,000	32,988	16,494	49,481	34,714	8,679	43,393	-6,089	-12%
25	44,000	40,618	20,309	60,927	40,618	10,154	50,772	-10,154	-17%
35	67,000	29,721	14,860	44,581	29,721	7,430	37,151	-7,430	-17%
45	78,000	19,847	9,924	29,771	19,847	4,962	24,809	-4,962	-17%
55	76,000	10,036	5,018	15,054	10,036	2,509	12,545	-2,509	-17%
60	75,000	5,065	2,533	7,598	5,065	1,266	6,331	-1,266	-17%

The modelling assumes that people generally contribute the minimum amount needed to receive the full government contribution, other than low-income earners who are assumed to contribute a maximum of 3% of their income if this is less than the threshold for receiving the maximum contribution. While we don't have detailed data on the characteristics of self-employed KiwiSaver members, there is unlikely to be much variability in how they are impacted by the policy change.

Regardless of age or earnings, the modelling confirms that the accumulated balance between 2025 and age 65 under the Budget 2025 policy settings will be about 17% lower than the pre-change balance.

Retirement adequacy – salary and wage earners

To obtain insights into potential replacement rates in a New Zealand context, the Commission commissioned MJW to build a retirement adequacy calculator model in 2024.[19] The model projects the accumulation of the KiwiSaver balance for a salary and wage earner from age 25 to age 65. It then calculates how long the final balance is expected to last from age 65 using different replacement rates and explicitly including New Zealand Superannuation (NZ Super) income as part of post age 65 retirement income.

The model was updated in May 2025 to take into account the changes to KiwiSaver settings announced in Budget 2025. Using specific replacement rates[20] for median, low, and high income earners[21] allows us to draw some broad conclusions regarding the impact of the changes to KiwiSaver settings for people who contribute under the current settings versus the new settings for an uninterrupted period of 40 years with no withdrawals:

For a median income salary and wage earner:

- Contributing at a 3% default rate, with a 3% employer match, a 70% replacement rate[22] could see KiwiSaver funds on average last for 13.7 years for men, and 22.8 years for women.[23]
- After the change to the settings in the Budget funds could potentially on average last 18.0 years for men, and 30.5 years for women.

For a low-income salary and wage earner

- NZ Super makes up a larger proportion of their post-retirement income, however the suggested replacement rate is higher than for a median income earner (80% versus 70%).
- On this basis contributing at a 3% contribution rate with a 3% employer match could see KiwiSaver funds on average last about 17.7 years from men and 43.9 years for women.
- After the change to the settings this time period is extended to 22.8 years for men and 56.9 years for women.

For a high-income salary and wage earner

- NZ Super will make up a smaller portion of their post-retirement income, however the suggested replacement rate is lower than for a median income earner (50% versus 70%).
- Contributing at a 3% contribution rate with a 3% employer match would see funds on average last for 18.5 years for men, and about 29.7 years for women.
- After the change to the settings extends this period to 24.7 years for men, and 40.6 years for women.

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19 Due to the nature of the model, including the assumptions made and simplifications required, it is important to acknowledge that this is very stylised analysis which is generic in nature. It does not relate to existing KiwiSaver balance data. It should be acknowledged that there are a wide range of circumstances affecting actual KiwiSaver members in the "real world". The model projects the accumulation of the KiwiSaver balance for an individual from age 25 to age 65 invested in a balanced portfolio. It then calculates how long the final balance is expected to last from age 65 for different levels of drawdown, while invested in a conservative portfolio. The model is stochastic in nature, with investment earnings generated randomly. This means that for each combination of parameters, many thousands of simulations are performed. The results are then aggregated and statistics such as the median and percentiles calculated. The output is particularly sensitive to assumptions with respect to future investment earnings. The model uses the MJW forward-looking capital markets model. These forecasts are arrived at considering the long-term characteristics of investment markets, calibrated to current market conditions. These forecasts differ from those used in the KiwiSaver projection assumptions, which were set in 2019 when interest rates were at very low levels. More details related to the original model are available here: MJW-2024-Retirement-Adequacy-Calculator.pdf

20 Further details regarding the replacement rates used in this analysis are covered in the following paper: KiwiSaver - Opportunities for Improvement

21 Assumed high income to be 1.5 times the median, and low income 2/3rds of median (see: Earnings and wages - Wage levels - OECD Data).

22 This replacement rate takes into account both NZ Super and drawdown from KiwiSaver, noting that NZ Super will continue to be paid beyond the age when KiwiSaver funds have been depleted.

23 Noting that for females the 70% spend rate is lower due to females' final year salaries being lower

In summary, the combined change (reducing the government contribution but an increase in employee and employer contributions) could see retirement funds lasting on average approximately 30% longer than under the current settings for salary and wage earners who contribute without interruption over a 40-year working life.

This modelling appears to indicate that for target replacement rates to be achieved for 20 to 30 years a contribution rate of 4% (with a 4% employer match) may be suitable for median income earners, whereas a 3% contribution rate may be more suited for low-income earners. People on higher incomes could arguably contribute at 3% if they are comfortable with a 50% replacement rate, however a higher contribution rate might make more sense if they anticipate higher expenditure in retirement.

Therefore, from a retirement adequacy perspective, the settings change that increases employee and employer rates to 4% each, with the option to reduce the employee rate to 3% if needed, appears to be appropriate. However, it needs to be noted that these scenarios assume uninterrupted contributions over a 40-year time period, which will not be the case for many individuals.

The original model also considered scenarios that include time out of paid work and first home withdrawals. As expected, time out of paid work, and first home withdrawals reduce the final balances, and therefore the number of years that these balances are expected to last in retirement.[24] The settings related to KiwiSaver contributions during paid parental leave can mitigate some of the impact of the reduction in balance related to periods out of paid work and is a focus of the work currently underway for the 2025 RRIP.

24 For more detail regarding these changes see page 31 of the KiwiSaver Opportunities for Improvement Report KiwiSaver - Opportunities for Improvement

Next steps: Mind the gap - our focus for the RRIP

Raising the KiwiSaver employee and employer contribution rates should generally result in better retirement outcomes for many salary and wage earners. The net effect of the change in the settings announced in Budget 2025 will improve the retirement savings of the majority of contributing KiwiSaver members.

However, there are some who may have lower retirement savings compared to what would have been expected if no changes were made. Gaps are likely to widen between people who are most incentivised to contribute to the KiwiSaver scheme and those who are not. Therefore, as part of the work that we are currently undertaking for the 2025 RRIP we will focus on understanding the gaps and recommending ways to reduce them.

This will include a focus on those who are less incentivised to contribute to KiwiSaver, such as the self-employed and people who are on total remuneration packages, and also a focus on limiting inequities created by workplace-based savings schemes by, for example, considering settings related to paid parental leave.

Appendix A:

Current performance of KiwiSaver[25]

Joining KiwiSaver

- KiwiSaver members totalled 3.39 million as at the end of March 2025.
- There are very high levels of KiwiSaver membership, more than 80% of people aged 18 to 65 are enrolled in the scheme, enrolment levels are especially high among younger cohorts (97% of those aged 25-34, and 95% of those aged 35-44 are KiwiSaver members).
- Many of the design features that encourage participation by self-employed exist in the current design of KiwiSaver.

Contributing to KiwiSaver

- Approximately 2.3 million made a contribution to KiwiSaver in 2024 and approximately 2.2 million met the eligibility requirements to receive either a full or partial government contribution.
- People contributing to KiwiSaver represent approximately 80% of the total population in paid employment.
- Approximately 90% of eligible paid employees (the main target of the scheme under its current settings) are contributing.
- A relatively low number of members (less than 5% of salary and wage earning members) are on a savings suspension with suspensions generally lasting less than a year.
- People who are not contributing are generally not in a position to do so. Three-quarters of those not contributing have incomes below $30,000. The median income for those who did not receive a government contribution in 2024 was around $4,000 for the year.

25 Extracts from KiwiSaver - Opportunities for Improvement with updates where applicable from IR KiwiSaver statistics and customised IR data requests

Withdrawals from KiwiSaver

Pre age 65 withdrawals

While KiwiSaver is primarily a retirement savings scheme allowing access for a first home deposit encourages younger people to participate and homeownership is associated with higher wellbeing in later life.

- From 2012 to 2024 a total of $9.7 billion has been withdrawn for first home purchases. This represents a very small portion of funds under management, with an average of 1.2% of total funds under management withdrawn each year.
- Only 1% of members on average have withdrawn funds for first home deposits each year over the past 13 years.

The significant financial hardship withdrawal process fulfils the legislative purpose of allowing access to funds in specific circumstances to meet immediate financial needs, but at the same time applying an intentionally high hurdle to ensure that financial wellbeing, particularly in retirement, is maintained where possible.

- The number of people withdrawing funds for financial hardship each year also represents a very small proportion of KiwiSaver members - an average of 0.5% over the past 13 years.
- Between 2012 and 2024 a total of $1.3 billion has been withdrawn for financial hardship. On average less than 0.2% of total funds under management has been withdrawn each year.

Post age 65 withdrawals

- People are retaining or opening accounts after age 65. More than 200,000 people aged 65 and over have KiwiSaver accounts (almost a quarter of all those aged over 65).
- KiwiSaver was established to help people save or ‘accumulate’. It is still a relatively new scheme so it may not be optimised to assist those who wish to drawdown or ‘decumulate’ their assets.

How the changes compare to our previous recommendations

We recommended a number of changes to KiwiSaver in our *KiwiSaver: opportunities for improvement* report released in 2024,[26] some of which have been adopted as part of the changes announced in Budget 2025. In particular, the increases to contribution rates, with an ability to opt to reduce to a lower rate aligns with our recommendation: "To encourage higher contributions, we recommend that the Government introduce a higher default contribution rate of at least 4% (with employer matching at this level), retaining the 3% contribution rate as the minimum contribution rate."

In addition, the changes go some way to address our recommendations relating to expanding those covered by the government contribution and employer contributions by extending eligibility to those aged 16 and 17 (our recommendation went further and suggested that employer contributions should also be extended to those over age 65).

The change to the government contribution does not align with our recommendations and we believe that cost savings could still have been achieved with a better targeted approach.

There are still a number of areas where we believe further changes are required to improve the KiwiSaver scheme, which we are considering as part of the 2025 Review of Retirement Income Policies (RRIP). This includes a focus on those who are less incentivised to contribute to KiwiSaver, such as the self-employed and those who are on total remuneration packages, and also a focus on limiting inequities created by workplace-based savings schemes by, for example, considering settings related to paid parental leave.

26 KiwiSaver - Opportunities for Improvement

Appendix B:

Key findings from our review of the distributional effects of the existing government contribution[27]

The government contribution cost $1 billion in 2024. On average over the past three years:

- 20% of the total contribution was paid to people with income below $40,000
- 40% of the total contribution was paid to people with income between $40,000 and $80,000
- 22% of the total contribution was paid to people with income between $80,000 and $120,000
- 15% of the total contribution was paid to people with income above $120,000

In 2024, two-thirds of KiwiSaver members received either a full or partial government contribution.

- 51% of KiwiSaver members received the full government contribution.
- 16% of members received a partial contribution (these members on average have lower incomes than those receiving the full government contribution)

About a third of members did not receive a contribution

- About 35% did not qualify as they are over 65 or under 18 years
- Eligible members not receiving a contribution had a median income of just over $4,000 per year.

Salary and wage earners are far more likely to benefit from the government contribution than the self-employed. 89% of the contribution is paid to employees and 7% to the self-employed

The contribution is largely gender neutral as on average men and women receive a similar government contribution

In regions where income levels are lower, and unemployment levels are higher, fewer members receive the full government contribution

The government contribution could account for around 20% of the total KiwiSaver balance accumulated over a working life for a low-income earner; about 10% for a median income earner; and less than 5% for high income earners.

27 https://assets.retirement.govt.nz/public/Uploads/Retirement-Income-Policy-Review/2025-RRIP/KiwiSaver-Government-Contribution-Distributional-Analysis-2025.pdf

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