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KiwiSaver: maturing well?

Abstract

KiwiSaver was the world's first national auto-enrolment savings scheme. It quickly became the prime vehicle for retirement saving in New Zealand. Questions over the level of participation, the number of members not contributing, and access to funds before retirement have largely been answered. Concerns now focus on whether and how KiwiSaver can provide sufficient retirement income as a supplement to New Zealand Superannuation. A greater focus on target outcomes and post-retirement planning is now needed for KiwiSaver to reach full maturity. Above all, there should be a more coherent solution for people asking, 'How much should I save?'

Keywords KiwiSaver, decumulation, drawdown, retirement income

Since its launch in 2007, KiwiSaver, the world's first national auto-enrolment scheme, has transformed savings in New Zealand. KiwiSaver now has over 3.3 million members and $111 billion in assets under management (Financial Markets Authority, 2024). Approximately 90% of eligible paid employees (the main target of the scheme under current settings) are actively contributing (Te Ara Ahunga Ora retirement Commission, 2024), which is a higher percentage of the working-age population than in the compulsory Australian schemes (OECD, 2024b). A KiwiSaver account can be the only account an individual needs to save throughout working life for a first home and for retirement.

Nearly 30 KiwiSaver providers are regulated by the Financial Markets Authority. These providers offer funds with different investment risk–return profiles and develop their own relationship with the customer. Costs are kept low through the simple scheme design of one brand, one Inland Revenue system, one KiwiSaver account per member, and straightforward contribution rules. Fees are regulated for six default providers, to which auto-enrolled members who do not choose a provider are allocated with equal probability.

Despite private pension provider assets in Australia and the UK being over 25 times larger than in New Zealand (OECD, 2024a), it is possible to invest in KiwiSaver at a comparable cost. The Retirement Commission's website Sorted shows three KiwiSaver balanced funds with the only charge being less than 0.3% of fund value per year, and many funds with total fees less than those charged by the largest Australian superannuation fund.

KiwiSaver is also low-cost for the taxpayer. KiwiSaver schemes have the same capped tax rate on investment returns as other managed collective schemes. The only extra incentive in KiwiSaver is that the government adds a maximum $5 a week (from July 2025). At around 0.1% of GDP in total, that costs the taxpayer an order of magnitude less than private pension incentives in other countries, with estimates for Australia and the UK at around 1.5%–2% of GDP (Retirement Income Interest Group, 2024b). This relative low cost is an important fact, often

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ignored in simplistic comparisons of the share of GDP spent on public pensions.

The matching employer contribution, compulsory for the minimum of 3% of members' gross pay up to the default of 4% from 2028, provides more of an incentive than the government match. Yet this is also relatively small compared with the situation in other countries, and employers may subsume it in total remuneration arrangements (Te Ara Ahunga Ora Retirement Commission, 2024).

Considering the low financial incentives, the high participation in KiwiSaver is especially impressive. Concerns over participation should be allayed by the detailed review of KiwiSaver outcomes by Te Ara Ahunga Ora Retirement Commission in June 2024 (ibid.). This showed low rates of access to funds before retirement, and suitable explanations for why members pause contributions or do not join KiwiSaver.

Only 1% of members on average withdraw funds for first-home deposits each year, and fewer withdraw for financial hardship reasons. Of the 1 million members not contributing, 0.1 million are on a savings suspension which will automatically end after a year, requiring an active request to prolong. The remainder have incomes lower than $20,000 per year, including approximately 0.2 million children. Many of these members may contribute more at other times, but after a lifetime of earning at this level, retirement income from the public pension (New Zealand Superannuation) will be commensurate. KiwiSaver was intended for 'individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement' (KiwiSaver Act 2006, s3(1)).

Te Ara Ahunga Ora Retirement Commission urged that settings and the simple architecture of KiwiSaver remain as current, while making recommendations to improve participation (such as for the self-employed or those on parental leave) and to ensure that employers' contributions cannot be reduced. These recommendations are an evolution of KiwiSaver, to ensure it keeps to its core purpose.

More fundamental are the recommendations in three key areas: sufficiency of savings, the post-retirement phase, and evidence-based policymaking. The questions 'How much should I save?' and 'What do I do with my money in retirement?' might seem basic to a retirement savings scheme, yet these are now the primary concerns in KiwiSaver policy.

This article examines the policy work needed to know how much is in KiwiSaver balances, what income that can safely translate to, and whether it is 'enough'.

Sufficiency – what is 'saving enough'?

It seems reasonable to suppose that in contributing to KiwiSaver, members would like to know how much they should be saving. However, communicating useful information for savers in different situations is difficult to do simply. There is no settled framework for how to do this in New Zealand, yet it is known that framing is important to nudge reluctant savers into reasonable choices (Bateman, Bell and Warren, 2025).

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To calculate a KiwiSaver account balance available at a future point, assumptions must be made, including future inflation, investment returns, and the amount and timing of contributions made. The future point of most interest from both personal and policy perspectives is usually when accumulation turns into decumulation: that is, when saving stops and the fund can turn into a source of income.

In New Zealand, the Ministry of Business, Innovation and Employment regulates the investment return assumptions that KiwiSaver providers must use for calculating what account balance savers' current contributions could grow to at age 65, the first age decumulation can start. This future projection of account balance must be illustrated in annual communications with the member. The regulations also require a standard calculation and communication of how much income the account balance could provide every year in a regular drawdown to age 90.

A regulated method used consistently across the market is helpful, even with debates about how suitable the standard assumptions are. It means that providers cannot create confusion by using different calculation approaches. A provider cannot claim competitive advantage by using an unlikely investment return to show an attractive projected savings balance, or to say that income in drawdown will last longer than that from a rival's fund.

It also means that savers see a similar communication every year from their provider. The presentation may differ, and the numbers will change over time, but the components of the information are repeated. This promotes an opportunity for improving financial understanding and should encourage KiwiSaver members to keep the savings habit going.

These communications would give additional reassurance to savers that they are on track for a reasonable target account balance and retirement income, if there were a settled view on these targets. However, there is not. Different methods and criteria for setting targets have not yet been widely scrutinised.

The most well-known method used to set savings targets in New Zealand is in the Retirement Expenditure Guidelines from Massey University's Financial Education and Research (Fin-Ed) Centre. These guidelines suggest that what current

retirees in the second and fourth income quintiles are spending (sourced from the Household Economic Survey) give a 'No Frills' or a more comfortable 'Choices' level of spending for future retirees.

Another method would be to calculate a target retirement income by adding up the cost of each item in hypothetical shopping baskets. This method is used to set savings guidelines, again at different levels of desirability, by savings industry associations in the UK and Australia.

A third method starts from the premise that people want total income in retirement that is a percentage of their income at the end of their working life. 'Replacement rates' quoted internationally range from 50% to 80% of final salary, with higher earners needing a lower rate (Te Ara Ahunga Ora Retirement Commission, 2024). The reduction from pre-retirement income recognises lower expenses in retirement.

These different methods all require many different assumptions and interpretations of data, which may not be evident to the user.

Commentary on the headline Retirement Expenditure Guidelines figures tends to present the option to target either a 'No Frills' retirement or a more comfortable way of life with 'Choices'. But this is not actually what the data shows. Because spending tends to decrease in real terms through retirement (Retirement Income Interest Group, 2024a), it is likely that the lower level is indicative of what older retirees are spending, and the higher level is disproportionately younger retirees' spend.

The hypothetical basket method holds promise, but is labour intensive. It requires regularly updated cost estimates for categories of retirees by age, buying preferences and region. Both of these first two methods also assume that what retirees are buying now needs only inflation adjustment to apply to future retirees.

The replacement rate method is a construct of historic norms of 'cliff-edge' retirement from a career of ever-increasing earnings, so needs careful application for people phasing retirement with part-time work. And because KiwiSaver is taxed differently than private savings in some other countries, international replacement rates need to be used with caution.

The results can confuse. For example, the Retirement Expenditure Guidelines suggest target balances from $48,000 to $271,000 across the two spending levels and regions of New Zealand for a single household (Matthews, 2025). A gross replacement rate approach on a median income suggests $605,000 if spending is assumed to inflate or $375,000 if not (Retirement Income Interest Group, 2024a). There are such large apparent differences in calculated targets because there are underlying method and assumption differences. Users will find it difficult to understand the implications of this.

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No consistent savings targets can be communicated in New Zealand because there is no consistent method, assumptions or criteria for targets widely enough accepted in the KiwiSaver ecosystem. This sits oddly with the Ministry of Business, Innovation and Employment regulations for how providers must calculate and communicate individual KiwiSaver illustrations. The benefits of trust, consistency and regular exposure for savers from regulated illustrations would surely apply to the question of savings targets and therefore help KiwiSaver members to save a reasonable amount.

KiwiSaver policymakers, regulators, providers, advisers, researchers and commentators could go some way towards achieving this aim. They would need to reach, by agreement or regulation, a settled view on a single framework and set of standard assumptions to calculate and communicate savings targets. The mathematics required to estimate a future balance, and what contributions are required to get there, already underpin the calculators available on providers' websites and on Sorted. Savers can customise their own inputs and try their own 'what ifs'. No change is proposed to the mechanics of these calculators, but rather to: the framing of the idea of savings targets; the method and criteria which define targets, making them more consistent; adopting a best practice approach to key assumptions (such as Actuaries Institute, 2023); and communication of outcomes.

What might this mean for target balances and contribution rates? Te Ara Ahunga Ora Retirement Commission (2024) used a gross replacement rate analysis to come to the recommendation that contributions should be encouraged from higher-income employees of at least 4% (with employer matching at this level), while the 3% contribution rate is retained as the minimum for those unable to contribute at higher levels. This proposal was accepted by the government and will be fully in place by 2028.

The 2025 triennial review of retirement income policies is an opportunity to test adequacy further from this level of contributions. In a forthcoming report, the Retirement Income Interest Group uses a tighter definition of replacement rate suited to New Zealand's tax system to test a range of life events and policy changes which may occur over 40+ years of making KiwiSaver contributions (Retirement Income Interest Group, 2025). This research observes that default contributions at 5% of pay, fully matched by employers, would provide better resilience against the uncertainties facing future savers and retirees than a matched 4% contribution.

New focus on decumulation

It is impossible to answer properly the question 'How much should I save?'

without considering 'What will I do with my money in retirement?' For example, the assumption on how spending reduces through retirement significantly lowers the target savings balance, and a KiwiSaver member content for savings to run out at age 85 needs a lower KiwiSaver balance than one who wants the same level of income never to run out and to leave an inheritance.

As people get closer to age 65, these options become even more pressing. Retirement is now imaginable, if not already a fact. Account balances become constrained, as there is not much time left to make up savings. People are no longer looking at targets, but at actual balances. Concepts not previously considered need to be understood. Capital will be drawn down, where before returns have accumulated and capital left untouched. The competing risks of taking too much from savings and running out of money too soon or taking too little and not enjoying retirement must be balanced.

The number of people newly facing these challenges is fast increasing. There were nearly 100,000 more New Zealanders aged 55–64 in 2024 than in 2015. It is now pressing to improve guidance on decumulation: that is, how to access funds in retirement.

In other countries, one option might be to buy an annuity, but no insurance company offers annuities in New Zealand. Annuities are an insurance product against living longer than expected, essentially guaranteeing an income for a period or for life. However, 'it will be difficult to develop a viable commercial market for lifetime guaranteed annuities at reasonable cost in New Zealand' (Retirement Income Interest Group, 2015). The reasons for this all relate to the small size of New Zealand. These include the limited availability of backing assets, the inability to pool longevity risk, and the high cost of marketing a product which is notoriously difficult to sell in other countries. For example, only 6% of Australian retirees take out an annuity product (Coates, Moloney and Suckling, 2025). Since the Retirement Income Interest Group's statement, New Zealand has had one company offer an annuity, only to withdraw it when regulatory capital demands increased (Lifetime Retirement Income, 2021). For the government to call market failure and facilitate an annuity would mean a cost on taxpayers for a benefit likely to be used disproportionately by higher wealth and longer living people, when New Zealand Superannuation already provides a guaranteed annuity for everyone.

Therefore, decumulation in New Zealand must be by drawing down funds from invested assets, and for most people that will likely be KiwiSaver. Property investment realised in retirement can also provide a drawdown income potential, with the proceeds of sale invested inside or outside KiwiSaver.

A drawdown framework should be more detailed and guidelines more personal than a savings framework because of two additional risks. First, volatility of investment returns is of real consequence in the time-bounded phase of drawdown. In the savings phase, target balances can be calculated ignoring volatility, as assuming a stable investment return is a valid approximation of actual returns over a long term. In drawdown, how much the account balance grows each year has a direct impact on either the level of income that can be taken each year or how long a regular drawdown income will last (sequencing risk).

Second, longevity risk assumes greater importance in later life. It is often misunderstood. It is not the risk of running out of money before you die, but rather the risk of running out of money earlier than intended in planning (Stallard, 2006). This allows the possibility of a deliberate plan for funds to run out on a fixed date, which will be acceptable to those willing to rely on New Zealand Superannuation for income until the end of life.

The difficulties of navigating drawdown are well known. William Sharpe won the Nobel Prize for Economics in 1990 for his work on the capital asset pricing model and the Sharpe ratio, which compares the return on an investment with its risk. Towards the end of his career, he famously said that helping individuals to decumulate their savings in retirement is 'the hardest problem I have ever worked on', because of the multiple dimensions and uncertainties involved (Sharpe and Litterman, 2014).

However, New Zealand is in an enviable position, with drawdown simpler than in other countries. Most people will have a single KiwiSaver account which follows the member through working life, so do not have to consider the multiple funds which people collect in other countries. Not having an annuity market allows focus on drawdown. Most importantly, KiwiSaver withdrawals are tax free and do not affect how much New Zealand Superannuation is payable. New Zealand has avoided drawdown being distorted by trying to game means-testing or tax rules. Current New Zealand policy settings minimise Sharpe's multiple dimensions and uncertainties.

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Moreover, New Zealand already has a drawdown framework aimed at helping people think about how to take income from their savings pot through retirement.

The New Zealand Society of Actuaries framework (Retirement Income Interest Group, 2023) recommends keeping a separate emergency fund, while earmarking an invested fund, probably KiwiSaver, for drawdown. The framework describes the advantages and disadvantages of different 'rules of thumb' for drawdown, and illustrates outcomes, showing the likelihood of how long income will last and whether money will run out before death. The four rules are designed to show the range of choices and risk considerations. They show annual drawdown options of 6% of initial fund, 4% of initial fund inflating the amount each year, running down the fund to a fixed date, and using life expectancy estimates to target exhausting the fund at death.

The aim of the framework is to help people think through unfamiliar concepts and determine which rule of thumb (or adaptation) to start to follow. Changes in personal situation or investment experience make regular review necessary and change of track possible. As such, it is a storyboard to help people navigate retirement, rather than a calculator which prioritises a single answer. It encourages people to understand the risks involved with each rule and test whether they are comfortable with what they imply.

This is consistent with UK analysis of retiree spending data over 50 years, which suggests that spending generally declines or is flat in real terms in retirement, but patterns vary according to individual characteristics and changing trends over time. Thus, a single default drawdown rule would not be suitable, but 'multiple defaults' may work (Garcia Lazaro, Kanabar and Webb, 2025).

Already, the New Zealand Society of Actuaries framework is operationalised as the Retirement Navigator on the Sorted website. The KiwiSaver ecosystem of policymakers, regulators, providers, advisers, researchers and commentators could adopt this as a settled single framework, with the same benefits as discussed in the previous section for the savings phase. Eventually, KiwiSaver providers could be required to offer 'guided retirement solutions' as in Australia and recently proposed in the UK. Doing so offers the potential to frame how much saving is needed consistently across the lifetime, through working life to the point of retirement and thereafter. The accumulation and decumulation phases would be considered as a coherent whole.

Market innovation might develop longevity risk insurance products as KiwiSaver grows. Lessons are available, especially as Australia slowly develops its decumulation practice. Until then, New Zealand Superannuation plus drawdown will be the only option for most New Zealanders. This is reinforced when data on the distribution of KiwiSaver balances across the population is understood.

Importance of evidence-based policymaking

While KiwiSaver members ask, 'How much should I save?' and 'What will I do with my money in retirement?', policymakers would ask, 'How are KiwiSaver outcomes looking?' Unfortunately, the evidence required to answer that fully is not easily available.

Every year, aggregate KiwiSaver assets and average balances by age and gender are reported through the Financial Markets Authority and Inland Revenue. Te Ara Ahunga Ora Retirement Commission goes further by publishing average balances by age bands. However, more granular research based on a dataset of over 450,000 account balances for members aged 45 and over showed that we must look beyond the average to a distributional analysis. This research (Retirement Income Interest Group, 2022a) showed that KiwiSaver comprises many small balances and a 'tail' of large balances, with some very large, multi-million-dollar balances beyond the 95th percentile.

The shape of this distribution makes the average a poor summary indicator. The median balance for members aged 45–64 was around a third lower than the average: $34,294 versus $51,494 for men and $26,897 versus $37,853 for women. Commentary and policy decisions based on averages give undue weight to some very large balances, while not credibly representing the majority who have small non-zero balances.

Granular account data can explore correlations between account size and other factors. For example, the dataset revealed that women take the same level of investment risk as men for the same account balance. Women are not missing out on higher investment returns because of greater risk aversion, but because of smaller balances, for which high-risk investments are less suitable.

Projections based on the actual distribution of KiwiSaver balances allow estimates of the future distribution assets available for drawdown. Three-quarters of contributing KiwiSaver members aged 45 in 2021 were estimated to be heading for less than $250,000 in their KiwiSaver balance when they reached age 65. Older members would have even less (Retirement Income Interest Group, 2022b). This means that for the next 20 years, most New Zealanders reaching age 65 will have modest balances in their KiwiSaver account. It was estimated in 2024 that only around 10% of contributing KiwiSaver members aged 50, and around 15% of contributing KiwiSaver members aged 45 looked likely to reach a balance of $375,000 at age 65, which is a replacement rate benchmark for a median earner allowing for real spending reduction through retirement (Retirement Income Interest Group, 2024a). The planned increase to default contribution rates from 3% to 4%, if acted on, will

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improve outcomes, but will not make significant inroads in the 20-year time span.

This data tells policymakers about actual retirement income adequacy and allows estimates of future adequacy. This is important to understand which New Zealanders will not need New Zealand Superannuation for income (at least at some point in their retirement) and how many are likely to find it worthwhile to pay for personal financial advice. The answer to both these questions is 'few'. This means New Zealand Superannuation reform would be widely painful and the demand for generic drawdown guidance will be high.

These estimates are available only because of an analysis combining account data from six providers. It is the best available reflection of the reality in the distribution of KiwiSaver amounts and potential available. As the insights available only from such granular work are vital for understanding KiwiSaver outcomes and making policy, ideally such analysis would be repeated across the whole market every few years.

Conclusion: how well is KiwiSaver maturing?

KiwiSaver works, and we do not need to question its existence. Policy discourse is all about changes to the existing scheme.

Most KiwiSaver balances are helpful, but modest. KiwiSaver cannot replace New Zealand Superannuation; nor does it need to in a balanced system with both public and private sources of retirement income. But the question remains of the most suitable level of KiwiSaver contributions for individuals of varying life situations, with what target outcomes.

In making any case for higher contributions, policymakers should state a clear target, not for macroeconomic reasons but for what it means for individual saving. A target account balance depends on a KiwiSaver member's contribution rates over their working life and enables possible drawdown income in later life. Intelligent framing of the fundamental question 'How much should I save?' therefore provides opportunities to help savers understand both accumulation and decumulation phases consistently.

Further, any policy change should reflect the actual distribution of KiwiSaver balances today and likely future outcomes. Current available data is not sufficient for this task and ways to fill the data gaps should be explored.

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