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Distributional Impact of New Zealand Budget 2025 KiwiSaver Changes

Abstract

Changes to the KiwiSaver scheme were 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 and should generally lead to higher KiwiSaver retirement savings for salary and wage earners. However, another change, the decrease in the government contribution, will mean that (absent 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 will also tend to be affected 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 could 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. Improving the targeting of the remaining funds for the government contribution could potentially improve the retirement outcomes for this 20% of members, but further work is required to determine the best approach. A broader issue that remains unaddressed is determining the optimal government incentive for a scheme designed to encourage private retirement savings, within the context of the entire retirement income system, which includes both private savings and New Zealand Superannuation.

Keywords KiwiSaver, retirement savings, defaults, contribution rates

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KiwiSaver is a voluntary, opt-out, portable retirement savings scheme which 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 the scheme. KiwiSaver is a very popular scheme, with very high enrolment levels and the vast majority of people in paid employment actively contributing (Te Ara Ahunga Ora Retirement Commission, 2024).

The following changes to KiwiSaver settings were announced in Budget 2025 (New Zealand Government, 2025):

- 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 is introduced, 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.[1]
- The government contribution matching rate is reduced to 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 (they will not be auto-enrolled; the age for auto-enrolment remains at 18).
- 16- and 17-year-olds become eligible for the government contribution from the year commencing 1 July 2025.

The aim of this article is to understand the potential impact of Budget 2025 changes on KiwiSaver retirement savings for different groups of members, focusing on income type, age and income level.

Approach followed in this article

There are approximately 3.4 million KiwiSaver members (Inland Revenue, 2025). Contributing members who received an employer and a government contribution or only a government contribution totalled approximately 2.2 million in 2024 (Reyers and Mawson, 2025). This provides an estimate of the group expected to be affected by the changes (referred to in this article as 'contributing 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 changes in the Budget could increase KiwiSaver retirement savings for around 80% of currently contributing KiwiSaver members

The analysis in this article does not account for any possible changes in saving behaviour resulting from the policy changes. The effects of the policy changes on non-contributing members are also not considered.[2] Finally, while salary and wage earners may find that the increase to the employer contribution is absorbed by wage growth over time,[3] modelling of this impact is beyond the scope of the current article. However, these are all areas that should be monitored and evaluated over time to guide future policy decisions.

The data used in this article has been sourced from Inland Revenue KiwiSaver statistics (Inland Revenue, 2025), customised requests from Inland Revenue,[4] and an analysis of Integrated Data Infrastructure (IDI) data.[5]

Distributional impact of the changes

The impact of the changes 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).

Impact on salary and wage earners

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 income bands and ages (from 16 to 65).[6]

The net impact 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% (Kirkpatrick et al., 2024). This means there are four main groups of KiwiSaver members who will be affected 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%.

The distributional results are based on a model that uses the same base assumptions as the Sorted KiwiSaver calculator (Te Ara Ahunga Ora Retirement Commission, n.d.), 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 in Figures 1–4 show the percentage change in the balance accumulated since 2025: this 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). All scenarios assume a balanced portfolio (the current default portfolio), and balances are reflected at age 65. The changes are

sequenced to align with the timing announced by the government.

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) (Reyers, Meehan and Kirkpatrick, 2025). The new incentives for 16- and 17-year-olds will in all probability lead to more people contributing from age 16 over time, and we briefly discuss this as part of this article.

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 (approximately 1.2 million members). The median earnings for this group are around $55,000.

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. For example, 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. People closer to age 65 may see less of a benefit due to the sequencing of the changes, which sees 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.[7]

Note that the 16-year-old represented in Figure 1 is a currently contributing member who 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, but who opt to join sooner due to earlier eligibility for 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.

Figure 1: Percentage change in KiwiSaver balance at age 65 for members where both employee and employer contributions increase from 3% to 4%

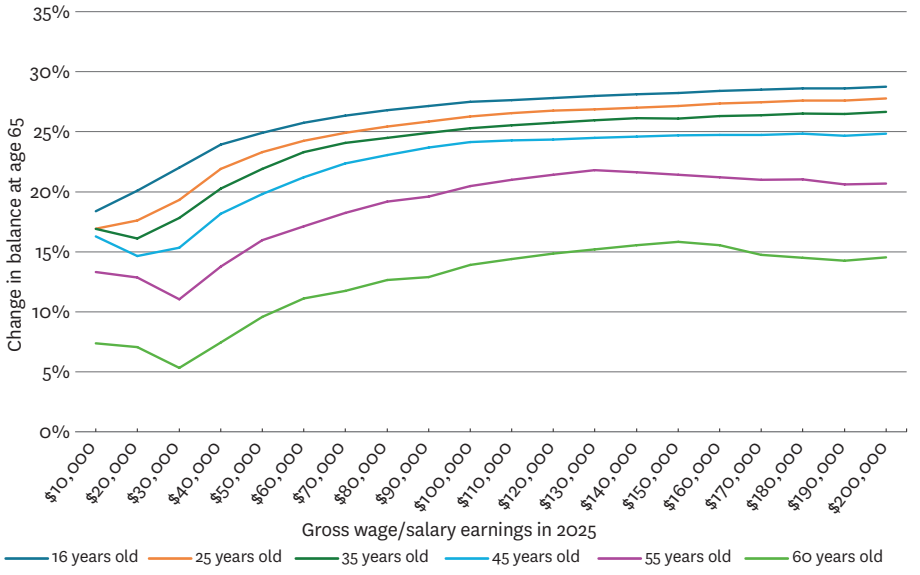
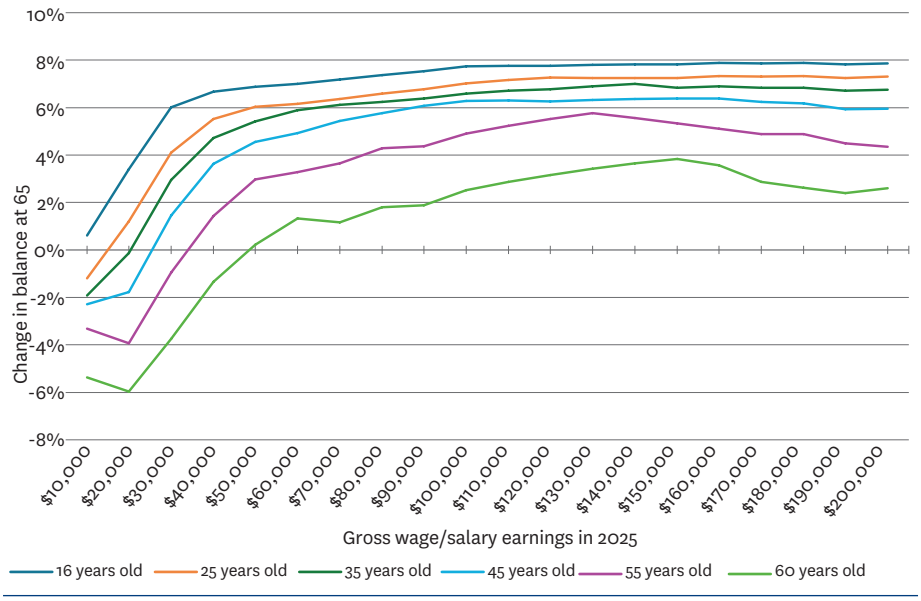


Figure 2: Percentage change in KiwiSaver balance at age 65 for members who contribute 4% whose employer contribution increases from 3% to 4%



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.

While there is less of an 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 the

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 with 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.[8] 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 whom 40–45% are aged 55 or older.

Contributing 16-year-olds are a special case in this group of people on low incomes. Becoming eligible for the government contribution results in a positive effect in the first two years, which is enough to offset the net negative effect in later years.

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). The members in this group tend to have higher incomes, with a median of around $75,000 (compared with $55,000 for the 3%+3% group).

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.

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 the government contribution without any benefit from an increased employer contribution.

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).

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

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

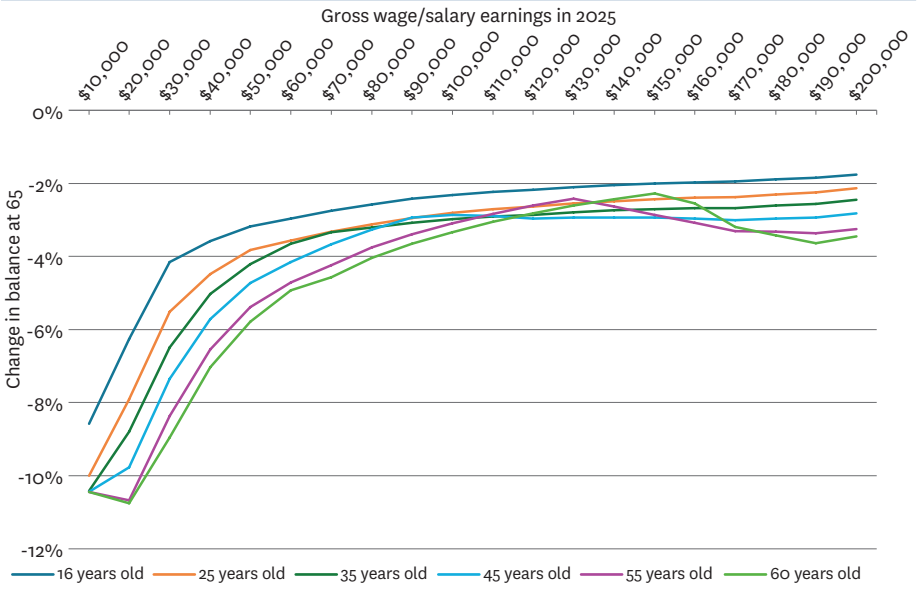


Figure 4: Percentage change in KiwiSaver balance at age 65 for members who have employer contributions at 4% and employee contributions at 3%

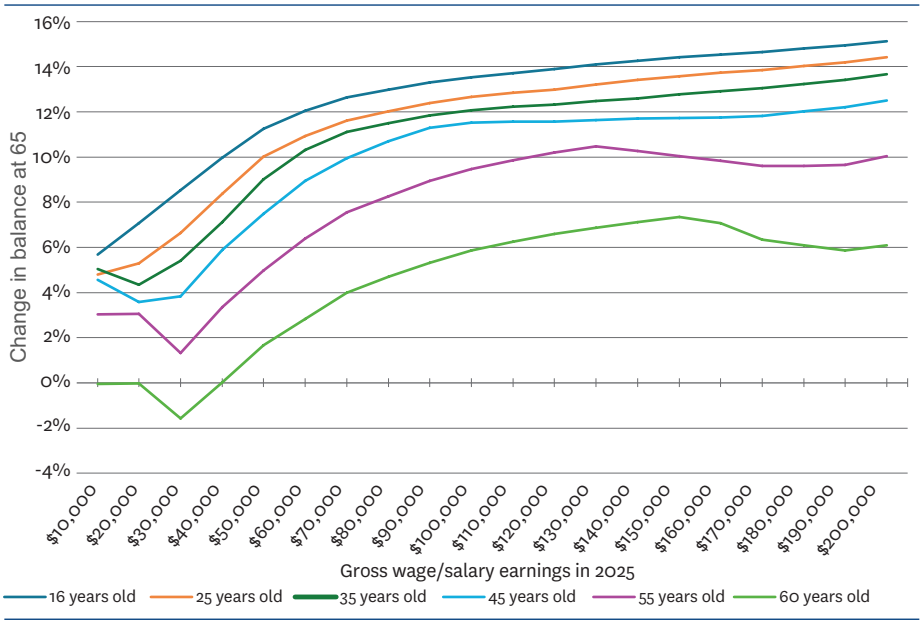


Figure 5: Breakdown of the change in KiwiSaver balance at age 65 for members where employer and employee contributions increase from 3% to 4%

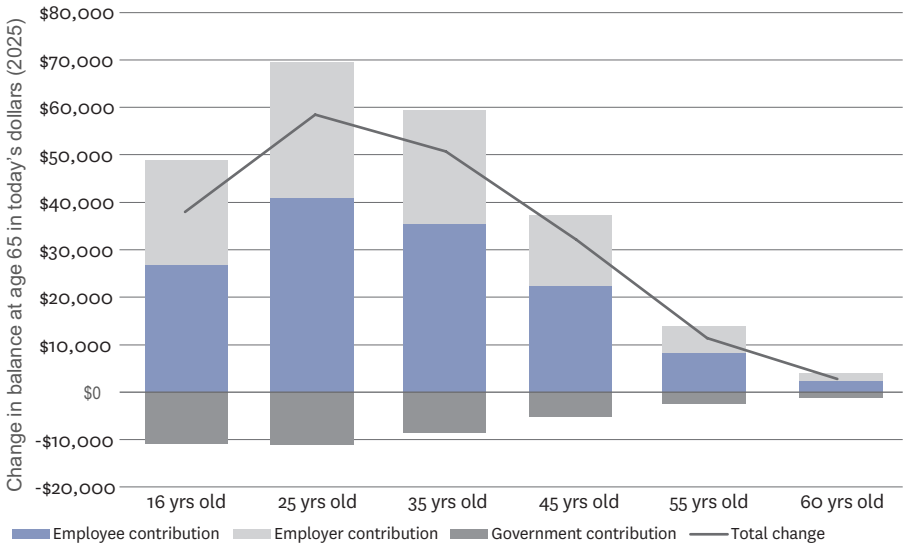
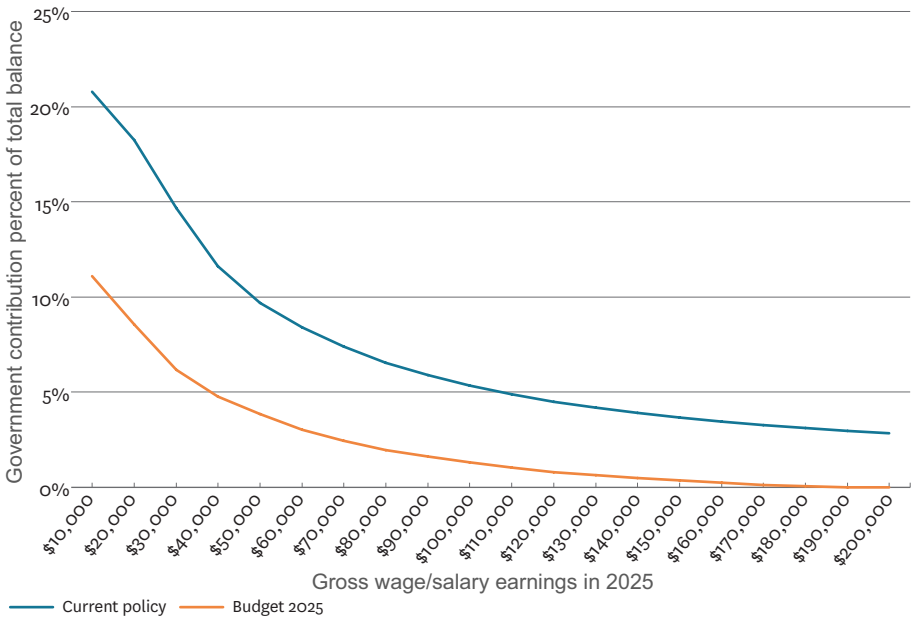


Figure 6: Government contribution as a percentage of total balance after 40 years



to the sequencing of the changes, and the change in the threshold for receiving the maximum government contribution.[9]

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 employees and employers contribute 3%, the scenario that is applicable to approximately 60% of salary and wage earners.

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).

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

The government spent $1 billion on the KiwiSaver government contribution in 2024. The changes proposed to the contribution could potentially halve this cost.[10]

Under pre-Budget policy settings, the contribution accumulates to around $20,000 over 40 years (in today's dollars)[11] for anyone who contributes at least $1,042 per year.[12] The reduction in the 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 contribution.

Figure 6 compares the accumulated value of the contribution under current policy settings with Budget 2025. For members earning less than $30,000, the 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 (over the full 40-year time period); for members with earnings of $180,000 it reduces from 3% down to 0%.

For a full analysis of the distribution of the government contribution prior to the Budget changes, see Reyers and Mawson (2025).

Analysis of the impact of the change on self-employed

In the absence of behavioural change,[13] 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. The modelling assumes that people generally

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

		Pre-Budget 2025 policy			Budget 2025 policy			Difference	
Age	Self-employment earnings	Self-employed member contribution	Government contribution	Balance at 65	Self-employed member contribution	Government contribution	Balance at 65	$	%
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%

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 affected 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.

Summary of findings

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).

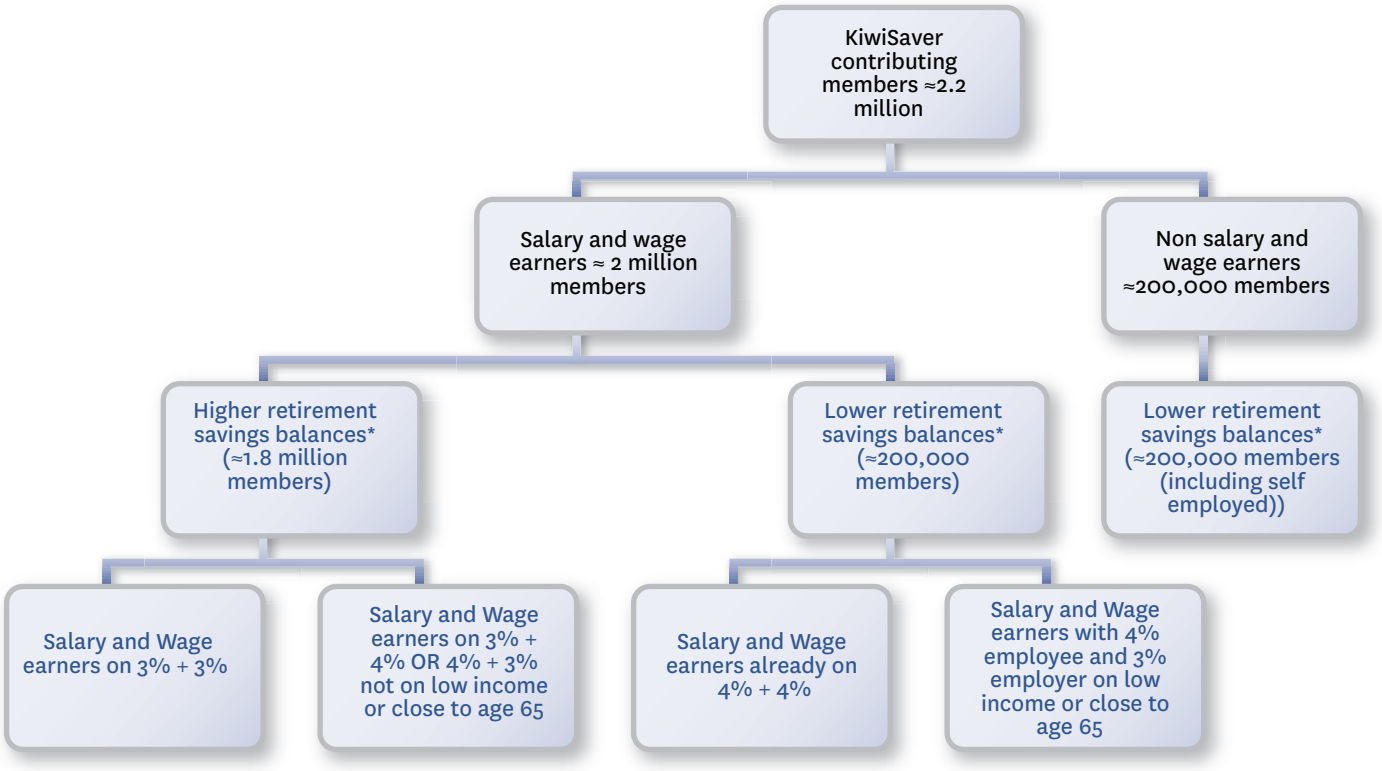
Ninety per cent of salary and wage earners (approximately 1.8 million members) are expected to have higher eventual KiwiSaver retirement savings balances. Generally, both low- and high-income earners will benefit from the change, but low-income earners are affected more than higher-income earners by the decrease in the 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 receive only 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

Figure 7: Overview of the potential impact of the net effect of Budget 2025 KiwiSaver changes compared with 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

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.

Therefore, as shown in Figure 7, the net effect of the changes will be to increase KiwiSaver retirement savings for about 80% of contributing members and decrease KiwiSaver retirement savings for about 20% of contributing members compared to what would have been expected without the changes.

Conclusion

The net effect of the change in the settings announced in Budget 2025 should generally result in better retirement outcomes for 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.

The increase in contributions to KiwiSaver strengthens the role of save-as-you-go within the New Zealand retirement income system, where a greater share of retiree incomes will in future be funded by savings accumulated over people's working lives. However, this makes retirement incomes more closely linked to lifetime earnings, which could perpetuate inequalities (Katz, 2025). Further work is required to determine what can be done to limit the resulting gaps; this could include assessing how the remaining government incentive can be used in a more targeted way to reduce gaps in coverage in an effort to minimise the resulting inequalities.

1 The increases in contribution rates to 4%, with an ability to opt to reduce to a lower rate of 3%, aligns with the Retirement Commission's 2024 recommendation (Te Ara Ahunga Ora Retirement Commission, 2024).

2 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 (Reyers and Mawson, 2025).

3 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 (Katz, 2024).

4 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.

5 IDI research was conducted by the New Zealand Policy Research Institute at Auckland University of Technology on behalf of Te Ara Ahunga Ora Retirement Commission. Disclaimer: These results are not official statistics. They have been created for research purposes from the Integrated Data Infrastructure (IDI), which is carefully managed by Statistics New Zealand. For more information about the IDI, please visit https://www.stats.govt.nz/integrated-data/. The results are based in part on tax data supplied by Inland Revenue to Statistics New Zealand 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.

6 The impact on those over the age of 65 is not considered in this article. Employer contributions are not mandatory for this group; however, some salary and wage earners over the age of 65 do receive an employer contribution, and employers might decide to increase contributions for this group too, which could result in larger retirement savings balances.

7 The dips in the graph for those closer to age 65 are 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 the employer contribution.

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

9 Members earning between $26,071 (the new threshold for the 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 the status quo is lower by no more than around $220 accumulated over five years in today's dollars.

10 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.

11 The nominal value is $44,000 in 2065.

12 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

13 There is some evidence that the default rate influences the contribution rate for the self-employed, so the new, higher default rate might result in the self-employed also starting to contribute at a higher rate. This is an area for future research.

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