Te Kura Kāwanatanga – School of Government, Te Herenga Waka – Victoria University of Wellington

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SPECIAL ISSUE

Retirement Income Policy

Te Kura Kāwanatanga – School of Government, Te Herenga Waka – Victoria University of Wellington

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Foreword

Twelve years ago, *Policy Quarterly* published a special issue on long-term fiscal planning. It asked questions about sustainability, fairness, and how to prepare for an ageing population, including the future costs of NZ Super. This year, we return to these questions with new data and perspectives.

Some things have changed. Others have not. As retirement commissioner, I see first-hand how retirement is evolving. Fewer older New Zealanders own their homes. More are renting, often with less security and higher costs. Work patterns are changing too. Half of those aged 65–69 remain in paid employment. Some choose to stay on, while others do so out of necessity. The self-employed make up a growing share of the labour market.

And our population continues to age. Soon, more than a million New Zealanders will be over 65.

That is why evidence and research matter. At Te Ara Ahunga Ora Retirement Commission, we are drawing on the insights in this issue of *Policy Quarterly* as part of our 2025 review of retirement income policies. This will help us ensure that the retirement income system works for all New Zealanders, both now and in the future.

Jane Wrightson
Retirement Commissioner

Editorial

This issue of *Policy Quarterly* brings together research that helps us understand how retirement is evolving and how policy might respond.

We begin with a look at recent data. Meghan Stephens, Michael Eglinton and Fergus Cleveland from the Treasury show how demographic and economic trends are reshaping the realities of retirement incomes. They highlight the growing diversity of the over-65 population.

Then we look forward. Adrian Katz considers how Aotearoa New Zealand will look in 2050 and how retirement income policy may need to adapt. He argues that we need to move towards a more savings-based approach. His message is clear: if we plan now, future changes will be easier. Eliana Heo takes an even longer view. She writes as a young New Zealander thinking about the year 2100. She urges action now to give future generations more space to make choices. She calls for earlier saving, higher contributions and smarter investing.

We also look overseas. Suzy Morrissey compares the UK pension system with ours. She highlights what is working well in the UK and what is changing. Her article helps us think about how New Zealand may draw lessons from overseas.

Turning to KiwiSaver, Alison O'Connell says the scheme is working. It is low-cost, widely used, and helping people save. But she also sees room for improvement. She calls for better advice, better post-retirement support and better data. Michelle Reyers and Katy Mawson look at the impact on KiwiSaver of Budget 2025. Their research shows that most KiwiSaver members will benefit: about 80% will have more savings that last longer. But with current settings, 20% will save less. That leads us to the next set of articles, which focus on closing retirement income gaps.

There is a gender-related gap in savings. EeMun Chen and Sarah Baddeley explore how women's working lives affect their retirement outcomes. They identify six key stages where policy could help. Their ideas on parental leave are especially important.

Another gap is based on ethnicity. Catherine Leonard and Anne Hynds share lessons from the Ngāi Tahu Whai Rawa and Ka Uruora WhānauSaver schemes. These are innovative, strengths-based solutions that centre mana motuhake and support intergenerational wellbeing.

We also revisit NZ Super. Susan St John asks whether it should be income-tested. She argues that while phrases like 'NZ Super is unaffordable' are not helpful, they reflect real concerns. Her article urges us to think about how we balance pension spending with other needs, such as aged care, education and climate action.

Together, these articles provide valuable insights on retirement income policy. They show we are in a strong position. Our system is simple, inclusive and relatively low-cost. But as our population ages and retirement needs become more diverse, the system must evolve. And early, well-signalled changes would allow for smoother transitions and fairer outcomes.

Many of the issues explored in this issue of *Policy Quarterly* are not new. But the thinking contained in these pages can help us see them with fresh eyes, returning to old ground with new insight. As T.S. Eliot said, 'the end of all our exploring will be to arrive where we started and know the place for the first time'.

Patrick Nolan and Michelle Reyers
Guest Editors

Patrick Nolan is director of policy and research and **Michelle Reyers** is policy lead at Te Ara Ahunga Ora Retirement Commission.

Meghan Stephens, Michael Eglinton
and Fergus Cleveland

Understanding Retirement Income in New Zealand

insights from microdata and modelling

Abstract

This article brings together recent work from the New Zealand Treasury using microdata and microsimulation modelling to examine retirement incomes through four key lenses: intergenerational dynamics, income diversity, retirement transitions and work incentives.[1] It highlights how demographic, behavioural and economic changes are reshaping retirement realities in New Zealand, and explores how policy design interacts with people's lived experiences as they age.

Keywords retirement income, New Zealand Superannuation, microdata, microsimulation modelling, intergenerational dynamics, income diversity, retirement transitions, work incentives, demographic change, labour force participation

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New Zealand's retirement income framework assumes that New Zealanders will build retirement security through a combination of universal New Zealand Superannuation (NZS) provision, housing wealth and private saving (including KiwiSaver). Over the last few decades, there have been substantial changes in how people live as they approach 65 and then continue on into later life. Retirement incomes are increasingly supplemented by continued labour force participation. People aged over 65 are also increasingly diverse in their employment status, living arrangements and economic circumstances.

This article brings together a range of work from the New Zealand Treasury using microdata and microsimulation modelling to examine retirement incomes through four key lenses: intergenerational dynamics, income diversity, retirement transitions and work incentives. Given the summary nature of the article, we encourage readers to consult the original research and supporting references for more detailed analysis.

Key insights

This article explores how behavioural, demographic and economic dynamics are reshaping the realities of retirement incomes in New Zealand. Drawing on recent microdata analysis and modelling, four core insights emerge.

The fiscal footprint: intergenerational dynamics

New Zealand Superannuation creates substantial net fiscal transfers to seniors.

Treasury's fiscal incidence analysis reveals that seniors are significant net recipients of government spending, with the 65–79 age group receiving over $8 billion more than they pay in taxes and the 80+ group receiving over $5 billion net, primarily through superannuation and health services. This reflects a system in which working-age people (25–64) contribute significantly to government revenue through taxes, while older people receive more in services and support – similar to the pattern experienced by current seniors when they were of working age. However, as New Zealand's population ages, relatively smaller working-age populations will face increased difficulty maintaining these transfers to larger cohorts of seniors. This demographic shift could create tension in the social contract, particularly because these seniors themselves supported much smaller senior populations during their working years.

Economic diversity among superannuitants

Behind universal flat-rate payments lies substantial variation in senior economic circumstances, with distinct groups showing different patterns.

Microdata analysis reveals that outcomes for seniors are diverging dependent on their work status and living arrangements. While overall income inequality among senior households has decreased, inequality between different household types has increased. Critically, wealth differences – particularly housing wealth – create vastly different economic security levels among seniors with similar measured incomes. Traditional income-focused measures often miss these wealth disparities and the complex resource-sharing arrangements within senior households.

While overall income inequality among senior households has decreased, inequality between different household types has increased. Critically, wealth differences—particularly housing wealth—create vastly different economic security levels among seniors with similar measured incomes.

Economic transitions: from work to retirement

Retirement has evolved from a fixed transition at 65 to varied pathways, with income composition shifting significantly even as total income remains stable.

Alongside significant demographic change in New Zealand's 65+ population, the labour force participation rate among people aged 65 and over has increased dramatically in recent decades and is now much higher than in many other OECD countries. This has resulted in a growing share of total labour income among people aged 65 and over, though the intensity of labour supply remains lower than that of the under-65 population.

Administrative data shows employment rates declining gradually from approximately 80% at age 60 to around 40% by age 70. While labour earnings decline steadily with age, average total income rises noticeably at ages 65–66 with the introduction of NZS, before gradually decreasing in later years. Many people reduce work before becoming eligible for NZS, with some potentially facing forced early retirement due to health or labour market factors, while others with significant wealth may choose early retirement.

Economic incentives: work incentives for older workers

New Zealand Superannuation creates a financial incentive to remain in work, especially compared with working-age benefits. But wealth and personal circumstances influence how older people respond to these incentives.

Unlike working-age benefits, NZS is not income-tested – people can keep their full payment while earning. This means there is no financial disincentive to remain in work, since NZS is not abated as earnings increase. Effective marginal tax rate (EMTR) analysis shows that most seniors face relatively low financial disincentives to earn additional income, while replacement rate patterns suggest that many treat NZS as a base income and work to top it up. The responsiveness of recently eligible NZS recipients to tax rate changes highlights how policy settings influence retirement decisions. While current settings do not provide a financial disincentive to work, factors such as health, caregiving responsibilities and personal preferences play a significant role in shaping when and how people transition out of work.

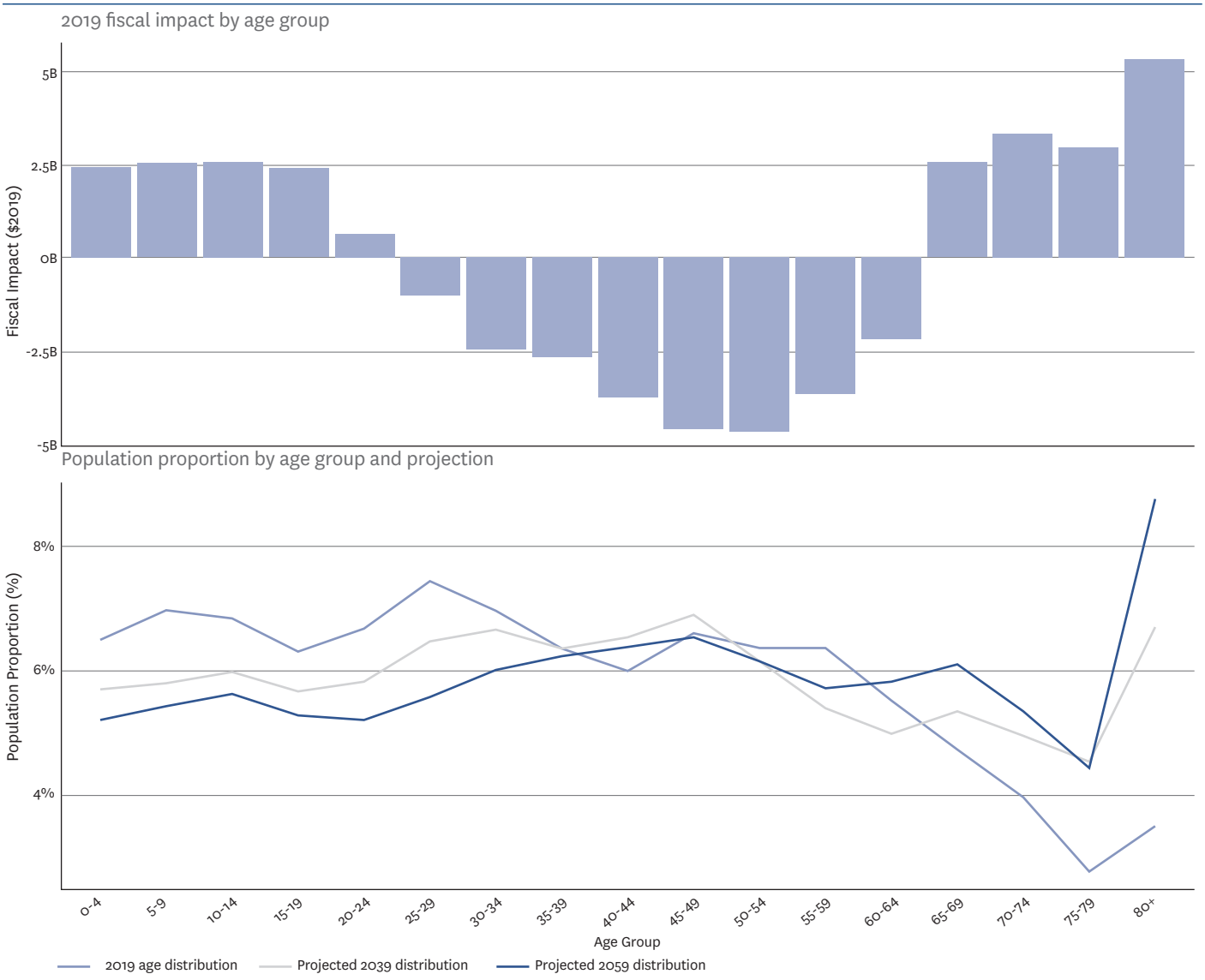
The remainder of this article elaborates on these four key insights.

The fiscal footprint: intergenerational dynamics

Current fiscal patterns

Treasury's fiscal incidence analysis (Wright and Nguyen, 2024) reveals clear age-based patterns in how government revenue and spending combine to redistribute resources across the population. Figure 1

Figure 1: Fiscal impact by age



shows the net fiscal impact by age group, which is the difference between what each age group pays in taxes and what they receive in government spending, including income support, housing subsidies, health services and education, for 2019.

Working-age New Zealanders are substantial net contributors to government finances, with those aged 25–64 contributing in net terms after accounting for all the services and transfers they receive. This pattern reverses sharply after age 65, as superannuitants become significant net recipients of government funds. Based on 2019 estimates, the 80+ age group received a total net amount of over $5 billion more in government spending (mainly superannuation payments and health services) than they paid in taxes. Similarly, the 65–79 age group received a total net amount of over $8 billion.

This age-based pattern of transfers reflects the design of New Zealand's finance system, where individuals contribute through taxes during their working years and receive support later in life through universal superannuation and health services. Rather than linking retirement income to prior earnings or contributions, the system provides a shared foundation in later life that supports wellbeing and a minimum level of financial security across the senior population.

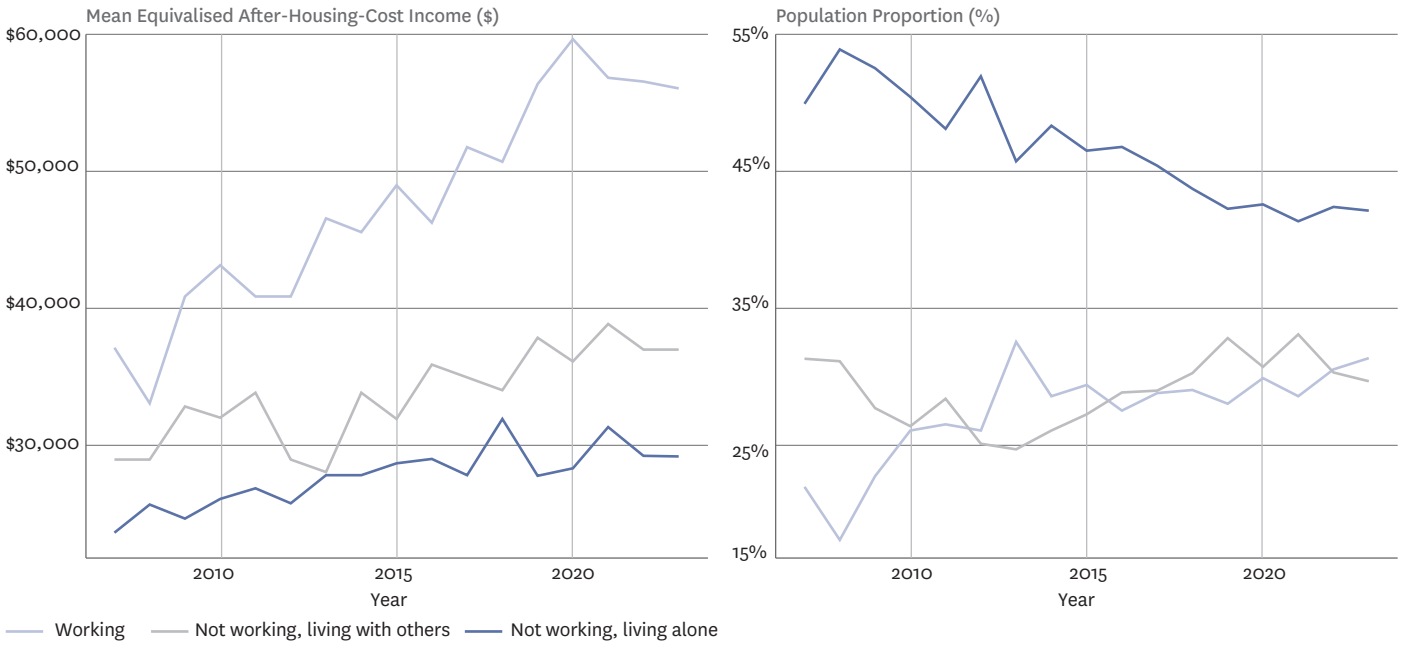
Demographic challenges

The fiscal challenge becomes apparent when considering New Zealand's rapidly ageing population. People aged 65+ were 17% of the population in 2024. They are projected to grow to around 26% by 2063 (Statistics New Zealand, 2025). The Treasury's 2021 Long-term Fiscal Statement highlights how this demographic shift is expected to increase pressure on government spending, particularly for superannuation and healthcare, while reducing the share of the population in the taxpaying workforce (Treasury, 2021). Figure 1 shows the net fiscal impact by age in 2019 (top panel) alongside projected population distributions (bottom panel). It highlights how fiscal pressures are expected to grow over time, as a smaller share of the population will be in the paying (negative) bars and a larger share in the receiving (positive) bars.

Navigating future uncertainty and intergenerational pressures

It is highly likely that current arrangements are not sustainable. Current seniors benefit from policy settings established under different demographic conditions: higher worker-to-retiree ratios, different

Figure 2: Senior population and income trends by group



life expectancies, and different wealth accumulation patterns.

Changing worker-to-retiree ratios could pose fiscal challenges for maintaining current patterns of support for older populations. People retiring today supported much smaller populations of seniors when they were of working age. As the worker-to-retiree ratio continues to decrease, future working-age populations may face higher tax burdens to support superannuation arrangements.

The Treasury's 2025 Long-term Fiscal Statement will explore the implications of ageing for New Zealand's fiscal sustainability and the choices available to successive governments to return to a fiscally sustainable path, including considering the economic and inter-generational distributional impacts of these choices.

Economic diversity among superannuitants

Beyond aggregate statistics

Superannuitants are not a homogeneous group. Although much of our analysis focuses on individual circumstances, examining household-level patterns is essential because many seniors share resources, housing costs and caregiving responsibilities within their households. The Treasury's income inequality analysis (Stephens and Cleveland, 2024) shows that while overall income inequality decreased for individuals in senior households, income inequality between seniors in different household types has increased.

Income-based analyses capture only part of the story. Analysis by Perry (2019) shows that while many seniors fall below income poverty thresholds, hardship rates for people aged 65+ remain among the lowest across age groups, reflecting protective factors such as mortgage-free homeownership and accumulated assets that don't appear in income statistics. This reflects that wealth and accumulated savings play crucial roles in economic wellbeing but don't necessarily appear in income inequality statistics, since assets like houses won't necessarily have a monetary or taxable return. Two seniors with identical incomes may have vastly different economic security depending on their housing wealth and accumulated assets – a dimension that complicates any policy approach focused solely on income measures.

Three distinct patterns emerging from the data

Treasury analysis (Stephens and Cleveland, 2024) reveals distinct trends among seniors based on employment status and living arrangements (Figure 2). Rather than a uniform group, the data reveals three observable patterns that create different economic dynamics.

Working seniors

Labour force participation among over 65s has increased from 13.7% to 25.9% since 2007 (Statistics New Zealand, 2024b). This increase represents the most significant demographic shift among senior households over this period. Even after adjusting for household size and deducting housing costs, households with working seniors have much higher incomes on average than households with seniors who are not in work, reflecting that working seniors receive full superannuation payments alongside their employment income.

Non-working seniors in couple or single households

This group represents about 40% of seniors (down from 50% in 2007) who live without employment income, relying primarily on New Zealand Superannuation and other non-employment sources. The average incomes for this group have been relatively stable over time. While inequality within this group is decreasing – suggesting NZS provides a relatively equal income floor – this income-based picture masks significant wealth differences.

Non-working seniors in shared households[2]

Around 30% of seniors share accommodation with adults other than their partners, a proportion that has remained stable despite other demographic shifts. These seniors consistently show higher equivalised after-housing-cost incomes than those living alone, suggesting economic advantages from

cost-sharing and resource pooling. These arrangements create complex economic dynamics where seniors who own homes may provide housing to younger family members, seniors without property may share accommodation to reduce costs, and extended households pool both current income and accumulated wealth, making individual economic circumstances difficult to separate.

The wealth dimension

Wealth differences create significant complexity across all three categories. Seniors may be drawing down substantial savings, including KiwiSaver, or living off asset returns not fully captured in income statistics. Housing is particularly important. Many seniors have low housing costs, contributing to reduced after-housing-cost inequality (Stephens and Cleveland, 2024). However, this creates even greater inequality when considering wealth differences between mortgage-free homeowners and renters (Symes, 2022). These wealth disparities mean that seniors with similar measured incomes may have vastly different economic security, making targeted policies that focus on savings and housing affordability especially important levers for protecting the living standards of all seniors.

Figure 3: Trends in the proportions of labour income over time, by age groups

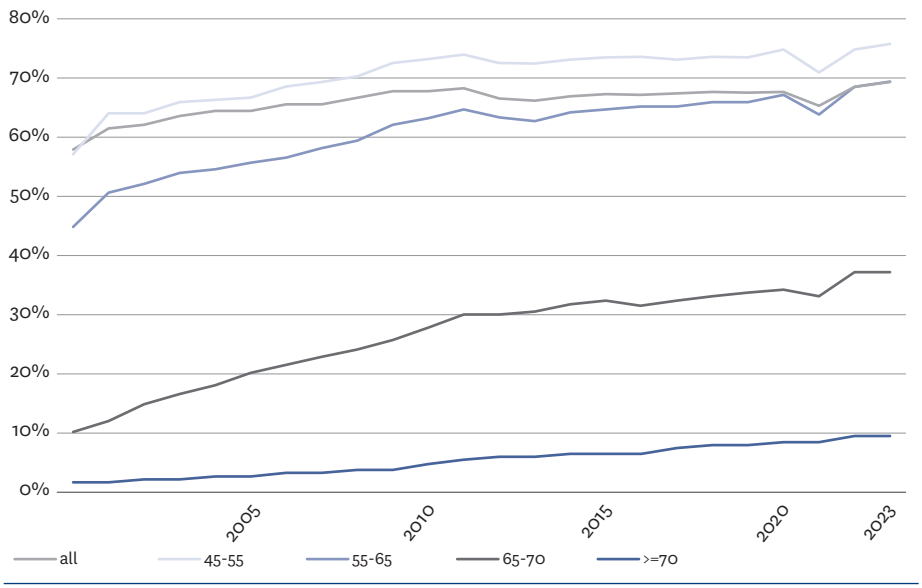
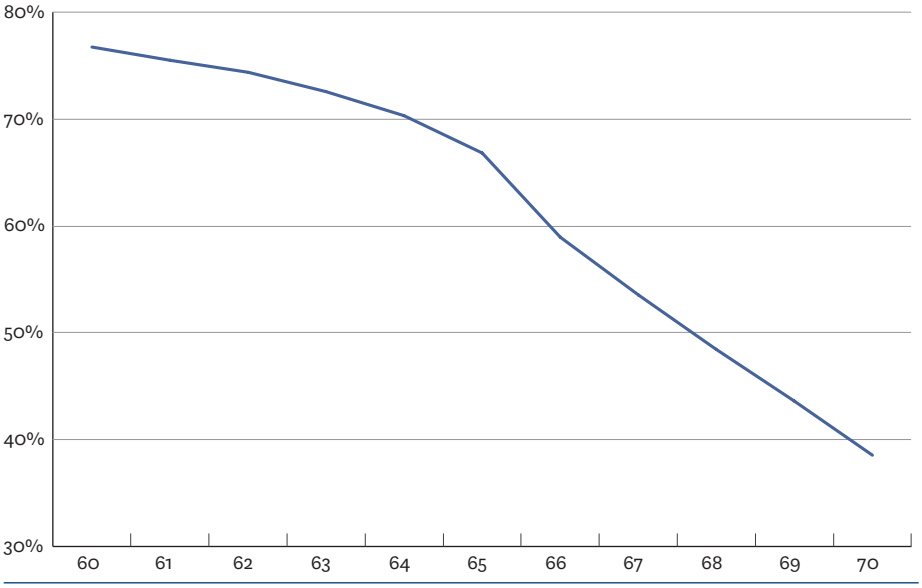


Figure 4: Employment rate by age



Economic transitions: from work to retirement

The New Zealand 65+ population has experienced significant demographic changes, increasing from 12.4% of the total population in 2007 to 16.5% in 2023. Similarly, New Zealand's labour force participation rate among those aged 65 and over has increased dramatically over recent decades and is now much higher than in many other OECD countries (Stephens, 2024). This suggests a distinctive pattern of work continuation past the age of eligibility for superannuation in New Zealand, as compared with international norms.

Rising senior participation and growing share of labour income

Forthcoming research (Domican and Zhang, forthcoming) shows that *increased labour force participation has led to a greater contribution by seniors to the tax base.* As shown in Figure 3, rising labour force participation by older individuals, particularly recent superannuitants (aged 65–70), has increased the proportion of senior income that is derived from labour and consequently increased the contribution of seniors to the tax base. The current design of NZS may support these behaviours because it is not abated with income, allowing people to keep their full payment even while working. Analysis of financial work incentives for workers transitioning into retirement is presented in the following section.

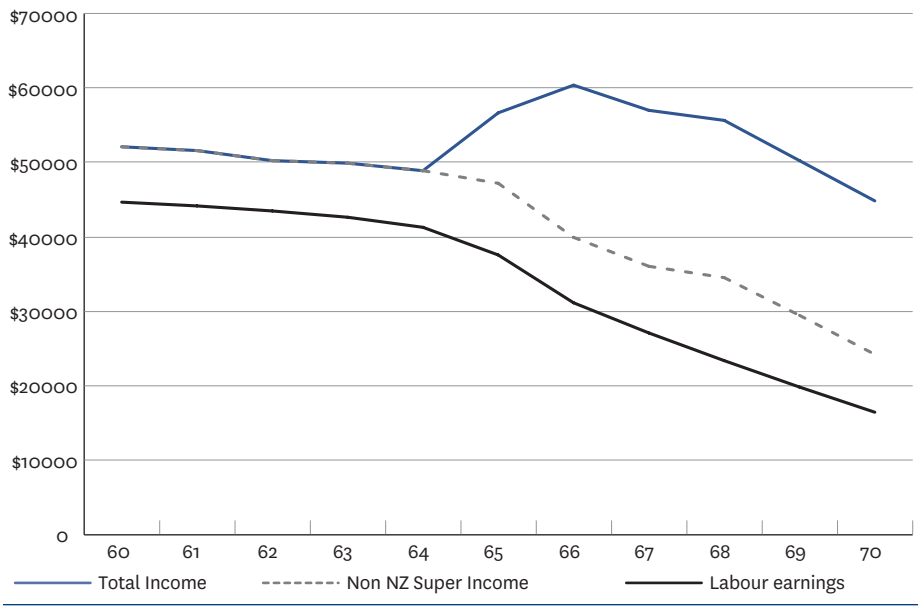
More seniors continuing to work past traditional retirement age, combined with fiscal drag, has helped mitigate some fiscal pressure on government in recent years. However, the lower intensity of work past 65 (Smith et al., forthcoming) suggests that this dividend from increased senior labour force participation may be limited due to fewer hours worked.

The new retirement reality

Figure 4 shows the proportion of the 1952 and 1953 birth cohorts who were in any wage/salary or self-employment during the tax years they turned 60 to 70. Employment rates show a gradual decline rather than a sharp drop-off at the superannuation eligibility age, falling from approximately 80% at age 60 to around 40% by age 70. This smooth transition contrasts with the traditional expectation of widespread retirement at exactly age 65.

Figure 5 shows how income sources change over the transition to retirement. Average total income materially increases

Figure 5: Average income by age (2022 NZ$)



in the years people turn 65 and 66, then declines gradually. Labour earnings decline steadily with age and NZS becomes an increasing important component of total income from age 65 onwards.

The data reveals that many people reduce their earned income over time, which has important implications for both individual economic security and system design, as it suggests that many people are managing a complex shift between different income sources rather than simply moving from work to complete retirement. Significant numbers also stop working before age 65 (Wright and Nguyen, 2024), highlighting that some face forced early retirement due to health, skills obsolescence or labour market conditions – a group that may struggle financially in the gap between leaving work and becoming eligible for NZS. However, for others – particularly those with substantial private wealth – early retirement may reflect greater financial freedom and personal choice rather than constraint.

Current microdata research by the Treasury is exploring transitions into retirement, including patterns of gradual versus complete work cessation. These insights help build a more nuanced understanding of how people move out of the workforce and how income sources evolve over time.

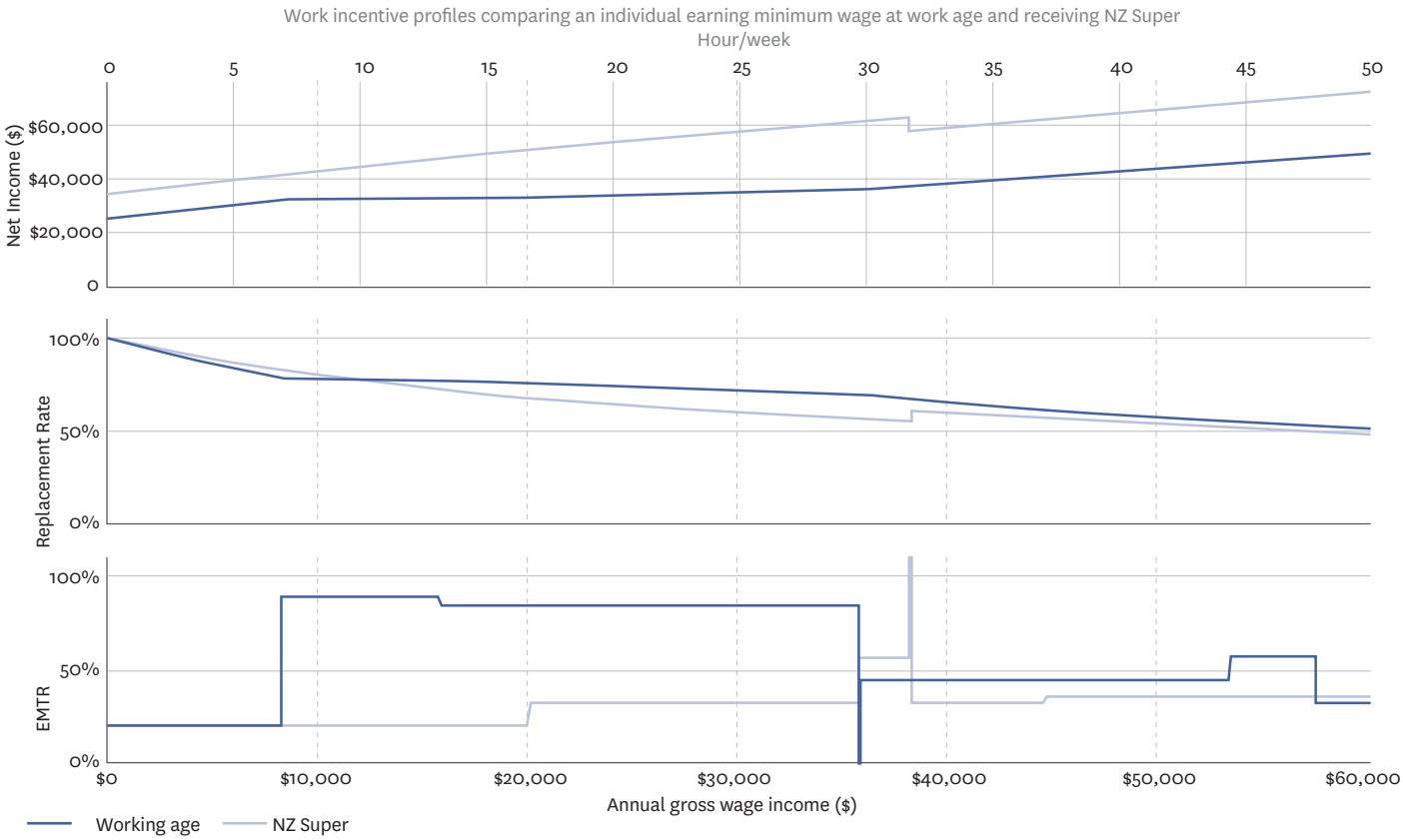
Financial work incentives for workers transitioning into retirement

Work, retirement and the tax–transfer system

Older workers occupy a unique position in New Zealand's tax and transfer system. Unlike working-age benefits, New Zealand Superannuation is not income-tested, so seniors can keep their full NZS payment while working.

To understand how this translates into financial work incentives, it's useful to examine two key measures that capture the financial returns to employment: Effective Marginal Tax Rates and replacement rates (Treasury, 2024a).

Figure 6: Budget constraints and EMTR/replacement rate profiles for an example person



Effective marginal tax rates (EMTRs) measure the proportion of additional income that is lost to taxes and benefit reductions as an individual earns more. Replacement rates measure how much working income would be replaced by government transfers if an individual stopped working. These estimates focus on the financial dimension of work decisions that are created by the tax–transfer system. They do not capture other important factors affecting labour force participation at older ages, such as health status, financial security or caregiving responsibilities. Importantly, these financial incentives interact with the wealth differences highlighted earlier. A senior with substantial assets may respond differently to the same EMTR than one relying entirely on NZS, even though the tax–transfer system treats them identically.

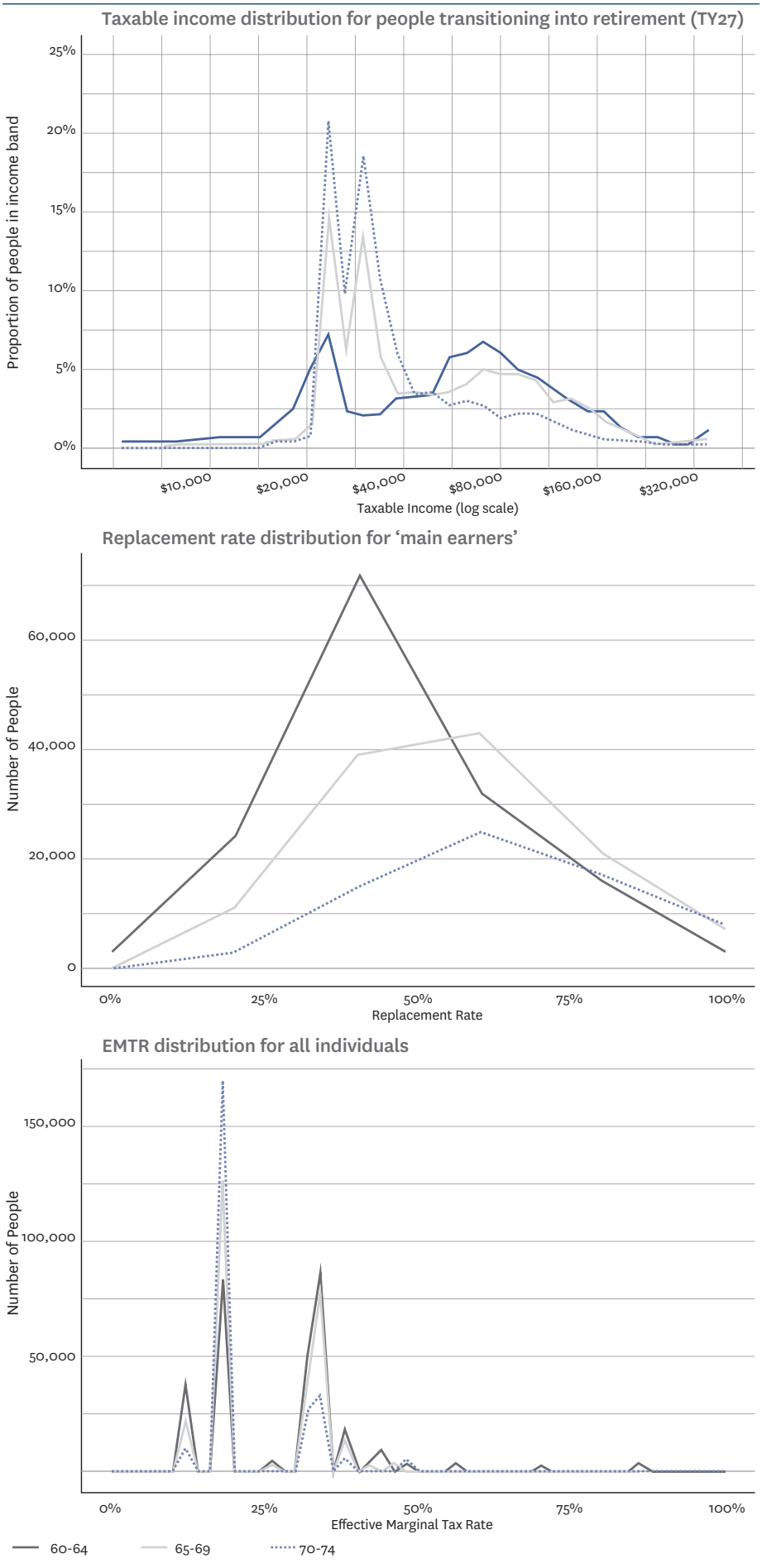
Understanding the difference in work incentives for an individual before and after the NZS age of eligibility

Figure 6 shows how the net income, EMTR and replacement rate profiles for an individual (earning the minimum wage, living alone, renting and with housing costs of $450 per week) differ depending on whether they are working age or at (or above) the NZS eligibility age. Note that these hypothetical examples do not include capital income earned from assets, which would further affect an individual's EMTR.

The top panel of Figure 6 shows how the universal provision of NZS results in significantly higher net incomes (for the same number of hours worked) than is received by an individual facing a combination of earned income and benefit support (which abates as earned income increases).

The middle panel of Figure 6 shows a steeper decline in replacement rate for the NZS individual, reflecting the higher net income they receive at 0 hours compared with the working-age example. Although both hypothetical cases maintain about 60% of their income at 40 hours of work per week, the NZS individual's net income is 37% higher. In this situation, this is because the NZS income remains unchanged at 40 hours of work as wage income increases, whereas the working-age

Figure 7: Work incentive measures for people transitioning into retirement (TY27)



individual's benefit income is abated as their earnings rise.

In the bottom panel of Figure 6, the EMTR profiles for an individual earning the minimum wage differ significantly depending on whether they are receiving NZS or not. Those under 65 and earning the minimum wage experience high EMTRs between 7 and 30 hours worked, with core benefits abating as more income is earned. In comparison, those earning NZS experience low EMTRs during that period and there is little to no financial disincentive to working more hours.

Estimating work incentive distributions for people transitioning into retirement

Using the TAWA model (Treasury, 2024b), we estimated the taxable income and work incentive distributions for individuals within different age groups (60–64, 65–69 and 70–74) in 2027. This analysis allows us to better understand the differences in work patterns and incentives between older working-age people and people who are eligible for NZS.

Taxable income distribution

The top panel of Figure 7 shows that the taxable income distribution of individuals aged 60–64 features two distinct characteristics: a sharp peak near the level of core benefit receipt and a broad range of incomes peaking at around $60–70,000, then gradually tapering off into a long tail. This indicates a marked contrast between those earning near benefit levels and those with substantially higher incomes. When comparing the 65–69 and 70–74 age groups, NZS-related peaks emerge and become more pronounced, reflecting the increasing number of people exiting the labour force as they age.

Replacement rates and financial incentives

We examined replacement rates for individuals with earned income who are identified as the main earner in their family. The distribution of replacement rates in the middle panel of Figure 7 reveals differences across age groups, demonstrating distinct work incentives. For people aged 60–64, the distribution peaks sharply at around 25–30%, with 87% having replacement rates below 50%, meaning they would receive less than half their current income if they stopped working. This creates strong financial incentives to remain in the workforce before becoming eligible for NZS.

The pattern changes for those aged 65 and over. The 65–69 age group shows a much flatter distribution with higher replacement rates, while those aged 70–74 have the highest replacement rates overall, with their distribution peaking around 50–60%. This reflects how NZS provides an income foundation, with many using employment income as a 'top-up' rather than the primary source of retirement security.

The distribution of estimated replacement rates shifts to the right – towards 100% – as earned taxable income decreases in older age groups and NZS becomes a bigger proportion of their total taxable income.

Effective marginal tax rates and work incentives

Work incentives, as measured by EMTRs, tend to improve as people move into retirement age. Lower EMTRs mean individuals keep more of each additional dollar they earn, reducing financial disincentives to earn more. The bottom panel of Figure 7 shows the distribution of EMTRs. There is little evidence of people aged 60–64 experiencing the very high EMTRs (above 50%) that typically affect working-age beneficiaries. This suggests that most in this age group who are receiving benefits are not also earning employment income, as we don't see the high EMTRs that would result from benefit abatement alongside wages.

Once people reach the age of superannuation eligibility, the picture becomes much clearer. Both the 65–69 and 70–74 groups have EMTR distributions concentrated around standard marginal tax rates (17.5%, 30% and 33%), reflecting how universal NZS eliminates benefit abatement and creates straightforward work incentives.

Both the 65–69 and 70–74 groups have EMTR distributions concentrated around standard marginal tax rates (17.5%, 30% and 33%), reflecting how universal [New Zealand Superannuation] eliminates benefit abatement and creates straightforward work incentives.

Evidence of senior responsiveness to tax changes

Forthcoming research by Treasury provides evidence that superannuitants are responsive to changes in marginal tax rates. The research uses administrative data to study older workers' labour supply responses to tax changes when they turn 65, as NZS pushes some recipients into higher tax brackets. The analysis provides some evidence that superannuitants may be more responsive to marginal tax rates than other population groups, with implications for understanding how tax policy design affects employment decisions in the context of population ageing. Specifically, superannuitants may adjust their labour supply in response to tax changes – working or earning less if tax rates increase, and more if tax rates decrease.

Conclusion

The analysis summarised in this article reveals insights from microdata

about retirement incomes. For more comprehensive examination of these findings, we direct readers to the detailed analysis contained in the referenced studies and their underlying source materials. The analysis shows that New Zealand's superannuation system faces tensions between competing objectives. Understanding fiscal incidence, income distribution, transitions and incentive structures simultaneously reveals why these tensions exist and what trade-offs different approaches involve. This understanding is important when considering how to maintain a system that can balance competing economic objectives, while supporting diverse superannuitant populations through ongoing demographic change.

1 The results in this article 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. The IDI is a large research database which contains administrative data about people and households. This data comes from government agencies and non-government organisations: for example, income and tax records from Inland Revenue and social benefit records from the Ministry of Social Development. 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. Access to the survey data used in this study was provided by Statistics New Zealand under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented in this study are the work of the authors, not Statistics New Zealand or individual data suppliers.

2 A limitation to consider when using the TAWA model (which is based on the Household Economic Survey) to study seniors is that it targets the usually resident individuals of private dwellings. It does not include people who live in homes for the aged. Statistics New Zealand (2024a) estimates that, in 2023, 91,480 people lived in non-private dwellings. Moore et al. (2024) report that around 32,000 New Zealanders live in aged residential care facilities. These figures should be compared with an estimated 65+ population in 2023 of 868,700 (Statistics New Zealand, 2022) and a 2023 population of 1,159,000 people living in households that contain people 65+ in our data.

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Adrian Katz

Aotearoa New Zealand in 2050
preparing our retirement income policy for the future

Abstract

New Zealand is expected to undergo significant demographic changes over the next 25 years, raising concerns about the sustainability of its retirement income system. As the population ages, the share of people over 65 will increase, driving up the costs of New Zealand Superannuation (NZ Super). Spending on healthcare and other public services will also grow, while a smaller share of workers will be available to fund these costs. Under current policy settings, these trends will result in rising taxes, reduced public services or growing debt.

This article explores what Aotearoa New Zealand may look like in 2050 and considers how retirement income policy may need to adapt. It argues that the current pay-as-you-go system is vulnerable to demographic change and that shifting to a more savings-based system – such as by strengthening KiwiSaver or raising contributions to the New Zealand Superannuation Fund – would make it more sustainable. The article is based on a recent report by the New Zealand Institute of Economic Research (NZIER), commissioned by the Te Ara Ahunga Ora Retirement Commission for the 2025 review of retirement income policies (NZIER, 2025).

Keywords population ageing, retirement income system, demographics, fiscal pressures

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Looking to the future

As the Danish proverb goes, 'it is difficult to make predictions, particularly about the future'. While there is considerable uncertainty about what New Zealand could look like in 2050, we can distinguish between future trends that we can be relatively confident about and aspects that are more uncertain.

This article draws on projections from Statistics New Zealand, the Treasury and other sources to sketch a picture of Aotearoa New Zealand in 2050. These projections are not forecasts, but illustrations of what could happen under certain assumptions informed by historical trends and expert judgement. They generally assume that current policy settings remain unchanged.

What we can predict with confidence

Slowing population growth

The first thing that we can be relatively confident about is that population growth will slow, as shown in Figure 1. New Zealand's population is projected to increase by 18% between 2025 and 2050, reaching 6.1 million (Statistics New Zealand, 2022b). By comparison, the population grew by 35% between 2000 and 2025.

The main reason why population growth is expected to slow is that people are having fewer children than they used to. New Zealand's total fertility rate – the average number of births per woman – has fallen below the replacement rate of 2.1 births per woman since 2013 (Statistics New Zealand, 2024). As the birth rate falls, migration will become the main driver of population growth. Migration is a key area of uncertainty which we will discuss later.

If trends continue, growth will continue to slow over the second half of the 21st century. Treasury modelling indicates that the population will converge to a steady state of 7.5 million by 2100 (Binning et al., 2024).

Ageing population

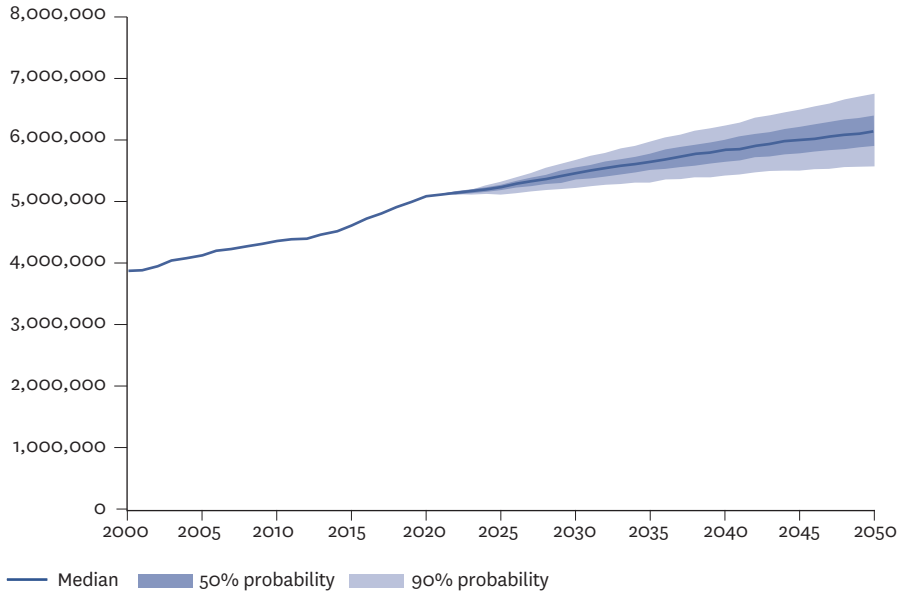
The population will be significantly older, as shown in Figure 2. In 2050, there will be approximately as many people under 40 as there are today (Statistics New Zealand, 2022b). However, the number of people over 40 will increase by a third, and the number of people over 65 will increase by about half. As a result, the median age will rise from 38.9 years in 2025 to 43.7 years in 2050.

Population ageing is mainly driven by falling birth rates, but it is also influenced by rising longevity. Although population ageing is accentuated by the large number of baby boomers – people born between 1946 and 1964 – moving into older age groups, this is not the main cause.

Falling birth rates will continue to drive population ageing over the second half of the 21st century. Treasury modelling indicates that the age structure will stabilise as the population approaches its steady-state level from 2100 (Binning et al., 2024).

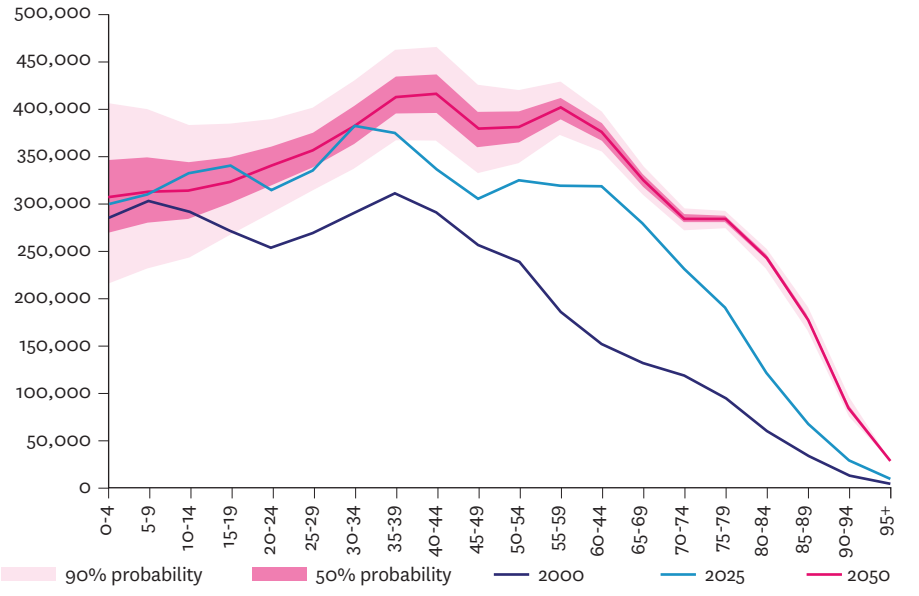
Due to population ageing, the old-age dependency ratio – the number of people aged 65 and over for every 100 people aged 15–64 – will rise from 27.7 to 37.9. While the old-age dependency ratio assumes a fixed cut-off age of 65, our perceptions of what counts as 'old age' could shift significantly over the next 25 years. To hold the old-age dependency ratio constant at 2025 levels, the cut-off age would have to increase by five years by 2050, as shown in Figure 3. By comparison, life expectancies are expected to increase by only about two years over the same period. This reinforces the point that population ageing is driven primarily by falling birth rates rather than rising longevity.

Figure 1: Population, 2000–2050



Source: Statistics New Zealand, 2022b

Figure 2: Population age distribution, 2000, 2025 and 2050



Source: Statistics New Zealand, 2022b

Increased ethnic diversity

A third factor that we can be relatively certain about is increased diversity. Statistics New Zealand has produced national ethnic population projections up until 2043 (Statistics New Zealand, 2022a), which show that migration and differences in birth rates will lead to a declining proportion of Pākehā/European people and a larger share of Māori, Pacific, Samoan, Asian, Chinese and Indian people. Minority ethnic groups are expected to grow particularly quickly among the population aged 65 and over.

Shrinking labour force

A final factor is the shrinking labour force. As a larger share of people will be retired, a smaller share will be available for work. As shown in Figure 4, the labour force participation rate will fall by around 2.6 percentage points, from around 69.2% today to 66.6% in 2050 (Statistics New Zealand, 2021).

What is more uncertain

Migration levels

Migration will likely play an important role in driving population growth and maintaining the labour force. What migration will look like in the future – and hence exactly how quickly population growth will slow – is an important area of uncertainty. Based on the results of an expert elicitation survey and historic trends, Statistics New Zealand assumes a median net migration of 25,000 from 2026 onwards. It is worth noting that migration has exceeded expectations over the past 25 years, prompting Statistics New Zealand to successively revise its population projections upwards (Stephens, 2024).

With the global population aged 65 and over expected to increase from 10% in 2025 to 16% by 2050, the demand for migrants will rise. New Zealand's migration levels will depend on its ability to attract skilled workers amid growing competition.

Working later in life

A second area of uncertainty is whether people will work later in life as they live longer. According to Statistics New Zealand projections, labour force participation will increase for older age groups, as shown in Figure 5. Among people aged 65–69, labour force participation will rise from 47% today to 52% in 2050. Counterintuitively, the overall labour force participation rate for people aged 65 and over will be lower (22% in 2050 compared with 24% today), due to increasing numbers of people in older age groups.

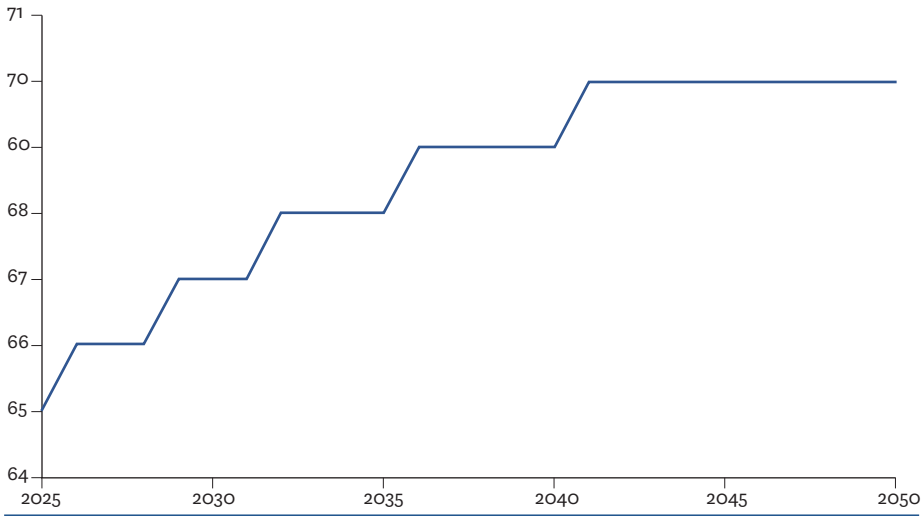
Although labour force participation is projected to rise in older age groups, it is not projected to keep pace with longevity. While people aged 65 will expect to live around two years longer in 2050 than they do today, Statistics New Zealand projects that labour force participation in the 67–71 age group in 2050 will be lower than labour force participation in the 65–69 group in 2025 (41% compared with 47%).

Over the past 25 years, labour force participation in the 65–69 age group has risen rapidly from 16% to 47%, much faster than was predicted at the start of the century (Stephens, 2024). As a result, New Zealand now has the fourth-highest age 65–69 labour force participation rate in the OECD (OECD, 2024). Changes in government policy – particularly relating to the retirement income system – are thought to have played an important role. If this trend continues, then labour force participation in older age groups may rise faster than Statistics New Zealand projects.

Economic growth

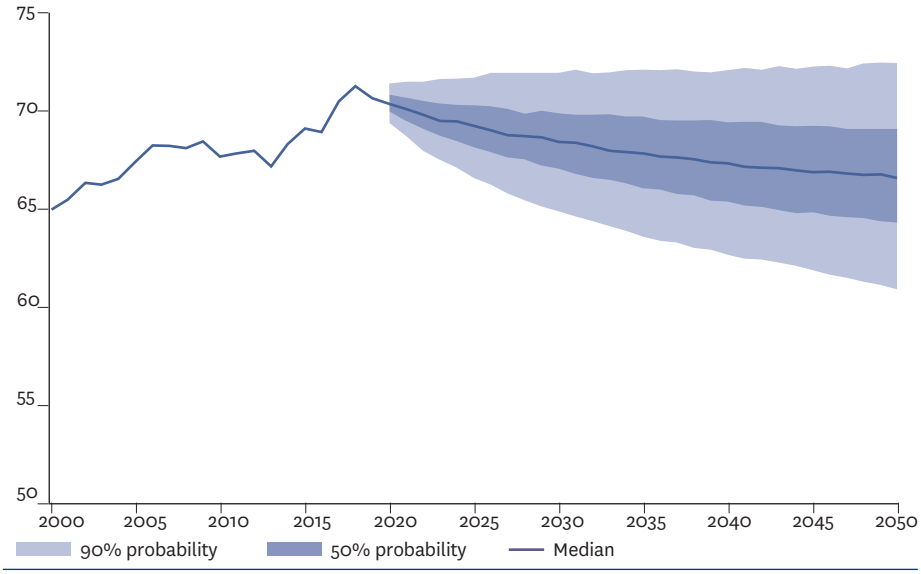
Uncertainty about economic growth is driven by uncertainty about productivity growth. Productivity refers to how

Figure 3: Dependency-stabilising age, 2025–2050
Cut-off age that stabilises the old-age dependency ratio at 2025 levels



Note: This figure is based on a figure presented in Binning et al. (2024) but has been recalculated from Statistics New Zealand projections. Although we use 2025 rather than 2020 as the base year, the dependency-stabilising age increases more slowly, suggesting methodological differences.
Source: NZIER analysis based on Statistics New Zealand, 2022b

Figure 4: Labour force participation rate, 2000–2050
Percentage of population aged 15 and over in the labour force



Source: Statistics New Zealand, 2021

efficiently inputs (like labour, capital and raw materials) are converted into outputs (such as goods or services). The main factor driving productivity growth is the rate of global technological progress, which is largely outside the government's control. However, productivity growth also depends on how well New Zealand can keep pace with the global frontier and how well innovation diffuses across the domestic economy, which many different government policies, such as education, research and regulation, can influence.

To obtain a picture of what the size of the economy could be, we developed GDP projections using Treasury's fiscal strategy model (Treasury, 2024a). We extended the model forward from 2038 to 2050 and incorporated three productivity scenarios.

The Treasury assumes labour productivity growth of 1.0%, in line with historical labour productivity growth over the past 30 years (1993–2023). This forms our 'medium growth' scenario. Treasury notes that the world has been experiencing a productivity slowdown (Cook, Devine and Janssen, 2024). Over the last 20 years (2003–23), New Zealand's labour productivity grew at an average rate of just 0.7%. Our 'low' growth scenario assumes that labour productivity growth remains at 0.7%

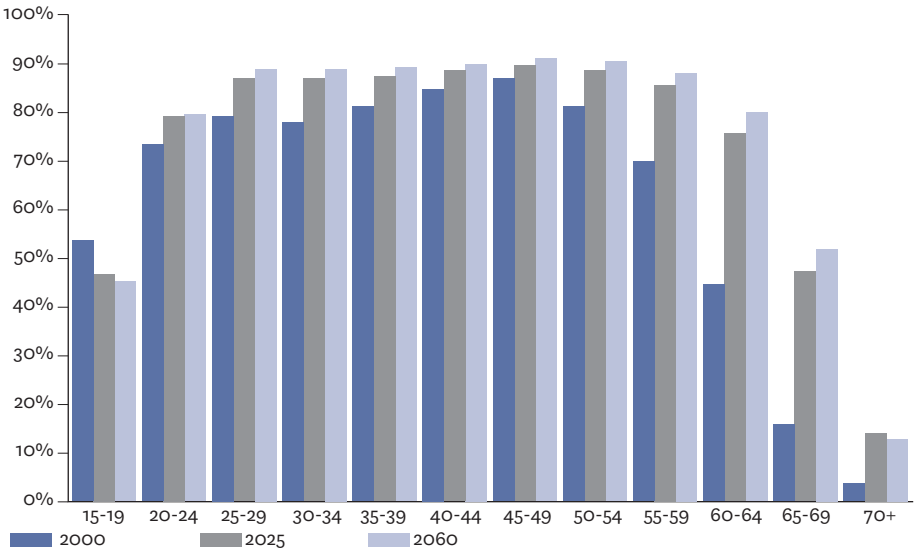
There is a chance that technological progress will cause labour productivity growth to return to higher levels. For example, the OECD estimates that artificial intelligence could cause annual US labour productivity growth to increase by 0.4–0.9 percentage points over the next ten years (OECD, 2024). Our high-growth scenario assumes labour force productivity growth rises to 1.3%.

Figure 6 shows projected real GDP growth under each of the three scenarios. Under the medium-growth scenario, GDP will increase by 56% between 2025 and 2050 after adjusting for inflation, rising from $431 billion to $672 billion. Under the high-growth scenario, it will increase by 66%, rising to $715 billion. Under the low-growth scenario, it will increase by 48%, rising to $637 billion.

A portion of this increase in projected GDP is due to population growth. Real GDP per capita helps us distinguish the component of GDP growth that results from productivity growth rather than population growth. Under the medium-growth scenario, real GDP per capita will rise by 32%, from $80,000 to $105,000. Under the high-growth scenario, it will increase by 40% to $112,000, and under the low-growth scenario, it will rise by 25% to $99,000.

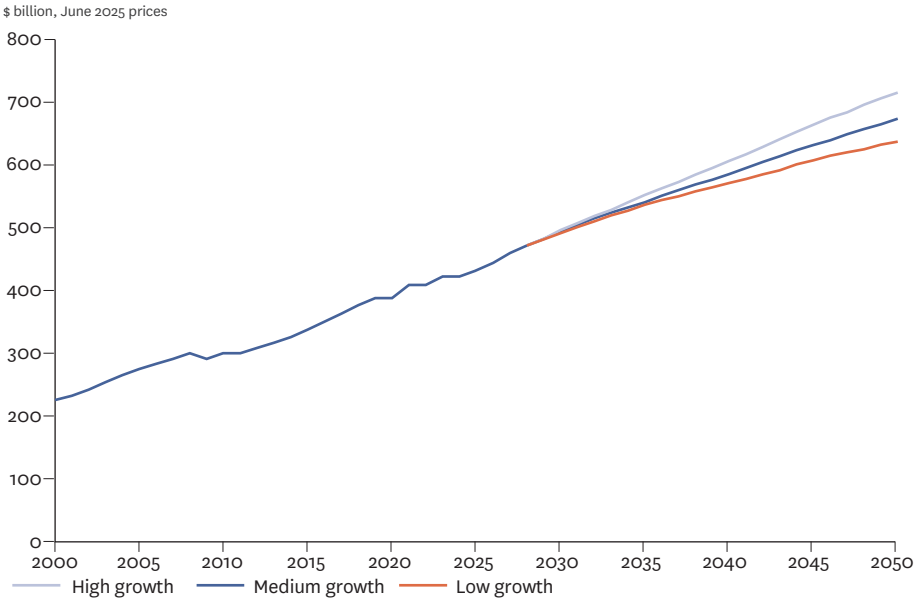
As GDP rises, incomes will also rise. Productivity growth will allow workers to produce more or better goods and services in the same amount of time, making their work more valuable to companies and enabling them to earn higher wages. Average gross weekly earnings are projected to rise from $1,619 per person in 2025 to $2,084 in 2050 in the medium-growth scenario after adjusting for inflation, an increase of a third. This compares with $2,217 in the high-growth scenario and $1,975 in the low-growth scenario.

Figure 5: Labour force participation rate by age, 2025 and 2050



Source: NZIER calculations based on Statistics New Zealand, 2021, 2020

Figure 6: Real GDP, 2000–2050



Source: NZIER extension of Treasury's Fiscal Strategy Model (Treasury, 2024b)

Economic inequality

It is difficult to draw conclusions about how economic inequality may change in the future. While some measures of income and wealth inequality have been stable over the past 25 years, gender and ethnic pay gaps appear to be trending downwards. The drivers of these trends are complex, and it is not clear how they will play out in the future.

Implications for retirement income policy

What do these trends mean for New Zealand's retirement income policy?

Under current policy settings, the system will continue to provide similar living standards as today. However, the costs of the system will rise alongside other forms of government revenue, raising questions about its fiscal sustainability.

NZ Super

New Zealand Super rates are indexed to the consumers price index (CPI) and are adjusted so that the couple rate remains between 66% and 72.5% of the net average wage. Assuming indexation does not change, NZ Super rates will continue to rise in line with wages.

While NZ Super payments will be higher in absolute terms, the living standards of retirees will still depend on their level of private savings and expenses. Evidence suggests that for many retirees, costs exceed NZ Super payments, making it necessary to rely on additional income sources or savings (Matthews, 2023). Some commentators, such as the Financial Services Council (2019), argue that there is a gap between NZ Super payments and the amount needed for a comfortable lifestyle. This gap is likely to persist in 2050, as perceptions of a comfortable lifestyle tend to rise with average wages.

The role of KiwiSaver

People retiring in 2050 will have had KiwiSaver for almost all their working lives. Those who have consistently contributed will have had time to accumulate much larger balances, making a greater contribution towards their retirement incomes. However, those who have not been in paid work for their full working lives (for example, due to caring responsibilities, ill health or disability) will have relatively lower balances, resulting in growing inequalities in retirement incomes.

The Retirement Income Interest Group of the New Zealand Society of Actuaries has estimated that contributing KiwiSaver members aged 45 in 2021 (who will turn 65 in 2040 or 2041) will have a median balance of $156,900 in 2021 dollars, or $188,800 in 2025 dollars (Retirement Income Interest Group, 2022). Balances will continue to increase through to 2050 as KiwiSaver matures.

As KiwiSaver grows, it will play a more important role in providing income in retirement. Someone retiring with $200,000 in 2050 who follows the '4% rule' (withdrawing 4% of the starting value of their retirement savings each year) would gain an income of $8,000 a year, or $154 a week. Compared with the projected $525 net per person weekly NZ Super couple rate, this would increase their income by around a third. Under current policy settings, KiwiSaver balances will provide a helpful supplement to NZ Super income, but NZ Super income will remain the main source of income for most retirees.

> … capital withdrawals are expected to remain low until 2050 as the fund will need to maintain high balances to cover ongoing increases in NZ Super expenditure over the second half of the 21st century.

Rising fiscal costs

Government spending could rise significantly over the next 25 years. According to the Treasury's 2021 Long-Term Fiscal Model, if future governments act in line with historic trends, then total Crown expenses could reach 48% of GDP by 2050. The deficit will grow over time from around 2% of GDP today to around 12% by 2050.

The Treasury's model assumes that as spending rises, future governments will respond by borrowing more. Rising debt raises interest costs, causing debt to rise even faster. By 2050, core Crown debt will reach 111% of GDP – a level not seen since World War II. This assumption is probably unrealistic. In reality, future governments may look for ways to control spending, causing debt to rise more slowly.

However, the model is still useful for understanding the areas where government costs are expected to rise. According to the model, health spending will increase by 51% between 2025 and 2050 (from 6.0% of GDP in 2025 to 9.1% in 2050). NZ Super spending will rise by 33% (from 5.1% to 6.8% of GDP), and education spending will increase by 15% (from 5.1% to 5.8% in 2050).

In 2001, the government established the New Zealand Super Fund to smooth the rising costs of NZ Super over the 21st century. The fund's balance is currently around 18% of GDP and is expected to reach 28% of GDP by 2050. Despite this, capital withdrawals are expected to remain low until 2050 as the fund will need to maintain high balances to cover ongoing increases in NZ Super expenditure over the second half of the 21st century. After accounting for NZ Super Fund contributions and withdrawals along with the tax paid on NZ Super income, the increase in NZ Super spending between 2025 and 2050 falls to 17% (from 4.7% in 2025 to 5.5% in 2050).

The ageing population is a major factor driving changes in government expenditure. An increasing proportion of people aged 65 and over leads to higher NZ Super spending. It also leads to rising spending on health and residential care, as older people tend to have higher health needs. If home ownership declines among those aged 65 and over, this could lead to more people requiring accommodation support.

Another important factor driving changes in expenditure is rising costs in service sectors, such as health and education. This can be explained by the Baumol effect – higher productivity growth in goods-producing sectors leads to price increases in labour-intensive service sectors (Helland and Tabarrok, 2019).

The challenge posed by rising costs is exacerbated by a shrinking tax base. As labour force participation falls, tax revenues will need to be raised from a smaller share of workers. Coupled with higher health spending, this will make it more challenging for the government to afford the rising cost of transfers and services.

Tough fiscal choices

If future governments do not act to address these pressures, they will be left with three choices:

- *Raise tax revenue*
  As a rough indication, revenue in 2050 would have to increase by around 3% to cover the projected rise in NZ Super, and the tax borne by each worker would have to increase by around 4% to make up for the projected fall in labour force participation. Further increases would be needed to meet rising health costs. These tax increases would significantly reduce living standards for the working-age population and distort incentives to work, save and invest.
- *Reduce spending*
  The government could consider reducing spending on other public services outside the retirement income system. However, achieving large enough reductions could be challenging, particularly as health costs are also expected to rise. Unless services become much more efficient, reduced spending would result in lower service provision and lower living standards for many New Zealanders.
- *Accumulate debt*
  The government could abandon its long-term fiscal objectives and allow debt to increase, reaching over 100% of GDP by 2050 – without accounting for economic shocks. This would undermine the efforts of successive governments since the 1980s, which have worked to keep debt at sustainable levels. Although many developed countries – including Japan, the United States, the United Kingdom, Italy, France and Spain – have levels of public debt nearing or exceeding these levels, it is not a sustainable solution. In New Zealand's case, relatively high private debt constrains the country's ability to shoulder high public debt. As debt rises, the country's risk premium may increase, driving up interest rates, interest costs, and overall vulnerability to economic shocks and crises.

Successive increases in revenue, reductions in spending or increases in borrowing will be required to respond to ongoing changes in the population age structure throughout the next 25 years and beyond.

As the number of retirees rises and the number of working-age people falls, each worker will need to contribute more to sustain the system.

How the retirement income system could adapt

There are a range of options the government could explore to address the challenges of population ageing, from supporting higher birth rates and increasing migration to raising the rate of productivity growth.

Focusing on retirement income policy, the government could explore ways to reduce the costs of NZ Super. Potential policies include raising the eligibility age in line with life expectancy (or more quickly), indexing payments to CPI inflation rather than wages, and introducing means-testing. A combination would likely be required.

Making changes to NZ Super is likely to be politically challenging. In a 2018 report, NZIER explored attitudes on retirement incomes using a survey, and found that New Zealanders were reluctant to contemplate major changes to NZ Super. Among the options presented, means-testing was the most popular.

An alternative approach would be to change the system to reduce the pressures created by demographic change. This can be achieved by pre-funding more of the increase in costs and transitioning from the current pay-as-you-go system to a more savings-based system. In a pay-as-you-go system, retiree incomes are funded by taxes on current workers. As the number of retirees rises and the number of working-age people falls, each worker will need to contribute more to sustain the system. In a savings-based system, a greater share of retiree incomes is funded by savings accumulated over their working lives. This means that population ageing does not affect the amount each generation has to contribute.

Benefits of a savings-based system

In addition to being less vulnerable to demographic change, a savings-based system has three main advantages.

First, it benefits from compounding returns, making it cheaper to operate. In a savings-based system, retirees' incomes are funded by savings that earn returns, which compound over time. Assuming the return on capital is higher than the growth rate of the economy (as is typically the case in advanced economies like New Zealand), this means that lower contributions are required to achieve the same level of retirement income compared to a pay-as-you-go system (Coleman, 2024).

Second, it improves incentives to work and save. The pay-as-you-go system involves high taxes on workers, which creates labour market distortions. Higher tax rates discourage labour supply by reducing incentives to participate in the labour force, work extra hours, search for better jobs or invest in education and skills. Under a savings-based system based on a contributory pension or a private savings scheme, individual contributions directly translate into higher retirement incomes, removing these distortions.

The third advantage of a savings-based system is that it can help to develop capital markets and support productivity growth. It would generate a large pool of retirement savings, supporting investment, capital accumulation and economic growth.

Private vs public savings

A savings-based system could take a range of forms. One option is to place more emphasis on private savings by strengthening KiwiSaver through higher contribution rates and expanded coverage. The costs of the New Zealand Super Fund could then be reduced through the policies mentioned above.

This option has pros and cons. On the one hand, it avoids the economic distortions that arise when retirement incomes are funded through general taxation. It also gives

people greater clarity about their financial resources and makes it harder for governments to divert savings for other purposes. On the other hand, it reduces NZ Super's redistributive and risk-pooling effects, making retirement incomes more closely linked to lifetime earnings and more exposed to market and longevity risk.

A second option for achieving a savings-based system would be to pre-fund more of NZ Super using the New Zealand Superannuation Fund. This would involve maintaining NZ Super and KiwiSaver as they are today, but significantly raising contributions to the NZ Super Fund to cover more of the expected increase in future NZ Super costs. This option would avoid tying retirement income to earnings from working life, but could involve larger economic distortions.

A third option would be to design a new system that combines the strengths of both KiwiSaver and NZ Super but avoids their weaknesses. One way to do this would be to introduce a new compulsory savings scheme that links retirement incomes to individual contributions, but also pools market and longevity risks. This could become the foundation of the system, encouraging people to work and save while ensuring that no one outlives their savings or is left exposed to market downturns. NZ Super could be turned into a pre-funded safety net, providing a minimum income for those who are unable to save enough. KiwiSaver could remain as a voluntary scheme that supports people to accumulate additional savings and achieve a higher living standard in retirement.

Change is manageable

While the fiscal challenges appear daunting, there are reasons to think that adapting New Zealand's retirement income system may not be as difficult as often assumed.

The country is starting from a relatively strong position. Population ageing will not be as severe as in other OECD countries. New Zealand currently has a relatively young population compared with many other OECD countries, and the old-age dependency ratio is projected to remain relatively low (UN Department of Economic and Social Affairs, 2024). In addition, public pension spending is projected to remain below the OECD average (OECD, 2023).

As the population continues to age and the costs of NZ Super rise, the current settings will become more entrenched, making it harder to implement reforms without significant disruption.

New Zealand has successfully managed demographic change before. The post-war baby boom of the 1940s–60s dramatically increased the number of children (Bryant, 2003), straining the education system and driving government spending in areas such as family support, housing and healthcare. While the old-age dependency ratio in 2050 will be higher than ever before, the total dependency ratio – including both children (0–14) and older people (65 and over) – will be similar to 1960 (ibid.). Just as a younger population in the mid-20th century put pressure on the education system, an older population in the late 21st century will raise challenges for the health and retirement income systems. In many ways, the past 50 years have been the anomaly, providing a temporary demographic boost as the baby boom generation moved through the workforce.

Finally, New Zealand has experienced shifting from pay-as-you-go to savings-based models. In the 1980s and 1990s, the Accident Compensation Corporation (ACC) operated on a pay-as-you-go basis, where levies covered only annual claims, with no reserves for future costs. In 1999, ACC began shifting to a fully funded savings-based model, and levies were progressively increased to accumulate reserves. By 2019, ACC's main accounts were fully funded.

The importance of planning ahead

Moving towards a savings-based retirement income system poses a major challenge: it inevitably results in a squeezed generation, who must bear a 'double burden' as they pay for current retirees as well as pre-funding their own retirement. The more the population ages, the greater this burden will become.

New Zealand should begin work on designing a retirement income system that is fit for the future. This will involve exploring several unresolved questions:

- How effective is KiwiSaver at raising total retirement savings, and how can it be improved?
- What are the costs of transitioning towards a savings-based system, and how can they be minimised?
- What is the optimal balance between savings-based and pay-as-you-go, given the transition costs?
- How can a system combine the strengths of private and public savings while addressing their weaknesses?

Answering these questions will require a range of analytical tools, such as natural experiments to evaluate past changes, randomised controlled trials to test behavioural responses, microsimulation to assess distributional outcomes, and macroeconomic models to estimate impacts on growth and fiscal sustainability.

Whatever path New Zealand chooses to take, planning should start now. Acting soon allows for a smoother transition, reducing the risk of abrupt or disruptive changes in the future. As the population continues to age and the costs of NZ Super rise, the current settings will become more entrenched, making it harder to implement reforms without significant disruption.

Retirement income policy settings affect people's consumption and savings decisions over their lifetimes, so changes should be gradual and signalled far in advance. It is important to make a credible commitment to a durable system, as frequent policy changes and reversals create uncertainty and undermine confidence. A stable and predictable policy environment will help people to adapt to change and prepare for the future.

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Eliana Heo

Making Good Choices for the Long Run
the economic benefits of KiwiSaver in 2100

Abstract

As New Zealand faces the challenges of an ageing population and widening inequality, it is useful to ask: what is the long-run economic role of KiwiSaver, is it an inclusive institution, and how can it be strengthened for future generations? This article explores the economic benefits of KiwiSaver beyond individual retirement outcomes in the future. It examines whether KiwiSaver contributes to national savings, reduces long-term fiscal pressures, and supports intergenerational inequality by promoting early asset-building.

Considering case studies from Singapore, Australia and the Netherlands, the article highlights how starting earlier, contributing more and investing better can build economic resilience, increase capital accumulation, and reduce social polarisation by supporting intergenerational equity. The findings of this research and focus on the need for long-term stewardship allows us to think deeply about how today's contributions to KiwiSaver can shape a better future for the younger generations in the year 2100.

Keywords KiwiSaver, retirement policy, economic resilience, intergenerational equity, national savings, long-term stewardship, coordination policy

Eliana Heo is a third-year student at Harvard College, concentrating in government and economics. Originally from Auckland, she spent her summer break as a research intern with Simplicity Research Hub and Te Ara Ahunga Ora Retirement Commission. Her research focused on the long-term economic benefits of retirement savings systems and advancing intergenerational equity in New Zealand.

Over the last few months, I have been working with Simplicity Research Hub and Te Ara Ahunga Ora Retirement Commission on thinking about the future of the retirement income system and the role of KiwiSaver within it.[1] Writing as a 'young person', I have some concerns.

Even with the introduction of KiwiSaver in 2007, Aotearoa New Zealand's retirement income system does not appear prepared to tackle the slow-burn challenges of an ageing population and intensifying economic inequality. Once celebrated as a cornerstone of social inclusion thanks to New Zealand Superannuation, the system is increasingly shifting costs onto future generations without a clear plan to fund them. As the population ages and social divides deepen, it is essential for leadership to plan with foresight to mitigate the risks of increased social polarisation. The retirement income system now faces urgent structural challenges that demand comprehensive thinking and reform.

Giving future generations more choice

More than a decade ago, Sir Michael Cullen warned that we should not leave harder choices to future generations simply because we are unwilling to make difficult decisions today. In 2013, Cullen urged New Zealand leaders to take proactive steps to

strengthen fiscal resilience and make long-term, sustainable choices to prepare for rising retirement costs (Cullen, 2013). His warning was grounded in long-running demographic reality. In 1950, there were eight workers for every retiree; today, that number has dropped to four, and by 2100 it is projected to fall to just two.[2] Considering this, he suggested:

- increasing the age of eligibility for NZ Super from 65 to 67;
- enhancing KiwiSaver by making it compulsory, automatically enrolling all workers at age 18, and gradually increasing employer contributions to 6% or 8%, on top of a baseline 4% employee contribution;
- introducing a KiwiSaver withdrawal tax (10–15%), labelled the 'NZS Tax', directed straight into the New Zealand Superannuation Fund;
- allowing fiscal drag to naturally increase tax revenues over time and broadening the tax base.

Recent changes have begun to move in this direction, including increasing combined employer and employee default KiwiSaver contribution rates to 8% by 2028. However, there remains limited evidence of systemic planning for the retirement income system beyond the relatively short term, with few policies of comparable ambition beyond a few measures.

Incremental adjustments are not enough. While the periodic review of retirement income policies provides a valuable framework for reflection, the 2025 terms of reference asked the Retirement Commission to consider a 25-year outlook, which differs from past reviews, which have typically left the time frame more open-ended.[3] This risks overshadowing accountability to the longer-term perspective needed to address the demographic and social shifts unfolding over the rest of this century. At the same time, an open-ended approach can also risk defaulting to a focus on future retirees alone, potentially overlooking younger generations as working-age contemporaries whose interests also need explicit consideration.

Without a lasting mechanism to ensure that institutions consistently collaborate with a genuinely long-term perspective, explicitly considering younger and future generations both as retirees and current contributors, these younger groups' needs from the retirement income system risk being overlooked. This article therefore urges us to look further ahead and reflect on the decisions we can make today that those living in 2100 might thank us for.

The role of KiwiSaver

KiwiSaver is not just a savings mechanism, but serves as a long-term anchor institution for New Zealand.

For too long, many economists treated culture as a slowly evolving backdrop, underestimating how rapidly escalating social polarisation and wealth inequality threaten the long-term viability of institutions that, without consistent mechanisms to ensure inclusion, tend to become extractive over time.[4] As a long-term mechanism, KiwiSaver can build in stability across generations by supporting more of the population to build assets automatically, spreading financial responsibility for ageing over time and across generations. Evidence suggests that policies are more likely to endure when benefits are directly experienced by the people who support or fund them.

KiwiSaver is also not a 'set-and-forget' solution; it demands continuous oversight and adjustment to stay effective and adaptable to evolving economic and demographic realities.

While KiwiSaver has helped many households build assets, it will also deepen wealth inequality over time if access and benefits remain uneven. Inclusive, redistributive policies that prioritise those excluded from asset-building are required, including dedicated savings tools for low-income households, substantial progressive subsidies, strong income support, targeted debt relief, and tighter regulation of exploitative lending. Without this structural change, our settings will fall short of delivering lasting, equitable outcomes with KiwiSaver as it is designed today.

It is important to recognise the limitations of contributory schemes like KiwiSaver, where contributions depend on income and labour market participation. This means those who earn less or work irregularly accumulate fewer assets. By contrast, New Zealand Superannuation provides the same benefit to all eligible individuals, including the wealthy. As a result, NZ Super has a stronger equalising effect across the population at any given time than KiwiSaver, which tends to reflect rather than reduce income inequalities. However, with a shrinking working-age population, sustainable funding of these transfers becomes increasingly challenging.

At the same time, it is also useful to recognise what KiwiSaver has achieved and for whom since its launch in 2007. Household saving has increased across a broader base, with the proportion of households regularly saving rising from just 20% to over 60% by 2023. This is the power of well-designed defaults: more people tend to save when the system makes it easy and automatic. The challenge now is to apply those same design principles to close persistent equity gaps.

As is, current settings see New Zealand institutions risk complacency by assuming that NZ Super guarantees us an inclusive retirement system. In practice, NZ Super is unfunded (as in a pay-as-you-go scheme) and cannot shoulder this responsibility on its own, especially as the dependency ratio continues to rise. KiwiSaver is also not a 'set-and-forget' solution; it demands continuous oversight and adjustment to stay effective and adaptable to evolving economic and demographic realities.

Cautionary tales and positive lessons

Italy offers a cautionary tale about the costs of short-term inaction on ageing populations. It currently spends over 15%

of GDP on public pensions, among the highest in the OECD, placing heavy pressure on future budgets. In contrast, the cost of NZ Super is about 5%, expected to rise to 8% by 2060 (Treasury, 2021). With 41% of Italy's population projected to be aged 65 or older by 2050 (compared with the OECD average of 31.3%) (OECD 2023) and a low fertility rate of 1.18 (Beaulieu, 2025), its workforce is shifting towards more temporary and lower-paid jobs, reducing saving capacity (Cirillo, Fana and Guarascio, 2016). This strain is, in turn, fuelling social polarisation and likely contributes to rising anti-immigrant sentiment.

In the future, policy leaders must acknowledge the significant challenges facing today's younger generations and anticipate how these pressures may erode and undermine social trust when planning policy settings. This includes recognising:

- *Lower financial security*
  Despite achieving greater higher education qualifications, younger generations have less financial security than previous cohorts. This reflects broader structural shifts, including wage stagnation, underemployment, the rise of precarious work, and increasing housing costs that squeeze disposable incomes.
- *Falling home ownership rates*
  Home ownership among 25–29-year-olds has declined from 61% in 1991 to just 44% in 2018. More young New Zealanders are starting adulthood with fewer assets, higher living costs relative to their incomes, and less job and housing security, making it harder to save, invest, or plan for retirement. This has created an inheritance society, where future home ownership (a cultural rite of passage and implicitly assumed for retirement) is increasingly dependent on wealth passed down rather than earned, reinforcing intergenerational inequality and limiting social mobility (Statistics New Zealand, 2020).
- *Different fiscal pressures from previous generations*
  People over 65 are net beneficiaries of government services, while the working-age population (25–64) are net contributors (Wright and Nguyen, 2024). As the old-age dependency ratio rises, future generations of young people will face increasing tax burdens to support a growing retired population. This risks placing unsustainable pressure on public finances and heightening inter-generational tensions, especially as younger cohorts receive fewer benefits in return.

… analysis from Simplicity Research Hub … shows that a modest weekly subsidy of $16 from birth could grow into a savings account worth approximately $25,000 by age 18 and exceed $100,000 by retirement.

These challenges underscore the importance of prudent long-term planning to harness the power of compounding returns, expand the role of collective assets in national infrastructure development, and steadily raise overall savings rates from an earlier age. Notably, countries such as Singapore, Australia and the Netherlands provide institutional examples that New Zealand can draw inspiration from as we explore ways to strengthen our own retirement income system. The following case studies delve into these examples, highlighting lessons that could guide the evolution of New Zealand's retirement framework.

Start early

Singapore has developed a collectivised, automated national savings system that begins at birth. Every child automatically receives a S$5,000 First Step Grant deposited into a Child Development Account, with government contributions that increase with each additional child. At the same time, a S$4,000 MediSave grant is credited to a dedicated health savings account. Families receive significant cash bonuses per child, equivalent to approximately NZ$30,000–$47,000 per newborn, helping to establish a strong financial foundation from day one (Central Provident Fund Board, 2025).

Support continues through childhood via the Edusave programme, which provides annual government deposits and rewards for academic achievement. At age 17, funds transition to a Post-Secondary Education Account, which can be used for higher education or later rolled into retirement savings (Ministry of Education, Singapore, 2024). While outcomes vary by context, Singapore's model demonstrates that it is possible to create a more holistic savings infrastructure that supports individuals in building long-term financial security across life stages, reducing future vulnerability.

International evidence shows that the benefits of early asset ownership go beyond just financial security. The OECD highlights multiple positive spillovers, such as better mental and physical health, higher parental expectations around education, increased household stability, and a stronger future outlook. For instance, the UK's 1958 National Child Development Study found that young adults with assets at age 23 were less likely to smoke and enjoyed better health well into their 30s (Kim et al., 2017; Prabhakar, 2009).

In the domestic context, analysis from Simplicity Research Hub (forthcoming) shows that a modest weekly subsidy of $16 from birth could grow into a savings account worth approximately $25,000 by age 18 and exceed $100,000 by retirement. Beyond building wealth, early saving could help establish positive social norms around lifelong saving and promote inclusion in basic asset distribution, strengthening young people's sense of security, agency and self-worth. While NZ Super equalises income at retirement, focusing on asset-building earlier in life may offer greater potential to reduce inequalities across the life cycle.

Invest better

Australia began its compulsory super-annuation guarantee system in 1992,

starting 15 years earlier than New Zealand's KiwiSaver. This head start made a significant difference. Today, Australia's private retirement savings exceed public pension spending, and the combined cost of the Age Pension and superannuation tax concessions is projected to require only 4.4% of GDP by 2063 (Australian Government, 2023). Australia's private retirement savings asset-to-GDP ratio was 134% at the end of 2022, far higher than New Zealand's current ratio of 32% (OECD, 2023b).

Notably, a 1% increase in Australia's superannuation contribution rate has been associated with a 0.2 percentage point rise in real GDP, largely due to increased investment in productive assets (Giesecke, Dixon and Rimmer, 2015). Across Australia's superannuation system, around 18% of total assets are allocated to alternative investments, including infrastructure, private equity and unlisted property. Additionally, Australia invests 7–8% of its total assets in unlisted property across all fund types, including conservative, balanced and growth funds (CBRE Research, 2024).

Superannuation funds have also significantly boosted their infrastructure investments over the past decade, growing from $30 billion (3% of assets) in 2010 to $165 billion (8%) in 2022 (in nominal terms) (Association of Superannuation Funds of Australia, 2023). These investments often focus on long-term, nation-building projects such as renewable energy and transport, supporting Australia's transition to a net-zero economy.

At the household level, there are signs that the rise in compulsory savings is feeding into asset markets in more uneven ways. Australian households receiving employer contributions are often reducing their private saving and redirecting more into mortgage repayments, effectively leveraging against housing. As a result, much of the wealth accumulation tied to superannuation contributions is accompanied by increased property investment, encouraged by both tax incentives and housing's exempt status under pension means testing. This is intensifying housing financialisaton, where rising household wealth is concentrated in property ownership rather than being spread to other forms of productive capital.

While this still results in net wealth increases, it deepens inequality over time, particularly between renters and owners. This dynamic also crowds out investment in more collectivised national assets that could yield wider economic and social returns, such as infrastructure and climate resilience, underscoring the role of policy in shaping how and where capital flows.

In contrast to Australia, KiwiSaver's fossil fuel investments surged 18% to $4.42 billion by September 2024, despite 71% of New Zealanders wanting to avoid such holdings (Mindful Money, 2025). Most KiwiSaver funds remain concentrated in publicly traded assets, with just 2–3% allocated to private assets like transport and renewables. The New Zealand Government has been consulting on reforms to ease private asset investment by KiwiSaver providers, presenting an opportunity to better align long-term savings with long-term national investment goals. While international examples such as Australia highlight both the opportunities and challenges of expanding into private assets, any reforms should be carefully designed to support more productive, inclusive and sustainable outcomes in the New Zealand context.

Looking ahead, lifting KiwiSaver's contribution rates could increase New Zealand's capital pool. Under current projections, KiwiSaver is expected to grow to $4.4 trillion by 2073 under baseline settings. If made compulsory (for example, through employer-only contributions), this could reach $5.4 trillion in the same period, while also increasing coverage among low-income, part-time and younger workers, groups who currently participate at lower rates and therefore do not benefit equally from KiwiSaver's incentives. Increasing contribution rates to a level like Australia's 12% could further expand this asset pool to $6.6 trillion, pooling an additional $2.2 trillion in capital relative to the baseline. This would materially reduce New Zealand's reliance on foreign capital, lower national borrowing, and support capital deepening, but only in so far as that capital is deployed towards building the types of housing, infrastructure and services actually needed to support an ageing population (rather than ballooning the value of existing houses).

Strengthening this policy focus and supporting more inclusive forms of investment is essential. Socially, higher savings would also help pre-fund retirement costs, easing future tax burdens on younger generations and reducing the risk of social polarisation.

> [lifting KiwiSaver's contribution rates] ... would materially reduce New Zealand's reliance on foreign capital, lower national borrowing, and support capital deepening ...

Contribute more

The Netherlands demonstrates the long-term benefits of saving more, starting earlier and contributing steadily. This approach has delivered strong retirement outcomes. Dutch retirees receive one of the highest replacement rates in the OECD (nearly 97% of their pre-retirement income), allowing most to maintain their standard of living (CPB Netherlands Bureau for Economic Policy Analysis, 2021). Poverty rates among older people are low, and the system is reasonably equitable across income levels.

The Dutch system is built on high, stable contribution rates: 18% from workers and 6.15% from employers, totalling 24.15% of wages, three times New Zealand's combined default rate of 8% (Te Ara Ahunga Ora Retirement Commission, 2021). These pooled contributions benefit from decades of steady accumulation and investment at scale, helping to build national capital and reduce future fiscal pressures.

The Netherlands' head start matters too. The Netherlands began its second-pillar pension savings in the 1950s. By 2019, pension assets had grown to over €1.9 trillion, more than twice the country's GDP. Although their system shares similarities with ours, combining a universal public pension with a workplace savings scheme, outcomes differ sharply (CPB Netherlands Bureau for Economic Policy Analysis, 2021). Their national savings rate is 13.6%, while New Zealand's is just 3% (OECD, 2022). At the same time, we hold some of the highest household debt levels in the OECD (Parliamentary Library, 2020).

A key difference lies in how each system treats saving. In New Zealand, saving remains optional; in the Netherlands, it is treated as a basic right of working life. Retirement saving there is automatic and universal, a standard part of earning a wage rather than a personal choice or financial luxury. New Zealand's opt-out design, by contrast, means that those who are financially stretched are more likely to miss out on both government subsidies and employer contributions. Technically, these supports are available to all, but structurally, they reward only those who can afford to contribute. As a result, people with the least financial flexibility are excluded from benefits routinely received by higher earners.

This is not a critique of New Zealand Superannuation's generosity, which provides important support for older people, especially those on lower incomes. However, universality does not necessarily guarantee fairness or fiscal sustainability. By way of contrast, Australia's means-tested Age Pension targets support towards those most in need, with around 60% of retirees receiving partial or full benefits, while higher-income retirees receive little or none, whereas the Netherlands combines a modest, broadly available state pension with compulsory, pre-funded occupational pensions covering nearly all workers. This hybrid model promotes both inclusivity and long-term fiscal resilience by ensuring that contributions and benefits are more closely aligned and sustained at appropriate rates. New Zealand might learn from these approaches as it considers how to evolve its retirement income system towards greater fairness, coverage and sustainability.

The benefits of a lifted gaze

Thinking long-term instead of short will bring important economic and social benefits for New Zealand.

Strengthening KiwiSaver and encouraging saving habits from an early age can build larger retirement balances over a lifetime, support early asset accumulation, and improve financial literacy.

Strengthening KiwiSaver and encouraging saving habits from an early age can build larger retirement balances over a lifetime, support early asset accumulation, and improve financial literacy.

Like Australia's superannuation system, which allocates more capital to relatively more alternative, domestically productive assets, New Zealand could benefit from enabling more investment towards areas with long-term public value, including infrastructure, clean energy and, where appropriate, new housing – for example, build-to-rent, which is a common pension investment in Europe and the United States. While not all build-to-rent models deliver meaningful outcomes, targeted investment in quality, community-oriented developments could offer stable returns while addressing real social needs.

Acemoglu and Robinson's work on social equilibria reminds us that societies frequently face moments of significant change: 'saltational' moments of sudden and discontinuous cultural change, through which institutions can either promote inclusion or deepen extraction and reinforce inequality. While New Zealand's current system appears inclusive with its universal pension, deeper challenges remain. Without longer-term planning, the burden of today's policy gaps risks falling on younger generations and those yet to be born.

Michael Cullen was one of the few recent leaders who recognised this and emphasised the importance of acting with foresight. As social divides widen, decisions made today carry profound consequences. Acting and making thoughtful policy choices will help build a stronger, more equitable economy for the generations of 2100. Some important steps could include:

- placing greater emphasis on explicit long-term coordination and accountability across institutions to ensure that policy decisions reflect the interests of both future retirees and working-age populations over 50–75 years;
- moving towards compulsory KiwiSaver, treating retirement saving as a fundamental right of working life rather than an optional extra, with gradually increasing contribution rates like in the Netherlands and Australia;
- starting savings early, ideally with automatic enrolment and subsidies to build assets from birth, as in Singapore;
- enabling KiwiSaver funds to invest more in sustainable assets and green infrastructure to support New Zealand's shift to a net-zero economy.

Strengthening the savings system to deliver sustainable and equitable retirement outcomes is within our grasp, but only if today's leaders look beyond the next election cycle and commit to mechanisms that hold them accountable to the future. With deliberate, long-term attention, we can give the New Zealanders born today a fair chance at financial security in 2100.

A more equal future will not happen by default. Our institutions tend, and have tended, towards extraction and investment in unproductive assets (e.g., housing that already exists), leaving contemporary generations with a need to course-correct but without mechanisms set to compel it. Real stewardship requires intentional policy, clear direction and decisive action to ensure that future generations have, and can make, their own choices.

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2 The dependency ratio is expected to rise from 14.5 in 1950 to 57.29 by 2100 (data obtained from Statistics New Zealand).

3 Andrew Bayly, 'Government response to the 2022 Review of Retirement Income Policies', letter of expectation to the Retirement Commissioner, 11 March 2024, https://assets.retirement.govt.nz/public/Uploads/Retirement-Income-Policy-Review/2025-RRIP/Letter-from-Hon-Andrew-Bayly-to-Jane-Wrightson-2025-Review-of-Retirement-Income-Policies-Terms-of-Reference.pdf.

3 Not all disciplines or scholars have overlooked these risks. Modern scholars as early as Karl Polanyi have long upheld the role of political economy and the potential for rapid social and economic disruptions to undermine institutional stability. However, this perspective has not been the dominant focus of the economics discipline during the neoliberal period. More recently, Acemoglu and Robinson (2023) have emphasised a different view: they argue that cultural sets, at times, shift very rapidly, in periods of what they call 'saltational' shifts. Such moments of discontinuous social change can profoundly alter how a society trusts, saves and plans for the future.

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Suzy Morrissey

An Overview of the Pensions Policy Agenda in the United Kingdom

Abstract

The UK pensions system has been under political scrutiny since the change of government in mid-July 2024 and the initiation of a two-part pensions review. The first part of the review focused on growth, particularly UK investment, and changes have been proposed in a Pension Schemes Bill submitted to Parliament in June 2025. Part two of the pensions review will focus on adequacy and commenced in July 2025.

This article outlines some of the features of the UK pensions system and provides a comparison with similar elements of the pensions landscape in Aotearoa New Zealand. It finds differences as well as similarities in the state pension and occupational pension and KiwiSaver policy settings, along with policy-setting changes that have been proposed to increase retirement savings but remain unactioned.

The article also outlines the pending changes arising from the government's growth agenda in the UK, and considers the similarities and differences with investment approaches in Aotearoa New Zealand.

Keywords state pension, workplace pensions, auto-enrolment, investment, policy

Many of you will be broadly familiar with the UK pensions system, and it has several features that a New Zealand reader would recognise. However, it has been under particular scrutiny since the Labour government was elected in July last year, and the following month commenced a pensions review. Part one of the review built on work already underway and focused on investment, and after a series of consultations and an interim report, a final report was issued in May (UK Government, 2024, 2025). Subsequently, a Pension Schemes Bill was presented to Parliament in June, resulting in a number of interesting changes to pensions in the UK. This article provides a broad overview of the UK pensions system and highlights some upcoming policy changes.

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State pensions

The UK state pension is contributory (unlike New Zealand Superannuation) and requires at least 35 'qualifying years'

of National Insurance contributions to receive the full pension and at least 10 qualifying years to receive a partial state pension. Pension credit, a means-tested benefit for people of state pension age, may be available for those who do not meet the state pension eligibility requirements or only receive a partial state pension (UK Government, n.d.b). National Insurance is payable by all those aged 16 years and over who earn over the minimum financial threshold (£242 per week from one job for employees and £12,570 a year profit for the self-employed) (UK Government, n.d.a). Provision is made for those who undertake unpaid work by including receipt of statutory maternity pay, paternity or adoption pay, child benefit and the carer's allowance as contributing years, along with receipt of universal credit for those seeking or unable to participate in paid work.

The state pension age for both men and women is currently set at 66 and is rising to 67 between 2026 and 2028. There is a legislative mechanism to review the state pension age at least once every six years. The secretary of state commissions the review and receives two reports, one from the Government Actuary's Department, and the other from an independent reviewer. The Government Actuary's Department considers the proportion of lives that future individuals can expect to spend over the state pension age (SPa) and how SPa could be changed to maintain the proportion specified by the government (more below). The independent reviewer considers the wider factors that should be taken into account when setting SPa. The secretary of state then publishes a report on the outcome of the review, and any changes to SPa must be made in legislation and approved by Parliament (Pensions Policy Institute, 2024). The next review will commence in July 2025.

There is guidance on the proportion of adult life that a person should spend in receipt of the state pension. It is slightly dated, issued by a previous government, and not in legislation, but it continues to be used as a reference. As part of the 2013 Autumn Statement, the chancellor made an announcement that people should spend, on average, up to one third of their adult life drawing a state pension. This is determined as follows (where adult life starting age is set at 20 years):

> ... the contributory UK state pension does not have an earnings-related base payment (or target payment level), but it includes the increase in earnings, along with CPI and 2.5%, within its 'triple lock' method of annual uprating.

Proportion of adult life spent in receipt of state pension = (life expectancy at SPa) / (life expectancy at SPa + SPa – adult life starting age)

This means that changes to life expectancy are considered in the context of this principle. (Department for Work and Pensions, 2013).

There is currently no equivalent guidance in New Zealand, although the idea was considered in the Retirement Commission's review of retirement income policies in 2013 and 2019, and in subsequent work by the New Zealand Society of Actuaries' Retirement Income Interest Group in 2024.

Another interesting feature of the UK state pension is the 'triple lock' mechanism for annual adjustments. Since 2011 the state pension has been 'uprated' by the higher of 2.5%, the increase in earnings, or the Consumer Prices Index (CPI) (other than for one year during the Covid-19 pandemic) (Pensions Policy Institute, 2024). In April 2025, the triple lock resulted in a 4.1% increase to the state pension, compared with a 1.7% increase for those receiving pre-state pension age main benefits (Harker, 2024a).

This generous mechanism for uprating, which effectively guarantees an annual 2.5% increase, but, as this year, can provide more, has been subject to scrutiny by commentators. At the start of July, the Institute for Fiscal Studies issued a report calling for the triple lock to be replaced due to the way it 'ratchets' up the value of the state pension in an unpredictable way. An alternative 'smoothed earnings link' approach to the state pension was recommended, with a new target-level base payment expressed as a share of median full-time earnings, and uprating based on inflation (Cribb et al., 2025). Unlike in Aotearoa New Zealand, where New Zealand Superannuation is calculated with respect to average ordinary time weekly earnings (Te Ara Ahunga Ora Retirement Commission, 2021), there is currently no basis for the amount of the UK state pension. The new state pension currently represents approximately 24.8% of mean full-time earnings (Pensions Policy Institute, 2024). This compares poorly against economically similar comparison countries. The UK has an overall net replacement rate of 54.4% from mandatory pensions for an average earner, which is below the OECD average of 61.4% and the EU27 average, which is closer to 70% (Harker, 2024b). The figure for Aotearoa New Zealand is 44.5% (but this excludes KiwiSaver, as it is a voluntary scheme) (OECD, 2023).

To summarise, the contributory UK state pension does not have an earnings-related base payment (or target payment level), but it includes the increase in earnings, along with CPI and 2.5%, within its 'triple lock' method of annual uprating. There is guidance relating to setting the age of eligibility for the state pension, and the overall net replacement rate from mandatory pensions for an average earner is 54.4%. Non-contributory New Zealand Superannuation is calculated with respect to earnings and reviewed annually. The age of eligibility is a political setting and the replacement rate is only 44.5% for an average earner.

Defined benefit workplace pensions – surplus extraction

Historically, most workplace pensions in the UK were defined benefit (DB) schemes,

which provided pension income based on salary during working life. However, DB schemes are now generally only available to public sector workers, with the remaining private sector DB schemes closed to new members.

As life expectancy increases (for some), the providers of DB schemes have seen their longevity risk exposure increase, which, along with the introduction of new regulations, has seen many schemes seek a 'buy-out' solution. This involves all the relevant risks associated with some or all members being transferred from the scheme to an insurer, who then pays the pension income directly to individual members (Pensions Policy Institute, 2017).

At present, three in four DB schemes have a large surplus, resulting in a collective total surplus of more than £160 billion. This surplus has attracted political attention and the government has included provision in its new Pension Schemes Bill to allow trustees to release part of their surplus to boost investment. Provisions will also be included to protect members and the requirement for trustees to fulfil their duties towards scheme beneficiaries will continue (Department for Work and Pensions, 2025).

The equivalent 'legacy' DB workplace pensions in Aotearoa New Zealand may be the very small collection (around 50) registered DB or hybrid DB/cash accumulation workplace savings schemes that appear on the Register of Managed Investment Schemes in New Zealand. Rather than surplus extraction, the focus is on how to exit, because they operate at a disproportionately high cost in terms of trusteeship, service provision and legislative compliance, but wind-ups are effectively prohibited and there are no reliably workable alternatives available (Financial Services Council NZ, 2023).

Defined contribution workplace pensions – investment strategies

The Mansion House accord is a voluntary agreement in which 17 workplace pension providers, managing around 90% of active savers' defined contribution (DC) pensions, pledged to invest 10% of their workplace portfolios in 'productive' assets (infrastructure, property and private equity) by 2030. At least 5% of these portfolios will be ringfenced for investment in the UK. The government expects this move to release £25 billion directly into the UK economy by 2030 (HM Treasury, Bell and Reeves, 2025). The accord started life under the previous government as the 2023 Mansion House compact, where 11 funds pledged to invest 5% of their workplace DC default funds in unlisted companies by 2030.

The New Zealand government has recently proposed changes to make it easier for KiwiSaver providers to invest more of the funds they manage in private assets ...

There has been some scepticism about the availability of suitable investments. Calls have been made for a 'pipeline' of good-quality opportunities for potential investors to avoid a price-increasing race towards potentially underperforming assets.

Although the accord is voluntary, and only covers those providers who signed it, the government is keen to ensure that investment in UK assets is increased. This was evident in the Pensions Investment Review, which had objectives of tackling fragmentation, boosting investment, increasing saver returns and addressing waste in the pensions system. A key recommendation of its final report, subsequently introduced in the Pension Schemes Bill, was to introduce a reserve power that would enable the government to mandate pension scheme investment in private assets, including UK assets. The bill also includes provisions and safeguards to protect savers' interests, and any requirements under the reserve power will be consistent with the principles of fiduciary duty (UK Government, 2025).

There had been speculation as to whether the Pension Schemes Bill would directly include a mandate in the legislation, rather than a reserve power, and debate continues on the matter of fiduciary duty in the context of a mandate. One view is that a mandate would make it 'easier' to take the investment decision, but there is some reluctance over any kind of direct control over investment decisions. On a related point, the question of potential redress if the UK private sector investment had a lower return than alternative investment remains unanswered.

The situation in Aotearoa New Zealand has parallels and contrasts. KiwiSaver funds already invest a significant portion of their funds in domestic assets (40% at March 2025) (Reserve Bank of New Zealand, 2025). However, little of this investment is in private assets: currently only around 2–3%. The New Zealand government has recently proposed changes to make it easier for KiwiSaver providers to invest more of the funds they manage in private assets (Ministry of Business, Innovation and Employment, n.d.). The rationale for change is similar (broader investment opportunities, increased return for savers, to support the domestic economy), but the New Zealand approach of decreased regulation differs from the UK approach of legislative enforcement.

The New Zealand Superannuation Fund also has a significant domestic investment focus. It currently has 10.6% of its portfolio, or $8.4 billion, invested in New Zealand assets. In 2009 it received direction from the government to identify and consider ways to increase the allocation of New Zealand assets in the Fund. Since that time the value of investments has grown (from around $2.5 billion in 2009 to $8.4 billion in 2024), but the percentage of New Zealand assets as a proportion of the total investment portfolio decreased (from around 21% in 2009 to 1% in 2024). This reflects relative growth rates and market size of domestic and international investments. The investment in New Zealand is represented in large part by listed equities (35%), but also includes infrastructure at 1%, growth capital and private equity real estate

at 6%, rural land at 10% and timber at 24%. The total investments include 8% in fixed income and 16% in other private companies (Guardians of New Zealand Superannuation, 2024).

DC workplace pensions – 'mega-funds' and LGPS pooling

With the stated intention to 'reap the benefits of scale that we see abroad, with lower costs, an ability to invest in a wider range of assets, and higher returns for savers' (UK Government, 2025, p.6), the government has also made changes to create 'mega-funds' within DC workplace pensions. By 2030, occupational pension scheme providers will be required to have at least one main default arrangement with £25 billion in assets under management, with the government having indicated that this quantum is where the benefits of scale start to be realised. The 2030 timeline has some flexibility. Provided they are worth over £10 billion by 2030, and can demonstrate a clear plan for growth, funds have until 2035 to reach the £25 billion target. These changes were announced in the Pensions Investment Review final report.

Consolidation has been a feature of the DC market in the UK for some time, but has not yet produced 'mega-funds'. Between 2012 and 2022, the number of non-micro trusts fell by two-thirds, from 3,660 to 1,220, and the average size of trust-based schemes rose from £6 million to £117 million over the same period. The average size of a master trust stood at £2.9 billion at the end of 2022 and £8.8 billion at the end of 2023, with the five largest reporting assets of £113 billion (Pensions Policy Institute, 2025b). By comparison with the New Zealand KiwiSaver market, a total of $111.8 billion of funds were under management at 31 March 2024, across 38 KiwiSaver schemes. The 17 largest KiwiSaver schemes hold 95% of the invested funds between them ($105,947 million) and the smallest 21 schemes hold 5% (hold $5,811 million) (Financial Markets Authority, 2024).

The government has also applied a consolidation perspective to the local government pension scheme (LGPS). The LGPS is one of the largest pension schemes in the world, set to grow to £1 trillion by 2040, and the government wants to unlock the investment potential of the scheme and strengthen the focus on local investment. The Pensions Investment Review concluded that the LGPS should be required to 'pool' its investments by March 2026. This will require local authorities to establish investment management companies for their pool, transfer all assets, and take their principal investment advice from their pool, which will also implement the LGPS's investment strategy (UK Government, 2025, ch.4).

Similarly to the discussion above regarding the Mansion House accord and investment strategies, the government has decided to include in legislation the power to direct local authorities to participate in a specific investment pool where it considers it necessary to protect the interests of LGPS members and local taxpayers (Pensions Policy Institute, 2025c).

Auto-enrolment has been part of KiwiSaver's design since its inception in 2007 and is largely responsible for the high rates of KiwiSaver membership (along with initial incentives, such as the $1,000 'kick-start' payment).

DC workplace pensions – auto-enrolment

Auto-enrolment has been part of KiwiSaver's design since its inception in 2007 and is largely responsible for the high rates of KiwiSaver membership (along with initial incentives, such as the $1,000 'kick-start' payment). The result is membership numbers of 3,360,043 from a total population of 5,287,500, or 63.5% of the total population (Inland Revenue, n.d.; Infometrics, 2024). When considered in the context of all those in paid employment, KiwiSaver membership is 80%, rising to 90% of all eligible paid employees (Te Ara Ahunga Ora Retirement Commission, 2024).

However, auto-enrolment was only introduced in the UK in 2012, at the recommendation of the Pensions Commission, and it is not as comprehensive. As well as being introduced in a staggered manner that was not complete until 2018, auto-enrolment only applies to those aged over 22 years who earn over £10,000 p.a. with a single employer. This means that low earners, part-time workers, and people working multiple jobs are effectively excluded from auto-enrolment and results in women being disproportionately ineligible. Of the 13 million women employees in the UK, around 2 million (15%) do not meet the auto-enrolment qualifying criteria, compared with 9% of male employees. Women represent 58% of the workers who do not meet the earnings threshold (Pensions Policy Institute, 2025b).

This does not compare well with KiwiSaver, where contributions apply from the first $1 earned, but KiwiSaver also has an age limitation. The employer 'matching' contribution is not required where the employee is under 18 or over 65, and Te Ara Ahunga Ora Retirement Commission has called for this limitation to be removed (Te Ara Ahunga Ora Retirement Commission, 2024).

Recommendations for improvement to auto-enrolment were offered by the Automatic Enrolment Review panel which published a report in December 2017. An Act to enact the proposals from the review has received royal assent but has not been implemented. Key amongst the recommendations was reducing the age from 22 to 18 and removing the earnings threshold.

Current policy debate on auto-enrolment in the UK has a strong focus on contribution rate. At present, DC schemes must have employer contributions of at least 3% and total contributions of at least 8% of qualifying earnings (Pensions Policy Institute, 2024). Various stakeholders advocate for a combined rate of 12%. While this figure will be familiar

to New Zealand readers as the superannuation guarantee rate in Australia, and the UK does look to Australia in this regard, it has been raised by others. The Pensions and Lifetime Savings Association was recommending 12% back in 2017 (Pensions and Lifetime Savings Association, 2017), and last year the Resolution Foundation calculated 12% as the contribution rate required to provide a 'living pension' (Broome, 2024). The contribution rate is expected to be a key feature of part two of the pensions review which will commence later this year (part one produced the *Pensions Investment Report* referred to above). The terms of reference for part two have not been issued, but ministers have indicated that it will be about adequacy.

To summarise, auto-enrolment has been effective in the UK as well as in Aotearoa New Zealand, but the policy setting could be strengthened by implementing previously called for changes. This would mean employer contributions from the first £1 in the UK and for younger and older workers in both the UK and New Zealand.

DC 2.0 – collective defined contribution

A new development in the UK pensions system is the introduction of a collective defined contribution (CDC) scheme. Despite its name, CDC has similarities to DB, as it provides members with an income for the entirety of retirement, rather than a pension pot that can be accessed flexibly. However, CDC income levels are not guaranteed, unlike traditional DB schemes. Income levels are determined by the investment performance of the scheme. Calculations are made and any adjustments calculated annually, and there is the potential for entitlements to be adjusted down as well as up, even after retirement.

Contributions are usually expressed as a percentage of salary or total earnings, and the rate of contribution could be a flat rate, or tiered by factors such as age, length of service, seniority, or level of earnings. Contributions are then invested collectively for members in both accumulation and decumulation. It is argued that this will allow CDC schemes to take a longer-term approach to investment than individual DC schemes (Pensions Policy Institute, 2024).

At present, only one CDC scheme is active (Royal Mail), but more are expected in the future. The Royal Mail scheme is a single employer CDC scheme, but there is interest in the potential for multi-employer CDC schemes, which would allow for greater risk sharing. With only one, very new scheme in the UK, it is difficult to draw any conclusions about its contribution to the UK pension landscape, and even more difficult to see whether it has anything to offer for Aotearoa New Zealand.

KiwiSaver funds, by contrast, already have significant domestic investment, but are also currently under review to increase their investment in private assets.

The Royal Mail example came about after a period of financial difficulties for its pensions scheme, and developing the CDC scheme involved close work with the relevant trade union. A similar combination of factors may not arise again. In addition, recent work by the Pensions Policy Institute has highlighted areas for policy consideration regarding CDC schemes. Two key issues are an intergenerational cross-subsidy effect and the impact on smoothness of benefits that arises from attempting to pool investment risk across generations.

The Pensions Policy Institute notes that intergenerational cross-subsidy could create dissatisfaction among members, or lead to a selection bias from older members, who have more incentive to join than younger members. They also note that while shared indexation reduces the volatility of benefits in retirement, it makes only a small difference to the volatility of projected benefits before retirement, challenging some findings in the literature which suggest that CDC schemes result in much more predictable pensions. CDC schemes in other countries have used devices such as funding gates, buffers and reserves to smooth the effect of particularly poor periods of scheme performance. However, when these were applied in the Netherlands after the global financial crisis in 2008, they were poorly received by members and generated controversy (Pensions Policy Institute, 2025a).

Summary

The UK pensions system is similar in some ways to that in Aotearoa New Zealand and they share some common features (a state pension, a system for voluntary workplace retirement saving, a private pension market). However, design features make a big difference, with a contributory state pension in the UK that can see people receive a full, partial or no state pension when they reach state pension age compared with the large coverage achieved by New Zealand Superannuation (although this may change over time as a result of the extended residency requirement).

Since 2018, the UK workplace pension schemes have shared a key design feature with KiwiSaver, namely auto-enrolment. While it has been similarly successful in increasing retirement savings coverage, changes have been previously proposed to increase coverage further (especially for women in the UK), but they still await implementation. Both country's schemes have age restrictions that unnecessarily restrict benefits to savers.

The UK government's focus on domestic economic growth has had a number of implications for pensions policy. Upcoming legislative change will support DB schemes to extract surplus funds for investment, as well as creating DC workplace pension scheme 'mega-funds', and asset 'pools' for local government investment. Both the mega-funds and the LGPS asset pools will ultimately be required to invest minimum proportions of their assets in the UK private market. KiwiSaver funds, by contrast, already have significant domestic investment, but are also currently under review to increase their investment in private assets. The proposed approach in Aotearoa New Zealand is to

make legislative change to facilitate investment, rather than directly influence investment strategies as in the UK. A new pension design, collective defined contribution (CDC), has recently been introduced into the UK, and has the potential to expand the pensions landscape, in both accumulation and decumulation phases.

Part two of the pensions review in the UK will commence in July, and while detailed comment has not been possible because the terms of reference are due to be issued after this article was submitted, it has been signalled that it will focus on adequacy. This is timely and relevant, as pension pots are still generally modest and attention is needed (especially for those people who are not employees) to ensure good financial outcomes in retirement. The Pensions Policy Institute has just released its yearly report, which uses its pensions framework to analyse the UK pensions system. The report title, *Progress Required for Adequacy: generational pressures and policy gaps*, makes clear the required focus area.

It has been a busy time for pensions policy in the UK and this is set to continue for some time yet. The policy design settings and discussions provide plenty for those working in pensions policy in Aotearoa New Zealand to consider.

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Alison O'Connell

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).

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.

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.

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.

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.

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.

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

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.

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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Michelle Reyers and Katy Mawson

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%

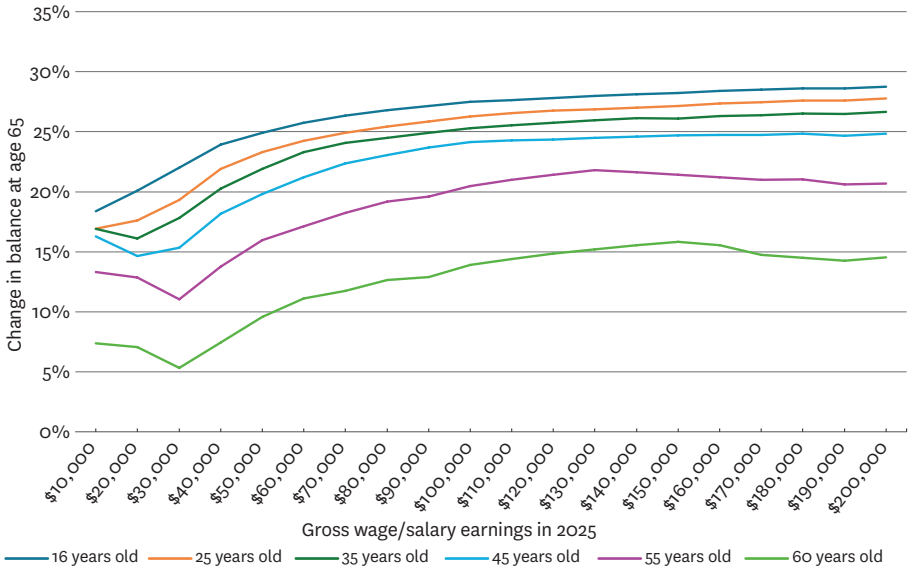
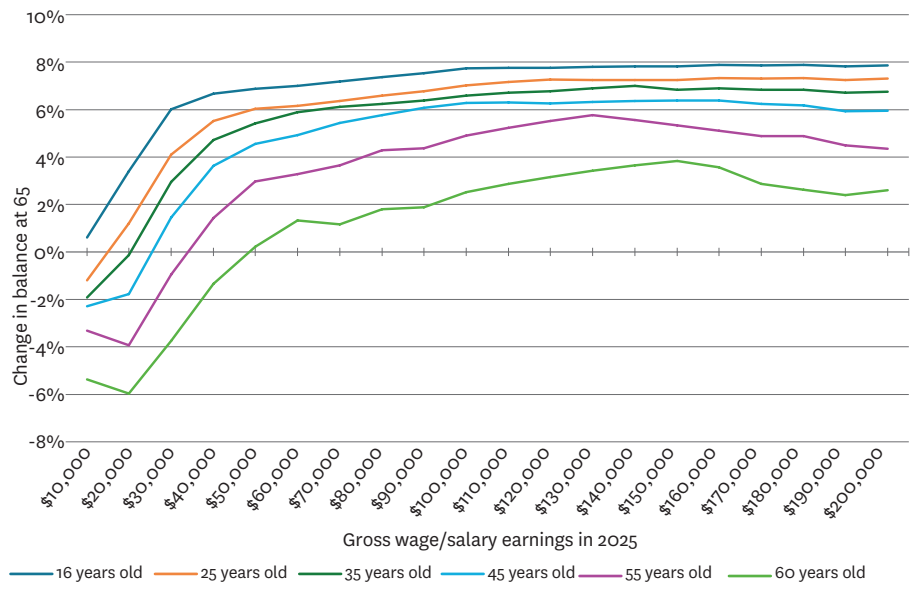


Figure 2: Percentage change in KiwiSaver balance at age 65 for members who contribute 4% whose employer contribution increases from 3% to 4%



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%

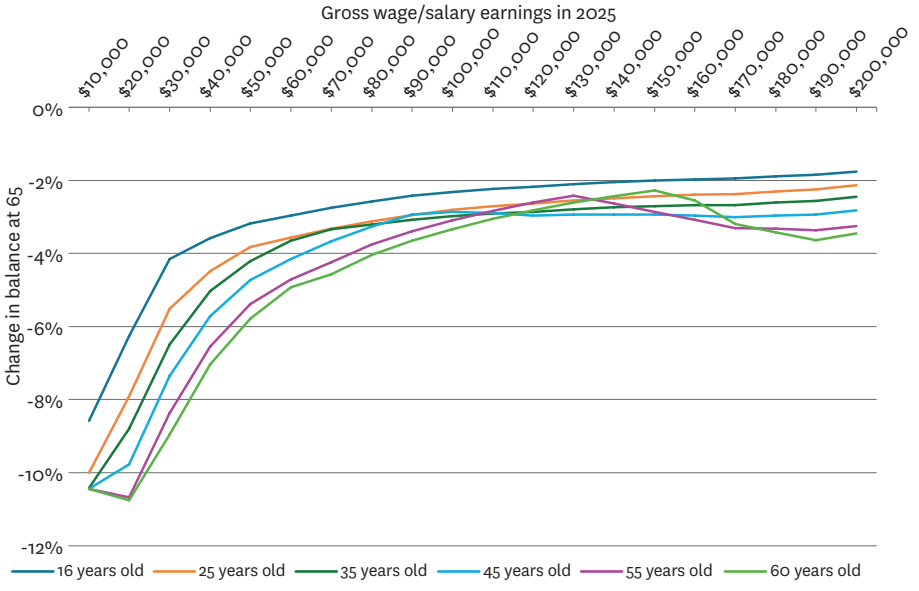


Figure 4: Percentage change in KiwiSaver balance at age 65 for members who have employer contributions at 4% and employee contributions at 3%

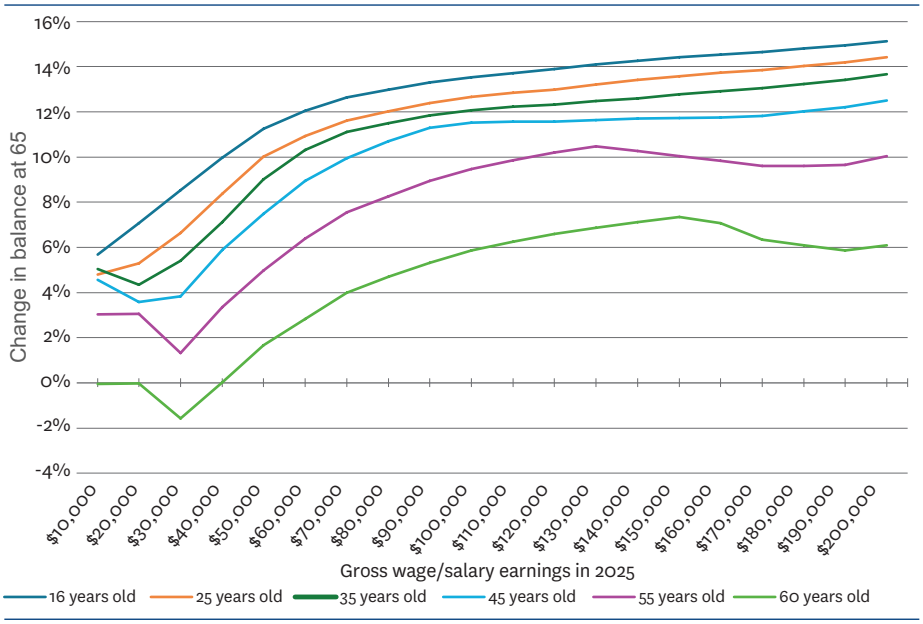


Figure 5: Breakdown of the change in KiwiSaver balance at age 65 for members where employer and employee contributions increase from 3% to 4%

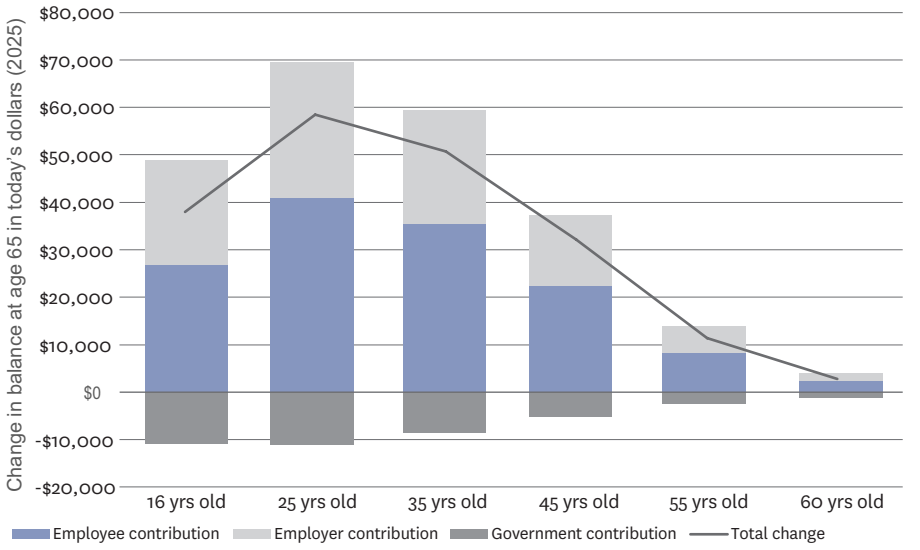
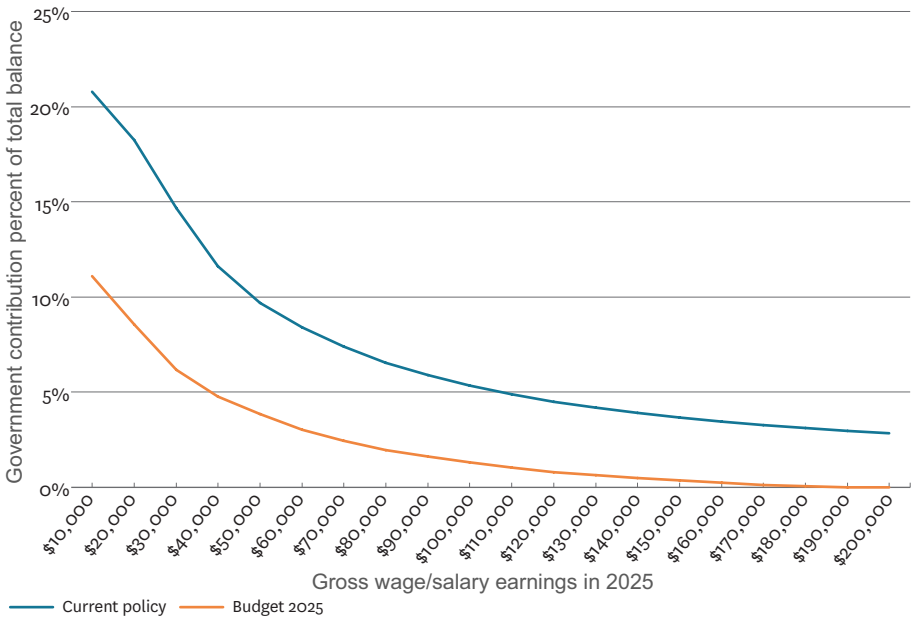


Figure 6: Government contribution as a percentage of total balance after 40 years



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).

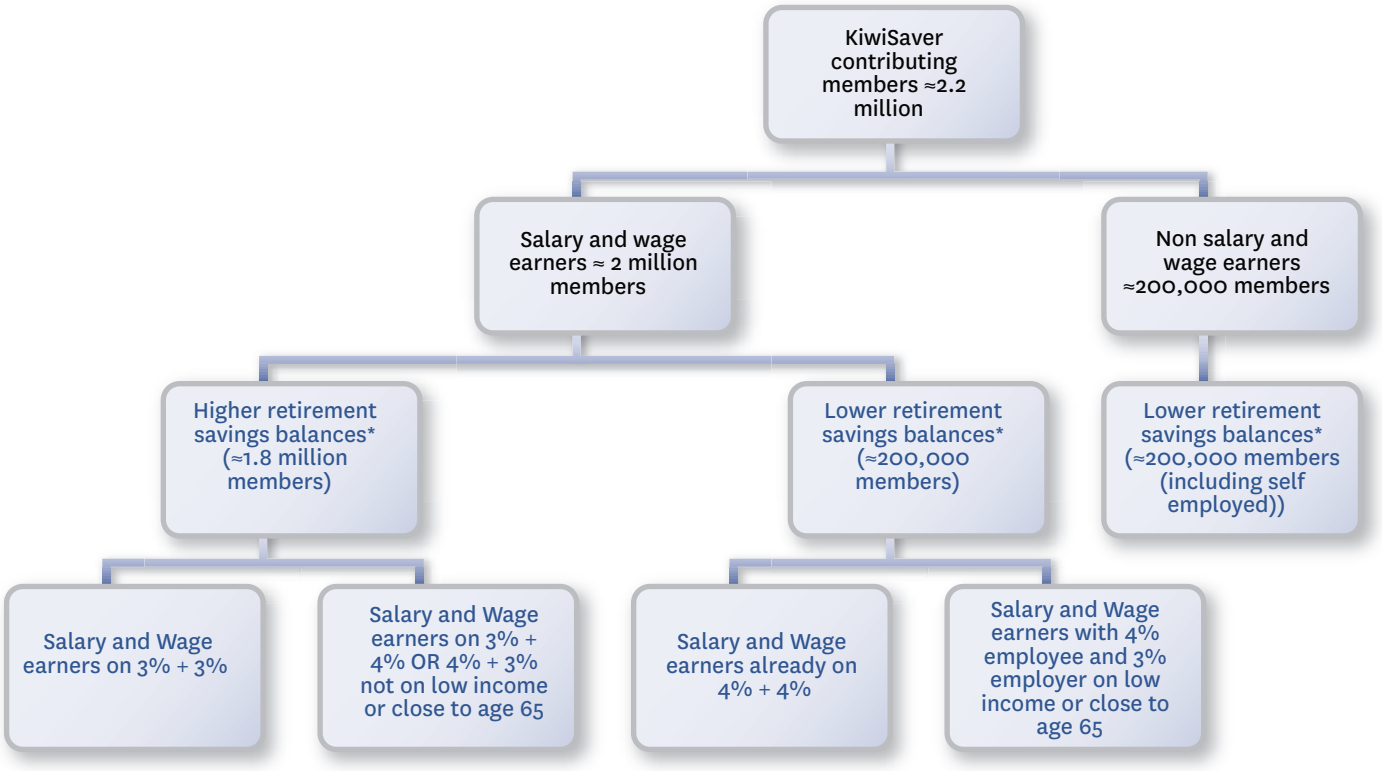
Ninety per cent of salary and wage earners (approximately 1.8 million members) are expected to have higher eventual KiwiSaver retirement savings balances. Generally, both low- and high-income earners will benefit from the change, but low-income earners are affected more than higher-income earners by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

Women and Retirement Income

a life-course perspective on policy solutions

Abstract

Men's KiwiSaver balances are on average 25% higher than women's. Through a life-course approach, this article identifies six critical stages where policy interventions could improve women's retirement income outcomes and reduce that gap: formal education and training, work, relationship status, parenting, housing tenure, and retirement. Drawing on data and evidence from New Zealand and overseas, the article argues that more coordinated interventions across these critical life stages could improve equity between women and men at retirement. The analysis reveals that while women and men start with similar incomes at age 15–19, the pay gap widens progressively through each life stage, creating cumulative disadvantage by retirement age.

Keywords retirement, gender, women, life course, pension policy, ageing, employment

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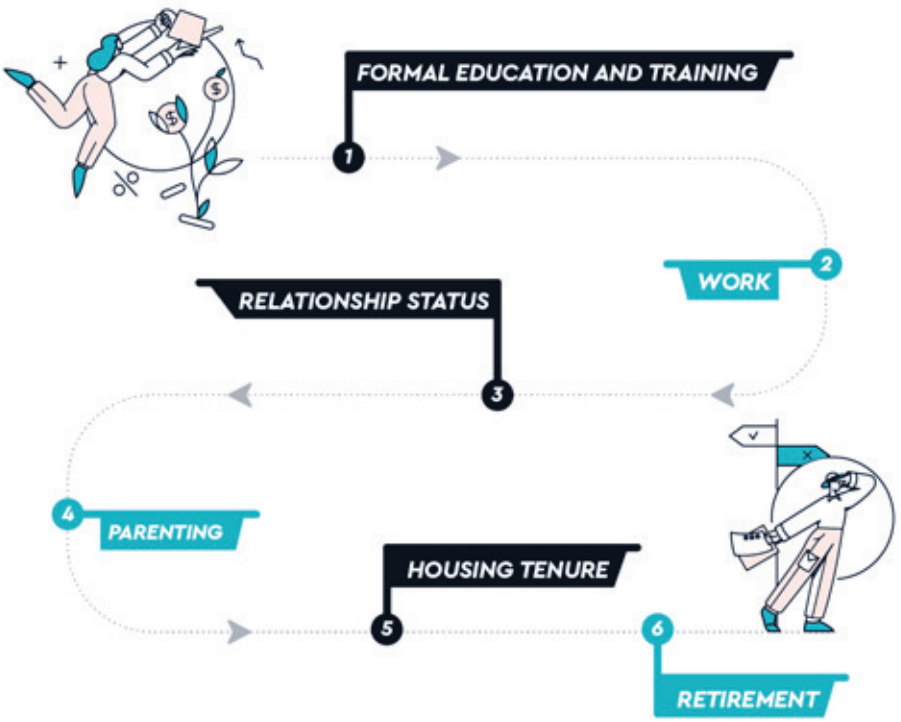
The retirement income landscape in New Zealand presents a complex challenge for gender equity. Recent studies reveal a persistent gap in KiwiSaver balances: men's average balances are 25% higher than women's, an increase from a 20% gap in 2022 (the gap was 25% in 2023 and 2024) (Melville Jessup Weaver, 2022, 2024, 2025; Te Ara Ahunga Ora Retirement Commission, 2025a). This disparity cannot be attributed to a single cause, but rather emerges from cumulative disadvantages experienced across women's lifetimes.

The significance of this issue extends beyond individual financial security. With women comprising the majority of the over-65 population and more likely to live longer than men, the adequacy of their retirement income has broader implications for social cohesion and public expenditure. Moreover, as housing costs rise and home ownership rates decline, the traditional model of retirement income that assumes mortgage-free home ownership becomes increasingly problematic for women.

Figure 1: The six life stages in a woman's life course, in relation to retirement income



This article takes a life-course approach to understanding women's retirement income, moving beyond the conventional focus on pre-retirement years to examine how decisions and experiences throughout life compound to create significant disparities in retirement income. The article identifies six critical life stages where policy interventions could meaningfully address these inequities, supported by data from New Zealand and international experiences and evaluative research.

The life-course framework

Life-course theory provides a valuable lens for understanding retirement income. It recognises that lives are lived in relatively ordered patterns shaped by age, social structures and historical change (Elder, 2000). The framework rests on five key principles that illuminate how women's retirement income trajectories differ from men's.

- *Time* considerations show how cultural and social expectations evolve. The norms for women entering relationships and the workforce in, for example, the 1970s differed markedly from today's expectations, affecting their financial participation and retirement planning approaches.
- *Life-span development* recognises that human development starts in and continues beyond childhood, with earlier experiences shaping future behaviour. For women, exposure to economic abuse or financial control within relationships can have a profound impact on their financial capability and their preparedness for retirement.
- *Timing* effects demonstrate how the age at which life events occur influences their developmental impact. The financial implications of motherhood, for instance, may vary significantly depending on whether it occurs in one's twenties, thirties or forties. This relates to loss of cumulative interest on retirement savings, but also potential differences in material wealth.
- *Agency* acknowledges that while individuals can make choices, these occur within historical, economic and social constraints. A woman's ability to pursue high-paying employment depends not only on personal preferences, but also on earlier educational opportunities, family circumstances and societal structures.
- *Linked lives* recognises that retirement outcomes are embedded in social relationships. Household income, intergenerational wealth transfers and relationship dissolution all significantly influence individual retirement income.

Life-course theory also includes three key and related concepts – trajectory, transition and turning points:

Trajectory: these mark the long-term paths of change over a life course. Examples are work life, education, parenting and marriage.

Transitions: these are new states or roles within trajectories. Examples are changing careers or becoming a mother.

Turning points: these are abrupt and substantial changes between states. These may be the death of a loved one, or a health challenge.

Six critical life stages

The five principles of life-course theory and the three concepts lead us to six stages that appear to matter the most for women's retirement income (This article discusses each of these stages in turn, as well as the potential policy levers that could be applied.):

- formal education and training;
- work;
- relationship status;
- parenting;
- housing tenure;
- retirement.

This article discusses each of these stages in turn, as well as the potential policy levers that could be applied.

Stage 1: Formal education and training

Financial capability forms the foundation for lifetime financial wellbeing, yet evidence suggests that financial education fails to engage women as effectively as men. Survey data from 2021 shows that only 30% of women reported receiving financial education at school, compared with 39% of men (Gamble, 2022a). This gap widens in workplace settings, where just 15% of women received financial education compared with 29% of men.

Several factors contribute to this disparity. The content of financial education may not resonate with girls and women. Financial education in the workplace may be offered at times when women are less likely to be working, or women may be over-represented in sectors where workplace financial education is less available. Notably, Māori, Pacific and Asian women were more likely than European women to receive financial education,

potentially reflecting their employment in the education, health and social services sectors.

Women consistently report lower financial wellbeing scores than men (Financial Services Council, 2021), and the research suggests that this reflects broader structural disadvantages, such as in financial education, rather than inherent risk aversion (Gamble, 2022a). Recent analysis by the New Zealand Society of Actuaries found that investment choices are driven by account balance size rather than gender, with both men and women choosing conservative funds when balances are small and growth funds when balances are larger (Retirement Income Interest Group, 2022).

Policy implications

The government's recent announcement that financial education will be integrated into the social sciences curriculum for Years 1–10 (in both English-medium and Māori-medium education) from 2026 (Stanford and Simpson, 2025) provides an opportunity to address gender disparities. However, success requires ensuring that the content resonates with female learners and that the impact of education programmes is continually evaluated using a gender lens. International evidence, particularly the Citi-Tsao programme in Singapore, demonstrates that targeted financial education for women can have long-lasting, positive impacts on their financial behaviour and self-sufficiency (Yoong, 2020; Yoong et al., 2023; Yoong and Rabinovich, 2020).

Stage 2: Work

The income gap between women and men begins early and widens rapidly. At ages 15–19, female average weekly income actually exceeds male income by $4 (Figure 2). However, by ages 50–54, men earn $653 more per week than women on average. This progression cannot be explained by levels of educational attainment, as women have higher rates of university entrance and higher rates of completing educational qualifications (Pacheco, Li and Cochrane, 2017). Instead, some of the gap reflects different patterns in labour market participation.

Early patterns establish trajectories that persist throughout working life. Women are more likely to work part-time (29% compared with 12% for men), to work multiple jobs (Statistics New Zealand, 2019), and to work for a shorter time in any given job. Self-employment rates have increased for women, from 8.1% in 2015 to 10.4% in 2024 (Statistics New Zealand, 2021), but this doesn't explain the KiwiSaver balance gap, as self-employed people are less likely to be members regardless of their gender.

Even accounting for employment arrangements, industry, occupation, age, ethnicity and region, between 64% and 83% of the gender pay gap remains unexplained (Pacheco, Li and Cochrane, 2017; Sin, Dasgupta and Pacheco, 2018). The Ministry for Women views this primarily as a product of behaviour, attitudes, and assumptions about women in work, including unconscious bias (Ministry for Women, 2023).

The gender pay gap translates directly into disparities in retirement savings. Women's KiwiSaver contribution rates match men's, but contribution amounts are lower because of women's lower earnings (Kirkpatrick, Meehan and Pacheco, 2024). Analysis shows that the gender pay gap explains only part of the KiwiSaver balance differential, with significant residual differences across all age groups.

Policy implications

Several intervention points emerge.

- Revisiting the default KiwiSaver strategy to incorporate life-cycle approaches could better serve women's different career trajectories (OECD, 2021). Used by many OECD countries, the life-cycle approach automatically adjusts investment risk as members age. KiwiSaver currently defaults to a 'balanced' strategy (the default strategy moved from 'conservative' to 'balanced' in June 2021).
- Improving incentives for the self-employed and people working multiple jobs could address women's over-representation in these categories.
- The recent changes to KiwiSaver government contributions are projected to disproportionately disadvantage women, Māori and Pacific people (Te Ara Ahunga Ora Retirement Commission, 2025b), highlighting the need for policy design that focuses on equity.

Stage 3: Relationship status

Relationship status significantly affects retirement income, with complex implications for women's financial security. Married individuals have higher median earnings and KiwiSaver contribution amounts, while 85% of those who opt out of KiwiSaver are unmarried (Kirkpatrick, Meehan and Pacheco, 2024).

Figure 2: Average weekly income, 2024

Note: includes all individuals and includes income from self-employment, wages and salaries, and government transfers.
Source: Statistics New Zealand Household Labour Force Survey, annual June

Single women are particularly likely to have inadequate retirement income. International research consistently shows that unmarried women, especially those who are divorced or who never married, are most at risk of inadequate retirement savings (EBRI, 2021; Fernandez, Kent and Tranfalgia, 2024). They have fewer assets and express lower confidence about retirement security compared with unmarried men. Partnered relationships provide access to pooled financial resources that can compensate for individual income disparities (Knox, Rice and Dunn, 2021)".

Separation and divorce present critical financial junctures. New Zealand data shows that women experience an average 29% income decline in the first year after separation, while men's incomes rise by 15% (Fletcher, Maré and Maloney, 2021). 'Grey divorce' – separation among those aged 50 and over – is increasingly common and has particularly severe financial consequences, as there is less time to rebuild retirement savings (Hung and Knapp, 2017; Lin and Brown, 2021).

Although KiwiSaver is part of relationship property that must be divided equally when couples separate, research shows that 75% of separating couples don't think about KiwiSaver when they are dividing their assets (TRA and Te Ara Ahunga Ora Retirement Commission, 2023). This oversight can have lasting implications for retirement income, particularly for women, who may have made career sacrifices during the relationship.

In New Zealand, intimate partner violence affects over half of women who have ever had a partner (Mellar et al., 2024), with economic abuse experienced by 16%. The consequences of intimate partner violence for women can include severely affecting their participation in the labour market, their savings capacity and their financial capability, with effects lasting well beyond the abusive relationship.

Policy implications

Increasing education and awareness, and automating KiwiSaver entitlements when couples separate could reduce the gender savings gap. Some jurisdictions, including Germany, the Netherlands, Poland and Switzerland, automatically split pension entitlements equally when couples divorce (Kreyenfeld, Schmauk and Mika, 2023) the pension credits that spouses have accumulated during their marriage are combined and then split equally between them upon divorce. Comprehensive reform of the relationship property laws sits outside the retirement income system. Ensuring that KiwiSaver balances get appropriate consideration in separations is crucial for women's retirement security.

Analysis within Statistics New Zealand's Integrated Data Infrastructure … shows that motherhood reduces women's hourly earnings by 4.4% on average and hours worked by 32.5%, resulting in an average financial loss of $113,000 over their careers …

Stage 4: Parenting

The 'motherhood penalty' is one of the most significant drivers of the retirement income gender gap. Analysis within Statistics New Zealand's Integrated Data Infrastructure (IDI) shows that motherhood reduces women's hourly earnings by 4.4% on average and hours worked by 32.5%, resulting in an average financial loss of $113,000 over their careers (Sin, Dasgupta and Pacheco, 2018). A woman leaving the workforce at age 30 could miss out on $318,000 in KiwiSaver savings by age 65 (NZIER, 2022).

The decrease in hourly wages is smaller for those who return to work within six months and larger for those who return to work more slowly. Among mothers who take longer than 12 months to return to work, the average decrease is 8.3%. Men, in contrast, experience no significant decrease in hourly wages upon becoming fathers (Sin, Dasgupta and Pacheco, 2018).

The impacts of childcare on labour market participation are stark. In 2021, 61.8% of sole-parent mothers were in paid employment compared with 82.9% of women without children. KiwiSaver contribution rates decline as the number of dependants increases, falling from 3.8% for those without children to 3.3% for those with four or more children (Kirkpatrick, Meehan and Pacheco, 2024).

Access to childcare continues to be a significant barrier. Research shows strong ethnic differences in access to childcare and satisfaction with the childcare provided: the system appears to be designed for the European majority and fails to meet the needs of other ethnicities (Sin, 2021). This contributes to disparities in labour market participation.

Recent policy changes have sought to address some aspects of the parenthood gap. From July 2024, parents on paid parental leave can receive 3% government KiwiSaver contributions if they contribute their own funds. However, this policy has limitations: contributions are based on leave payments rather than on full salary, coverage is limited to 26 weeks, and contributions are optional rather than automatic.

Policy implications

International evidence supports the value of government contributions to retirement savings during parental leave, with the OECD recommending that contributions continue at the same rate as when working (OECD, 2021). New Zealand's current approach could be strengthened by making contributions automatic, extending coverage beyond paid parental leave, and

basing contributions on pre-leave earnings rather than parental leave payments.

Compensation for periods away from the labour market to care for children is another way to improve equity. This usually takes the form of childcare credits. Because most pension plans are based on employment record, childcare credits ensure that the person's employment record is intact and continuous. Sweden's childcare credits approach, often cited as best practice, results in only a 1% pension reduction for women who take five years off work to care for children (Lis and Bonthuis, 2019).

Stage 5: Housing tenure

Housing is a critical component of retirement wealth, with home ownership serving as a key determinant of material wellbeing in retirement (Allen, 2019; Te Ara Ahunga Ora Retirement Commission, 2024b; Symes, 2021). However, women face distinct disadvantages in property ownership and wealth accumulation.

Analysis of property ownership shows that female-only ownership is marginally lower than male-only ownership, with mixed-gender ownership most common (CoreLogic, 2025). More significantly, men own substantially more investment property, and women tend to own cheaper homes in rural areas or central city apartments (CoreLogic, 2023). This pattern suggests lower levels of housing wealth accumulation for women.

Australian data and research finds that the fastest-growing segment of people at risk of poverty appears to be single older women (Faulkner and Lester, 2020; Patterson, Proft and Maxwell, 2019). Evidence that this may apply to New Zealand includes:

- higher proportions of women over 65 living in poverty compared with men (Yadav, 2024);
- the 115% increase in Housing Register applicants aged over 65 between 2019 and 2024 (Ministry of Social Development, 2024);
- home ownership rates declining with increasing age;
- women's higher rates of KiwiSaver withdrawals for financial hardship (Te Ara Ahunga Ora Retirement Commission, 2023); and
- older women being one of the most at-risk groups for homelessness (Bidois et al., 2024), as are women in general, particularly single mothers, young disabled women, wāhine Māori, Asian women and Pacific women (ibid.; Statistics New Zealand, 2024).

Policy implications

The accommodation supplement plays a crucial role for older renters, but eligibility limits have not kept pace with inflation. The cash assets limit of $8,100 per person, unchanged since 1993, may exclude many older people with modest KiwiSaver balances. The 2022 review of retirement income policies recommended raising this threshold to $42,000 (Te Ara Ahunga Ora Retirement Commission, 2022), which could significantly improve housing affordability for older women.

Stage 6: Retirement

The retirement life stage for women is characterised by greater reliance on New Zealand Superannuation (NZ Super), longer life expectancy, and substantial caregiving responsibilities. In 2023, NZ Super was the only taxable income source for 79% of women aged 65, compared with 72% of men.

Caregiving responsibilities can continue into retirement, with research consistently showing that women provide most informal care for spouses, parents and other relatives (Grimmond, 2014; Lapsley et al., 2020; Welfare Expert Advisory Group, 2019). A study of 80–90-year-olds found that three-quarters of the carers of people participating in the study were women, with the average carer age being 66 (Lapsley et al., 2020). While 53% of carers weren't employed, 47% worked full- or part-time while caregiving, highlighting the intersection of care responsibilities and employment.

'Sandwich caregiving' – providing care for both children and older adults simultaneously – disproportionately affects women and significantly affects their participation in employment (Ansari-Thomas, 2024). Intensity of care matters: women who provide 20 or more hours of weekly care are the least likely to be employed.

Differences in life expectancy compound retirement income challenges. Women are more likely to live longer than men, but also spend more years in poor health – 13.4 years compared with 11 years for men (Health New Zealand, 2024; Minister of Health, 2023). This creates a double burden: retirement savings must last longer and must also meet higher health costs.

'Sandwich caregiving' – providing care for both children and older adults simultaneously – disproportionately affects women and significantly affects their participation in employment ...

Ethnic disparities in life expectancy are substantial. Māori wahine live 6.3 years less than women who are non-Māori and non-Pacific, while Pacific women live 5.9 years less (Health New Zealand, 2024). These differences have significant implications for retirement planning and policy design.

Policy implications

Maintaining NZ Super as a universal benefit is crucial for women's retirement security (Te Ara Ahunga Ora Retirement Commission, 2024a). If there need to be fiscal savings, means-testing is preferable to raising the eligibility age. The latter would disproportionately affect women given their lower private savings, particularly Māori and Pacific women.

A policy option that is worth considering seriously is care credits – that is, topping up retirement contributions for women who spend time out of the workforce to care for others. UK modelling suggests that these top-ups could reduce the gender pension gap by 28% (Jethwa, 2019). Austria provides monthly pension insurance contributions for those caring for relatives, with contribution amounts based on previous earnings (Federal Ministry of Social Affairs, Health, Care and Consumer Protection, 2025). Care credit top-up approaches recognise the social value of women's unpaid care work and improve their retirement income security.

The evidence strongly supports taking a life-course approach to retirement income policy, recognising that women's career and life patterns differ from men's in ways that current policy settings do not adequately address.

Intersectional considerations

The retirement income gender gap intersects with ethnicity, disability, sexuality and other characteristics to create multiple disadvantages (Weil, 2023). Māori and Pacific women face both gender and ethnic pay gaps higher than the overall gap, at 15% and 17% respectively compared with all men (Ministry for Women, 2024a, 2024b). This results in significantly lower KiwiSaver contribution amounts. Pacific women average $1,765 in annual employee contributions compared with $3,320 for European men (Kirkpatrick, Meehan and Pacheco, 2024).

Self-employed people were less likely to be KiwiSaver members or to contribute (Gamble, 2022b). Although wāhine Māori continue to be under-represented in business, the number of self-employed wāhine Māori has increased over time, and wāhine Māori business owners tend to be younger than non-Māori self-employed women. The number of Asian female business owners has also increased. In contrast, the proportion of self-employed women identifying as European has fallen.

Women with disabilities face additional employment barriers, with disabled women having employment rates of 37–40% compared with 77% for non-disabled women (Whaikaha Ministry of Disabled People, 2023).

Gender-diverse individuals are substantially more economically vulnerable, with transgender women and gender-diverse people much less likely to be in employment, education or training (Carpenter, Kirkpatrick et al., 2024). International data shows that lesbian and bisexual women are significantly less likely to be homeowners than heterosexual women (Carpenter, Dasgupta et al., 2024). This adds another dimension to housing-related disparities in retirement income.

These intersecting disadvantages require policy responses that recognise the diversity of women's experiences and avoid one-size-fits-all approaches.

Discussion and conclusion

Women's retirement income disadvantage doesn't emerge suddenly at retirement, but accumulates across their lifetimes through multiple, interconnected mechanisms. The 25% KiwiSaver balance gender gap reflects deeper structural inequalities in financial education, occupational segregation, pay, employment, relationships, caregiving and access to childcare, and housing. No single policy intervention can address this complex challenge. Instead, coordinated action across multiple policy domains is needed, with interventions at different life stages working cumulatively to improve outcomes. Early interventions during education and working life may be costly, but could yield substantial long-term benefits.

The evidence strongly supports taking a life-course approach to retirement income policy, recognising that women's career and life patterns differ from men's in ways that current policy settings do not adequately address. As New Zealand grapples with an ageing population and rising living costs, it is becoming increasingly urgent to ensure retirement income security for all citizens, but particularly for women, who face systematic disadvantages.

The evidence suggests that several policy levers are worth investigating for New Zealand.

- Improve financial education to better engage women and girls, including evaluating the new curriculum requirements from a gender perspective, and providing targeted workplace programmes.
- Revise KiwiSaver settings to better serve women's different career patterns, including reconsidering the default investment strategy and improving access for the self-employed and people who work multiple jobs.
- Strengthen parental leave provisions by making KiwiSaver parental leave contributions automatic, extending coverage beyond 26 weeks, and basing contributions on pre-leave earnings rather than government paid parental leave payments.
- Increase awareness among women about entitlements to spouses' KiwiSaver balances on separation and consider providing for automatic 50–50 division of KiwiSaver balances.
- Improve housing support by raising accommodation supplement eligibility thresholds to reflect current costs and KiwiSaver balance realities.
- Investigate the potential to recognise unpaid care work through retirement contribution top-ups, following international models.
- Maintain NZ Super as a universal benefit while considering means-testing rather than age increases if fiscal savings are required.

The policy challenge is significant, but not insurmountable. International evidence demonstrates that well-designed interventions can meaningfully reduce retirement income gender gaps. New Zealand could learn from these experiences, while developing solutions suited to our unique context and values. The question is not whether we can afford to act, but whether we can afford not to address the systematic disadvantages that leave many women financially vulnerable in retirement.

Success requires sustained political commitment, cross-agency coordination and ongoing evaluation to ensure policies achieve their intended effects. Most importantly, it requires recognising that women's retirement income security is not just a women's issue, but a fundamental question of social equity and economic sustainability for all New Zealanders.

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Anne Hynds and Catherine Leonard

Managed iwi investment schemes

an exploratory study on retirement

Abstract

Managed iwi investment schemes and iwi savings schemes represent targeted financial initiatives established to enhance the economic security, autonomy and collective wellbeing of iwi members. These schemes are designed to address the unique needs of whānau (iwi-affiliated families), emphasising the need to save for significant life events such as tertiary education, home ownership and retirement. Despite their growing relevance, there remains a paucity of research concerning these schemes. In response, Te Ara Ahunga Ora Retirement Commission commissioned Ihi Research to conduct an exploratory study aimed at understanding the current landscape of iwi savings schemes. This article presents two case studies: the Ngāi Tahu Whai Rawa managed iwi investment scheme and the Ka Uruora WhānauSaver savings scheme. Key learnings emerged from the data that can inform the establishment and strengthening of future schemes.

Successful schemes are grounded in iwi aspirations and development strategies, supporting financial wellbeing, tino rangatiratanga (self-determination) and cultural connection. Holistic support, including financial education and kanohi-ki-te-kanohi (face-to-face) engagement, is essential to building confidence and trust among whānau. Early enrolment of tamariki (children) and a focus on intergenerational impacts are vital for creating long-term change. Flexibility in scheme design increases participation, although balancing immediate financial needs, such as housing, with long-term retirement savings remains a key tension. Managing partnerships with financial providers requires active stewardship to ensure iwi values are upheld, and government support for financial education remains a critical enabler.

Keywords managed iwi investment, iwi-led investment schemes, savings, retirement, Māori, motivation, government policy

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Retirement presents unique challenges and opportunities for Māori, shaped by diverse cultural identities, social realities, and long-standing responsibilities to whānau, hapū and iwi (Hynds, Leonard and Bidois, 2025; Kempton, 2022; Irwin and Thompson, 2022). With Māori expected to make up a growing share of Aotearoa's working-age population (Cook, 2022), ensuring equitable access to financial security in later life is increasingly important. However, historical and structural inequities – including colonisation, land loss and systemic racism – have created significant barriers to wealth accumulation, secure housing and long-term retirement planning (Kempton, 2022; Irwin and Thompson, 2022). These effects are reflected in lower life expectancy, underrepresentation in superannuation uptake, and ongoing disparities in employment, health and housing (Allen and Irwin, 2023; RNZ, 2024; Reid et al., 2017; Waitangi Tribunal, 2019).

Despite these challenges, Māori communities continue to lead innovative, strengths-based solutions that centre mana motuhake and support intergenerational wellbeing. From iwi-led savings schemes to kaupapa Māori financial literacy initiatives, Māori are actively shaping new pathways for whānau to thrive into older age. This exploratory, descriptive study of managed iwi investment schemes and iwi savings schemes is, therefore, both timely and essential. It contributes to a broader understanding of how Māori aspirations for financial wellbeing can be supported through culturally grounded, equitable systems. By recognising the limitations of universal policy and the unique responsibilities kaumātua continue to carry, this research helps reframe what 'retirement' might mean within Māori worlds, and how collective, iwi-based approaches may offer better pathways forward.

Exploring the landscape of iwi investment schemes

The national landscape analysis found that of the 22 iwi and hapū groups reviewed, 12 actively promote managed iwi investment schemes and iwi savings schemes, and they differ in terms of their maturity, size and financial structure. Despite differences in design, the aspirations of such investment schemes share common foundations. They aim to support intergenerational wealth and wellbeing by encouraging regular savings contributions and by providing accessible financial education. Early enrolment, particularly for tamariki, is strongly promoted to foster a lifelong savings culture within whānau. Strengthening financial literacy is a central feature, with schemes supporting whānau to make informed financial decisions and navigate mainstream investment systems. Savings are generally intended to support significant life milestones such as tertiary education, home ownership and retirement, while the return of iwi commercial success to whānau through matched contributions or distributions further strengthens equity (Hynds, Leonard and Bidois, 2025).

> WhānauSaver was designed by Te Kotahitanga o Te Atiawa and Te Kāhui o Taranaki in conjunction with SuperLife and is delivered through SuperLife Invest …

Whānau with whakapapa connections to multiple participating iwi may be eligible to receive contributions from each of those iwi, enhancing the potential value of their savings. Variations exist between schemes in governance models, with some being iwi-owned and operated and others developed in partnership with external investment providers. Approaches to withdrawal criteria differ, reflecting iwi values and kaupapa, and some schemes are integrated within broader wellbeing strategies that include housing and employment support. The degree to which cultural frameworks and tino rangatiratanga underpin scheme governance also varies.

Overall, managed iwi investment and iwi savings schemes represent an innovative approach to whānau-based financial management, leveraging collective resources to enhance individual and collective prosperity with an intergenerational focus. Two such schemes were examined in more depth.

Whai Rawa, launched by Ngāi Tahu in 2006, is the oldest scheme. It is a managed iwi investment scheme with over 35,000 members. Whai Rawa is iwi-owned and operated and offers matched savings, annual distributions and withdrawal options for tertiary education, first-home deposits, and retirement from age 55. The scheme reflects Ngāi Tahu's vision for whānau prosperity and self-determination, with targeted support to strengthen whānau financial literacy.

Ka Uruora was established in 2019 as an iwi-led savings scheme designed to support whānau in achieving long-term financial independence. A cornerstone of the initiative is Ka Uruora WhānauSaver. WhānauSaver was designed by Te Kotahitanga o Te Atiawa and Te Kāhui o Taranaki in conjunction with SuperLife and is delivered through SuperLife Invest (Ka Uruora, 2024, n.d.a; SuperLife, 2025). The scheme allows savings for education, home ownership and retirement, with iwi-matched contributions and earlier withdrawal options than KiwiSaver. The scheme is now active across multiple iwi, including recent adoption in Te Tau Ihu under the name Te Uru Tahua – WhānauSaver. Financial literacy programmes are also a feature.

Impact and emerging benefits – Whai Rawa and Ka Uruora

Indicators of impact were explored across both quantitative and qualitative dimensions. Quantitative measures such as participation rates, contribution and withdrawal patterns, growth in total funds, and the achievement of financial milestones provide tangible evidence of success. Whai Rawa, in particular, demonstrates strong results across all indicators. Ka Uruora is relatively new and still in the early stages of development.

Since its launch in 2006, members of Whai Rawa have benefited from over $75m in contributions from Te Rūnanga o Ngāi Tahu. By 2013 it had generated $35m of funds for '19,000 plus members' (Future New Zealand Charitable Trust, 2007, p.12).

Nineteen years on, it now has 35,384 members and $165.2 million in funds under management (Whai Rawa, 2025a). Te Rūnanga o Ngāi Tahu has been able to contribute 'over $75 million in matched savings, newborn and annual distributions' (Whai Rawa, 2025b, para 1).[1] In addition, $37 million has been 'collectively withdrawn by whānau towards their home ownership, education and retirement' (Whai Rawa, 2025a, para 2).

Impacts and types of benefit for whānau can also be seen in Whai Rawa withdrawal data (Whai Rawa, 2024). Table 1 shows the types of whānau withdrawals made during the 2024 calendar year, plus the volume of withdrawals and average amount. It also indicates the volume, value and average whānau withdrawal made since the fund's inception (2006) up to 31 December 2024. The average age for withdrawal for retirement is 63, with an average withdrawal of $5,479.

Due to the success of Whai Rawa, Ngāi Tahu is now considering the possibility of launching a KiwiSaver scheme that would sit alongside the existing Whai Rawa investment scheme and be open to all New Zealanders. Whānau welcomed this opportunity:

> I'd love to see KiwiSaver being sort of implemented alongside or in alignment with Whai Rawa so we can get employer contributions like they do with KiwiSaver' (whānau member).

Table 1: Whai Rawa withdrawal information

2424 Clalendar Year		
Type	Volume	Average Withdrawal
Tertiary	103	$4,429
Home Ownership	162	$9,973
Retirement	695	$5,479
2024 Retirement Withdrawal		
Average Age	63	
Retirement Drawdown before 65	70%	
Withdrawal Since Inception to 31 Dec 2024		
Volume	Value	Average Withdrawal
8,979	$41M	$4,592

Ka Uruora WhānauSaver

Ka Uruora WhānauSaver is available exclusively to members of iwi that have joined the initiative. To be eligible, individuals must be registered with one or more of the following participating iwi: Te Atiawa; Taranaki Iwi; Ngāruahine; Ngāti Kuia; Ngāti Maru; Ngāti Mutunga; Ngāti Rāru; Ngāti Ruanui; Ngāti Tama ki Te Tau Ihu; Rangitāne o Wairau; and Te Atiawa o Te Waka-a-Māui. Registrations are completed through the SuperLife website and require supporting documentation. One of the key advantages of delivering Ka Uruora WhānauSaver through SuperLife is that it removes the administrative, financial and compliance burdens from iwi. SuperLife is an established investment provider with a proven track record, meaning iwi do not need to manage investments directly, maintain the online platform, or assume any financial or legal risks associated with fund management.

SuperLife provides a secure interface for whānau, ensures compliance with regulatory requirements, and handles account management. SuperLife employs iwi members, who support whānau to join the scheme. This arrangement allows iwi to focus on supporting their members, without the operational complexities of running a savings and investment scheme themselves. Ka Uruora is a relatively new iwi-led savings scheme, established in 2019. While the programme has grown steadily, some iwi have only joined as recently as 2024. As a long-term investment initiative, the full benefits of retirement savings will take time to realise, particularly for those who have only recently become members of the scheme.

> Obviously, because we're so early on in this journey, we haven't seen the fullness of what this actually means, because we're only five years old. So, we haven't had anyone draw money down for a whare yet' (Ka Uruora kaimahi).

However, Ka Uruora membership has grown steadily, particularly over the past four years. The recent launch in Te Tau Ihu in November 2024 saw over 100 members sign up in the first four months. Kaimahi (staff) believe the positive messaging from iwi and the support of iwi leadership from across Te Tau Ihu has led to the positive response from whānau.

> We had 100+ whānau complete that education programme in the first year. No one knew anything about Ka Uruora when we launched. The uptake down here has been pretty good. The leadership that's driving that has been really great, a very collaborative approach. I think there's lots of cross whakapapa down here, so that messaging is coming from multiple platforms. (Ka Uruora kaimahi)

Cross-case analysis

Managed iwi investment or iwi-led savings schemes are unique as they are iwi-centric. They have cultural and community-focused goals tied to iwi aspirations, providing financial benefits directly to registered tribal members. They aim to distribute wealth generated from iwi investments back to their people, enhancing overall community wellbeing. They have a number of distinct features.

Annual contributions

Managed iwi investment schemes, such as the Ngāi Tahu Whai Rawa scheme, often provide additional benefits, such as matched savings and annual distributions, making them valuable tools for iwi members to build wealth and prepare for retirement. For example, in Whai Rawa, adult members receive a dollar-for-dollar match on their contributions up to a certain limit, while children's contributions are matched at a higher rate (Whai Rawa, 2024). It is important to note that annual contributions can only be made when iwi investments allow. According to TDB Advisory (2024), the last two years have been challenging for many iwi investments, with reported financial

losses and decreased returns on assets compared with previous years.

Investment opportunities

These schemes often include investment components managed by professional financial services, allowing members' savings to grow over time. For instance, the WhānauSaver programme offered through Ka Uruora allows members to choose from various investment funds (Ka Uruora, 2024).

Flexible use of funds

Members can typically use their savings for specific purposes, such as purchasing a first home, funding tertiary education or preparing for retirement. Some schemes also allow withdrawals under special circumstances, such as financial hardship or serious illness (Ka Uruora, n.d.b; Whai Rawa, 2024).

Early access and financial literacy

Unlike some other savings programmes, both Whai Rawa and Ka Uruora allow members to access their funds earlier than standard retirement age requirements, providing more flexibility in financial planning. They also provide targeted financial literacy programmes and support for whānau to understand their savings behaviour.

Māori authority credits

In relation to matched savings and distribution payments both schemes have Māori authority credits attached. These credits compensate for some of the tax deductions related to the retirement scheme contribution tax, enabling more savings into the accounts of scheme members.

Other indicators of impact

Qualitative findings also reveal important outcomes, including increased financial confidence and literacy, enhanced whānau wellbeing, stronger cultural connection through iwi engagement, and more frequent intergenerational conversations about financial planning. While retirement savings is a key focus of WhānauSaver, the Ka Uruora kaupapa is aimed at long-term intergenerational financial independence for whānau. The education and housing aspect of the programme is pivotal to achieving this overarching goal. With support from Te Puni Kōkiri, Ka Uruora has increased the financial literacy of over 600 whānau who have engaged in the wānanga and/or home ownership support: 'We've had 500 people in Taranaki go through the course in five years' (Ka Uruora kaimahi).

Whānau viewed the opportunity to receive a distribution from iwi as a tangible recognition of their whakapapa, and iwi contributing directly to their whānau goals.

This support has increased financial literacy and energised whānau to create financial plans to achieve their goals. The conversations initiated through the education wānanga continue as relationships are built with the kaimahi.

> It keeps you in touch with your iwi, but there is also the benefit of financial literacy. We do a lot of talking at home about Whai Rawa and saving for our future' (whānau member).

Targeted financial literacy programmes directed at whānau also generate an interest in savings and understanding personal behaviour towards money.

> We had a workshop at the office ... the facilitators were all Māori and came from different banks, ASB, Westpac and ANZ …, part of the workshop was around budgeting and just simple ways that you could save. Another one was understanding your behaviour towards money and savings ... 'Are you a serious spender? Or do you like to save your money?' And that whole workshop, I found, really informative. I got a lot of value out of that. (whānau member)

The diversity of whānau circumstances and people's prior knowledge and financial motivations prior to joining a managed iwi investment scheme or iwi savings scheme was emphasised in interviews.

> Initially, I didn't really see the benefits of Whai Rawa ... in my whānau when I was growing up, we didn't really talk about financial goals and savings and things like that' (whānau member).

For some, it took time to set personal financial savings goals and to really understand the benefits of joining the savings scheme. Seeing their savings grow and being able to realise financial goals (such as purchasing their first home) was particularly rewarding.

The strengthening of whakapapa connections was also seen as an important positive outcome of iwi savings schemes. Whānau viewed the opportunity to receive a distribution from iwi as a tangible recognition of their whakapapa, and iwi contributing directly to their whānau goals. 'I think number one for whānau is that your iwi is directly contributing to you and your whānau' (Ka Uruora kaimahi).

While membership of the schemes has grown, iwi membership has also increased, as whānau are encouraged to register their whakapapa connections to multiple iwi. In doing so, whānau can be eligible to receive iwi distribution through their multiple iwi connections.

Motivations to join

Whānau who were interviewed talked about their motivations to enrol in the schemes. Honouring whakapapa, contributing to collective wellbeing, and the ability to generate intergenerational benefits are key motivators.

> We joined because of whakapapa, it's a Ngāi Tahu owned investment scheme'; 'I was speaking with my son this morning and it's about providing for the whānau ... it's setting our mokopuna up for life … more of a generational wealth purpose … providing them with financial support further down the track (whānau members).

Achieving personal financial goals and experiencing the benefits of Whai Rawa

motivated whānau to sign up pēpi and tamariki.

> I'd already seen the benefit of Whai Rawa. So, as soon as my kids were born, I enrolled them straight away and they got the newborn distribution. And then in December, end of December every year, I'd get a reminder to put the $50 into their accounts … which I always did … so example for my son, he's 10. And I've contributed small amounts every year but and he's got around $5,000 in there now. (whānau member)

Flexibility within the scheme was appreciated by whānau. 'It's such a great scheme ... and it's flexible. For my children they can use it for education too, if they want to go to university or Polytech ... they can do that' (whānau member).

There is a need to address health inequities for whānau, and this was also identified as a motivator to join.

> As Māori we die a lot earlier. So that was a bottom line for me ... even though it's compulsory saving I could have pulled out at 55' (whānau member).

Enabling whānau to withdraw retirement funds much earlier than 65 was a reflection of health inequities for Māori.

> I don't actually know anyone who has withdrawn Whai Rawa for retirement. I do know of a sad situation where the individual member passed away before they could withdraw their funds for retirement, but the transfer of funds supported the whānau with tangihanga costs and things like that. (whānau member)

Challenges encountered in setting up and managing iwi savings schemes

Managed iwi investment schemes such as Whai Rawa encountered specific challenges which could put off other iwi from setting up their own whānau-centric savings scheme. Considerable financial requirements had to be met to set up the Whai Rawa fund. As a licensed managed investment scheme, it is heavily regulated, with a large administrative load. This also means considerable compliance costs.

> … managed iwi investment schemes and iwi savings schemes represent a unique, strengths-based approach to improving whānau financial wellbeing, with a strong intergenerational focus.

> We also have a risk and compliance team because we're heavily regulated. So, that is a massive barrier for people who want to set up their own investment scheme or iwi investment scheme, you need to comply with things such as the financial markets conduct act, AML legislation, privacy, et cetera, et cetera, et cetera. (Whai Rawa kaimahi)

While partnership models with outside financial investment providers, such as SuperLife, were welcomed, an unintended consequence could be extra workload pressures on kaimahi to provide cultural advice to others not familiar with tikanga, while providing support to whānau to navigate online requirements. While the kaupapa is driven by iwi aspirations, the initiative also navigates the complexities of working with an established financial services provider, requiring ongoing adaptation to ensure the model meets the needs of whānau.

Future directions

Key learnings emerged from data that can inform the establishment and strengthening of future managed iwi investment and iwi savings schemes. Successful schemes are grounded in iwi aspirations and development strategies, supporting financial wellbeing, tino rangatiratanga and cultural connection. Holistic support, including financial education and kanohi-ki-te-kanohi engagement, is essential to building confidence and trust among whānau. Early enrolment of tamariki and a focus on intergenerational impacts are vital for creating long-term change. Flexibility in scheme design increases participation, although balancing immediate financial needs, such as housing, with long-term retirement savings remains a key tension. Managing partnerships with financial providers requires active stewardship to ensure Māori values are upheld, and government support for financial education remains a critical enabler.

Key findings from the study provide actionable insights for the establishment and enhancement of future schemes. Managed iwi investment schemes and iwi savings schemes have the potential to influence financial power dynamics by contributing to the reduction of financial inequities for Māori and transforming the nature of long-term commercial relationships within and beyond iwi communities. The following points summarise critical directions for policy and practice.

- *Ground schemes in iwi aspirations and development strategies*
  Successful managed iwi investment schemes and iwi savings schemes are deeply aligned with iwi aspirations, supporting not only financial wellbeing but also tino rangatiratanga (self-determination) and cultural connection. Embedding these schemes within broader iwi development strategies ensures that they are relevant and effective.
- *Provide holistic and culturally anchored support*
  Holistic approaches – including robust financial education and kanohi-ki-te-kanohi engagement – are essential for building whānau confidence and trust. Trusted, culturally competent kaimahi play a key role in supporting participation.
- *Prioritise early enrolment and intergenerational impact*
  Early enrolment of tamariki and a focus on intergenerational wealth transfer are vital. These strategies foster long-term behavioural change and help build financial security for future generations.

- *Design for flexibility and whānau realities*
  Flexible scheme design – such as enabling withdrawals for housing, education or health – encourages participation by recognising the diverse needs and milestones of whānau. Balancing immediate needs with long-term savings remains a central challenge.
- *Address access settings to reflect Māori health realities*
  Allowing earlier access to savings (e.g., from age 55) acknowledges health inequities and aligns with Māori life expectancy. Such flexibility has proven effective in iwi-led schemes and may enhance uptake.
- *Ensure active stewardship in partnerships*
  Effective management of partnerships with financial providers is crucial to uphold Māori values and maintain scheme integrity. Ongoing stewardship and negotiation are necessary for successful co-governance and partnership models.
- *Sustain and expand financial capability initiatives*
  Continued investment in financial literacy and capability, especially through culturally appropriate and iwi-led education, is foundational for long-term success and increased Māori participation.
- *Recognise the cultural and social value of managed iwi investment schemes and iwi savings schemes*
  Participation in iwi-led schemes strengthens connections to whakapapa and iwi, delivering important cultural and social benefits. These relational outcomes should be acknowledged and supported in policy frameworks.
- *Commission ongoing research on long-term impacts*
  There is a clear need for longitudinal research to assess the long-term impacts of managed iwi investment schemes and iwi savings schemes on whānau financial security and retirement wellbeing. Further exploration of iwi interest in new or co-developed schemes will inform future policy and practice.

In summary, managed iwi investment schemes and iwi savings schemes represent a unique, strengths-based approach to improving whānau financial wellbeing, with a strong intergenerational focus. The above recommendations offer a roadmap for iwi, policymakers and government to ensure the continued growth, relevance and impact of these schemes.

1 It is important to note that 'the annual level of contribution may differ between calendar years and between members. Te Rūnanga o Ngāi Tahu may choose to cease or reduce contributions' (Whai Rawa, 2025b, para 1).

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Susan St John

New Zealand Superannuation as a Basic Income

Abstract

Changing New Zealand Superannuation into a genuine basic income is a 21st-century idea that would allow a simple but effective clawback mechanism to operate through the tax system, generating useful revenue to help meet current and future government expenditure pressures in aged care, pensions, education, poverty reduction and climate change. In this article, various special tax schedules for superannuitants are modelled for 2025/26 for those who opt onto the basic income, called here the New Zealand Superannuation Grant. Significant savings are possible and could be further enhanced by alignment of the various rates of New Zealand Superannuation as set out in detail in St John (2025).

Keywords retirement, ageing pressures, fiscal costs, basic income, surcharge, 21st-century welfare policy

As the average age of the older population continues to increase, expenditure on New Zealand Superannuation (NZS) and the associated health and housing costs are expected to rise strongly. Demographers and health practitioners are particularly concerned by the projected rapid growth of the high health costs, especially from 2030 when the baby boom cohort starts to turn 85. For some time now, Treasury has been sounding alarm bells (see, e.g., Treasury, 2021, 2023).

At the same time, older person hardship is again re-emerging as a concerning social issue, driven by expensive and insecure housing tenure (Dale, 2024). Universal NZS for all at 65 who meet residency criteria regardless of wealth, free public transport, and the untaxed universal winter energy payment sit oddly with a rapidly widening wealth and income divide, while policies to alleviate older persons' hardship, such as the accommodation supplement, have been neglected[1]. Phrases such as 'NZS is unaffordable' or 'fiscally unsustainable' are generally unhelpful, but they are shorthand for the idea that in a world of choices, some expenditure on NZS may preclude other more desirable social expenditures.

The current generosity of NZS as a basic income for older persons may be compared and contrasted with the discriminatory, highly targeted and far less well supported basic income provided by Working for Families for children. There is room for improvement to reap the full advantages of a basic income approach for both the young and the old (St John, 2022).

This article shows that reforming NZS as a genuine basic income,[2] with or without alignment of rates, would allow a simple but effective clawback mechanism to operate through the tax system, generating useful revenue to help meet current and future government expenditure pressures

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Table 1: Forecast weekly rates of New Zealand Superannuation as at 1 April 2025

HYEFU 2024 forcast weely rates of New Zealand Superannuation at 1 April 2025					
	Gross (before tax)	Net (after tax)	Annual rates (to nearest $ rounded down)		
Single, living alone	$621.00	$533.33	Gross	Net	Impled tax rate
Single sharing	$571.22	$492.30	$32,292	$27,733	14.1%
Married or civil union person	$471.67	$410.25	$29,703	$25,599	13.8%
			$24,526	$21,333	13.0%
New Zealand personal tax regime		Tax rate below threshold			
First income tax threshold	$15,600	10.5%			
Second income tax threshold	$53,500	17.5%			
Third income tax threshold	$78,100	30.0%			
Fourth income tax threshold	$180,000	33.0%			
		39,0%			

in aged care, pensions, education, poverty reduction and climate change.

Broad options for reform

Between 2023/24 and 2068/69, the numbers of NZS recipients are expected to nearly double to around 1.8 million (Treasury, 2024). The nominal costs are projected to increase around seven-fold over this period, but the net NZS expenditure (after tax) rises from 4.3% to just 6.5% of GDP, reflecting a large, anticipated growth in nominal GDP.

While the relative share of NZS as a percentage of GDP increases, New Zealand's expenditure on the pension will not reach the share in 40 years' time that many other countries actually experience today.[3] Nevertheless, total expenditure on those over 65, including healthcare and long-term care costs, is expected to be a source of increasing fiscal pressures.

St John and Dale (2019) discussed the wide variety of ways in which cost saving for NZS may be achieved to improve 'fiscal sustainability', and their pluses and minuses. The Treasury modelled two of the main options: raising the age of eligibility for NZS to 67; and indexing NZS to only prices, not wages (Treasury, 2021, pp.55–9). The first policy was projected to save a constant 0.7% of GDP once the age was fully raised to 67, and the second around 2.4% of GDP by mid-century.

While for some commentators raising the age is a 'no brainer', its contribution to the overall saving of costs is small. As highlighted by Te Ara Ahunga Ora Retirement Commission, wide disadvantages and inequities for ethnic groups such as Māori and Pasifika, the disabled, and those unable to work past 65 would mean off-setting costs elsewhere in the social welfare system (Te Ara Ahunga Ora Retirement Commission, 2024). Besides, a long lead-in time would be necessary, while the fiscal pressures are immediate.

The option of CPI indexing (removing any link to wages) would see NZS as a fraction of the average wage fall well below its current 66% for a married couple to around 50% by 2060 (Treasury, 2021, p.58). While the 2.4% of GDP saved means that the gross cost of NZS relative to GDP returns to its early 2020s level of around 5%, there would be a profound risk of creating older person poverty levels not seen since the early 1970s.

The third option of a means test was not modelled; however, the possible tax clawback scheme proposed by St John and Dale was described (ibid., p.59). Compared with the first two options, it was noted that such a policy may be politically more acceptable and could generate more worthwhile and more timely savings without undue harm, while enhancing perceptions of intergenerational equity.

Means tests take other income and assets into account in determining the amount of benefit a person is entitled to. A simpler version is an income test alone.

Welfare benefits in New Zealand are subject to a stringent income test that aims to target payments to only those who 'need' them.

A gentle test that affects only the top end may be described as an *affluence test*.

A progressive income tax and a taxable benefit automatically ensures some income testing or *clawback*.

A basic non-taxable income and other income taxed at progressive rates is another way to operate an affluence test.

Today's supernnauitants

Three-quarters of today's superannuitants are aged 65–79.[4] These early baby boomers are relatively healthy and their paid work participation is high and expected to continue to rise, (see St John and Dale, 2019, pp.11–17. However, from 2030 the baby-boom bulge (those born 1945–65, currently aged 60–80 years old) will begin to move into the 85+ age group, adding extra pressure on health, long-term care and accommodation services for the next 20 or more years.

Of those turning 65 today, fewer own their own homes mortgage-free, and many are struggling in the private rental market. Evidence of pressures in the housing market are reflected in the increased numbers requiring accommodation and hardship support. The accommodation supplement is subject to a stringent unindexed means tests, so that the current number of around 49,000 superannuitants receiving this help is likely to markedly understate the degree of housing need.

Table 1 shows the forecast 1 April 2025 rates of NZS and the new tax thresholds from 31 July 2024 used in the modelling in this article.

Means testing and alternatives

In brief, the first option of raising the age would affect the worst-off the most, leaving

many on the inadequate welfare system dependent on supplementary assistance and foodbanks. It would have to be phased in over a long period of time, reducing any immediate savings. The second option of reducing the level would have an immediate impact on those struggling the most now. Yet fiscal considerations and urgent spending priorities do not support maintaining the status quo.

This leaves some form of means test or 'clawback' from those who do not 'need' it. This has been a politically unattractive option because of New Zealand's history (see St John, 1999).

There are a number of ways to save costs by reducing access to NZS by the well-off. Probably few people would wish to contemplate a means test based on joint income and assets as operates for the age pension in Australia, described in St John (2025), or a welfare-type joint means test as operates in New Zealand for supplementary welfare assistance and the aged-care subsidy.

In the 1991 Budget, under the newly elected National government a very harsh joint income test for NZS was announced for 1992. As the 1991 Budget document *Social Assistance: welfare that works* set out, the pension would effectively become just a welfare benefit:

> The gross amount of National Superannuation will be reduced at a rate of 90 cents for every additional dollar of gross income earned after the first $80 of private income earned each week by the couple or individual (Shipley, 1991, p.35).

While the legislation for this had been pushed through the house on Budget night, the outrage from the powerful superannuitants' lobby saw it repealed before it was implemented (St John, 1999; St John and Ashton, 1993).

A clawback for New Zealand Superannuation?

From 1985 to 1998 New Zealand operated a surcharge on superannuitants' other income (Preston, 2001). Some better-off retirees did not bother claiming the state pension, and most of those still in high-paid work received little after-tax benefit from it. The surcharge was highly unpopular and complex for people to understand; nevertheless, it did deliver useful savings of around 10% of the net cost of NZS.

The 1993 retirement income accord between Labour, National and the Alliance endorsed the principle that the net amount of NZS should reduce as total income increases, by either a surcharge or a progressive tax regime that had equivalent effect. After the collapse of the accord and the promised abolition of the surcharge in 1998, the 1997 Periodic Report Group on Retirement Incomes noted:

> We strongly support the sentiment that there are higher priorities for government resources. Therefore, we regret the impending abolition of the surcharge … The abolition of the surcharge will provide a breathing space in which we can inform and educate the community about the future shape of public provision and explain why some kind of targeting mechanism will be needed in future. (Periodic Report Group, 1997, p.47)

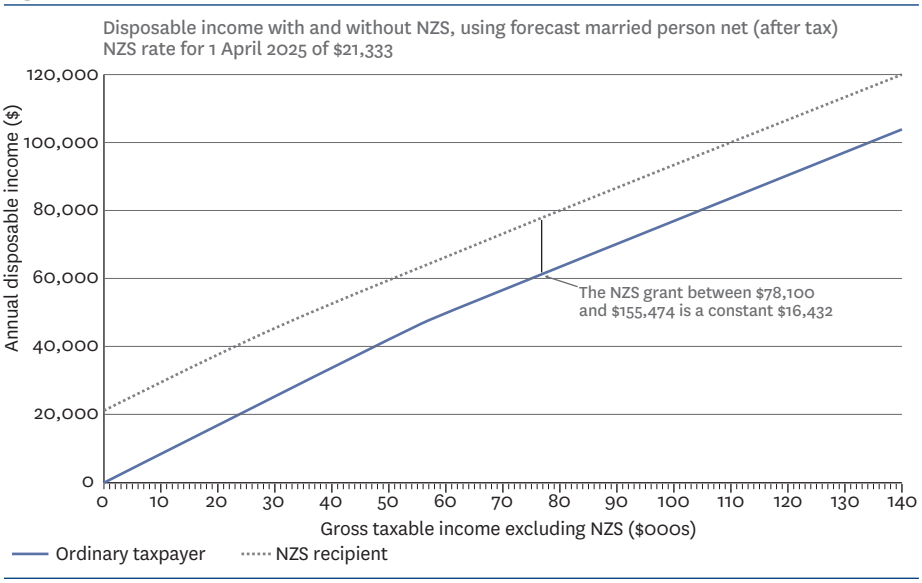
Today, wealthy recipients of NZS may still be in well-paid work and/or have other large private incomes and assets, and sometimes annuities or private pensions (see St John and Dale, 2019). Wealthy older people are likely to have accumulated their wealth with tax-free capital gains, especially in housing, and may have gained substantially from the 2010 and 2024 income tax cuts, and lower portfolio investment entity (PIE) rates of tax. Under the PIE regime, investment returns are taxed at source using rates that proxy taxpayers' marginal rates, except that the top rate of PIE tax is capped at 28%. Compared with the top rate of 39%, this is an 11 percentage point advantage.

Increasingly, the younger working-age population who are struggling in the property market and may also have large student debts are questioning the largess of a universal pension for well-off, well-housed superannuitants. The challenge is to find a way to apply an income (or 'affluence') test that could be seen as fair, simple and acceptable, with enough useful savings to take the pressure off relying solely on raising the qualifying age or reducing the relative rate of NZS as the principal levers.

The current generosity of NZS is illustrated in Figure 1 for the case of a married superannuitant.[5] It shows the addition to disposable income provided by NZS at all income levels.

For the 2025/26 year modelled in St John (2025), if the superannuitant has no other income, the married person NZS payment is a net $21,333. By the time earned income exceeds $78,100, NZS is all taxed at 33%, so that the effective net NZS payment is reduced to $16,432. The additional income remains constant at $16,432 until the net amount starts to decrease again from $155,474 (where the total income including NZS becomes a taxable $180,000). Once other income exceeds $180,000, the net value of NZS falls to $14,961, where it remains regardless of how much more income is earned.

Figure 1: Addition to net income from net NZS



Finding a way for the top line to meet the bottom line in Figure 1 by reducing the generosity of net NZS at the top end is worth exploring. Currently, the tax system does provide some clawback, but even a superannuitant on a marginal tax rate of 39% still receives around 70% of the net pension paid when there is no other income. To make NZS a proper basic income, a more effective tax clawback mechanism is required (the meeting of the lines in Figure 1).

New Zealand Superannuation as a basic income

In a basic income approach, each person has a universal grant that is not part of taxable income. A basic income offers people flexibility in their employment choices and serves as a cushion or buffer against adversity. When additional income is earned, it is taxed under a progressive tax regime, so that the tax system does the work of providing a clawback of the universal grant for high-income people. The higher the basic income, the higher tax rates on earned income must be to contain costs. Unfortunately for advocates, a universal basic income at a level high enough to prevent poverty for all adults over 18 years old would require prohibitive tax rates and result in probably unacceptable disincentives to work. (For a discussion of the concept of a comprehensive basic income, see Stephens, 2019.)

NZS, however, already provides a high-level universal income for a well-defined group, and it is therefore an ideal candidate for a basic income reform. Paying NZS as a proper basic income offers a compromise between aggressive means testing as applied for second-tier benefits in New Zealand, or the means test in Australia, and a fully universal taxable pension approach such as for the current NZS. A basic income approach aligns with the understanding that the 21st-century workplace no longer provides certainty of employment or sufficient hours of work for many workers. The idea of a basic income paid as of right to every individual has gained currency in a world of precarious work for many.

The idea is to retain NZS's simplicity and universality and the advantages of a secure cushion, while reigning in the expenditure at the top end to provide some useful additional revenue to balance intergenerational concerns, and address poverty for both young and old.

Figure 2: NZSG with 40% flat tax on other income

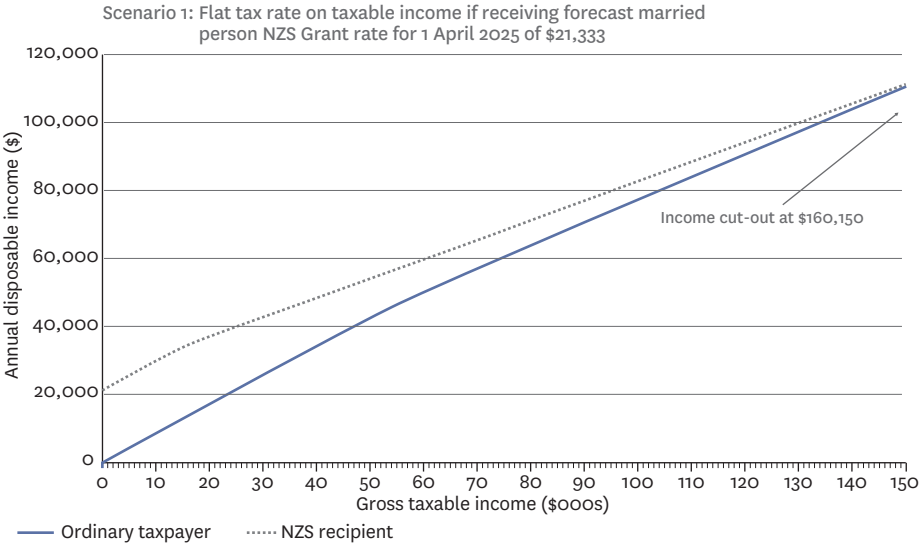
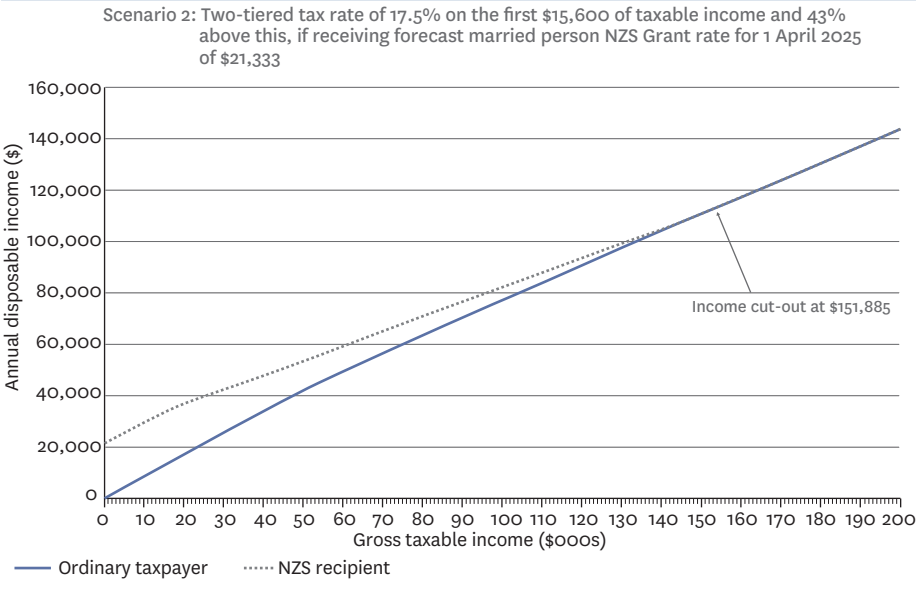


Figure 3: Scenario 2 – two-tiered tax rate



The New Zealand Superannuation Grant

Taking a 'basic income' approach may be simple to implement and operate, but it requires a new way of thinking. The basic income, named here the New Zealand Superannuation Grant (NZSG), would be paid to all superannuitants as a weekly non-taxable grant. Then, for any other gross income, a separate tax scale would apply for each additional dollar of earned or passive income.[6]

For illustrative purposes, in Figures 1–3 the NZSG is the same for everyone (whether married, single sharing or single living alone); any extra supplement for high housing costs would be part of the welfare system. While the NZSG could be set at any level, it is set equal to the forecast 1 April 2025 (after primary tax) rate of NZS, i.e. $21,333 for a married person.

A break-even point exists (Figure 2) where the NZSG, plus extra income from work or investment net of the new tax rates, is equal to the disposable income of an ordinary taxpayer paying the usual rates of income tax. This cut-out point is where the gain from the NZSG has been effectively clawed back (i.e., offset by the additional tax). The scenario depicted in Figure 2 with a flat tax at 40% on all other income shows that the break-even or cut-out point occurs when the NZSG recipient's 'other' income is $160,150.

This proposal is technically different from the surcharge of 1985–98 because the

NZSG payment is not part of taxable income. The surcharge was exceedingly complex, applying after an exemption that could be shared in a couple if one partner did not earn enough to use it all, until the net advantage from NZS was equal to the surcharge paid, and could mean different end points (when NZS had been fully clawed back) for different taxpayers. Few could follow the calculations and could do their own tax returns. The surcharge was also perceived as an additional, discriminating tax that could result in marginal rates of tax exceeding 50%. (See St John, 1991 for further discussion of how the surcharge worked.)

The scenario depicted in Figure 2 is for illustrative purposes only. Given that most NZS recipients have only modest amounts of non-NZS income (see Perry, 2019), a tiered structure would be required to give relief to those with limited or no extra income.

Clearly, an infinite combination of tax rates and thresholds can be modelled. Figure 3 shows a second tax scenario, with rates of 17.5% for the first $15,600 of other income and 43% on each dollar above that. The break-even point in this case is $151,885.

St John (2025) also models a third tax scenario of 20% for the first $20,000, while implementing a slightly higher second rate of 45%. This scenario has a cut-out point of $135,088. In all three scenarios, if the recipient of NZSG receives more than the break-even amount of other income, then it would be rational for them to forgo the NZSG and be treated as an ordinary taxpayer.

Whether other income is from paid work or from investments, and whether it reduces or disappears, the right to the basic income floor of the NZSG remains. Thus, the NZSG is the prototype of a basic income that provides automatic unconditional income security.

For the three tax scenarios modelled for a NZSG of $21,333, the losses in annual disposable income relative to current settings in 2025/26 are shown in Table 2. Any losses for people with small amounts of additional annual income are minimised in the two-tiered tax approach of tax scenarios two and three.

As with any targeting regime, an increase in the degree of targeting will result in some avoidance activity. New Zealand's history shows that opportunities and incentives for tax avoidance were features, at least initially, of the surcharge. It must be noted here, however, that the NZSG proposal is not nearly as harsh as the abatement in the benefit system or the means test that applies to rest-home care subsidies (see St John and Dale, 2019).

The NZSG is designed to provide a gentle clawback using the principle of progressive taxation, which is the natural counterpart of universal provision. The NZSG is consistent with current arrangements that do not require any retirement test and therefore there should be little significant disincentive to earn extra from paid work. The effective marginal tax rates (EMTRs) do not approach those imposed on many younger family earners who may face abatement of Working for Families (27%), student loan repayment (12%) and abatement of the accommodation supplement (25%) on top of the standard tax rates.[7]

Table 2: Losses of non-NZS disposable income relative to status quo

	Tax Scenarios		
Non-NZS taxable income	One	Two	Three
$5,000	$1,118	nil	$118
$10,000	$2,243	nil	$243
$15,000	$3,368	nil	$368
$20,000	$4,493	$1,115	$493
$25,000	$5,618	$2,390	$1,868
$30,000	$6,615	$3,537	$3,115
$40,000	$7,615	$4,837	$4,615
$135,088 Cut-out point for Scenario Three	$14,678	$14,743	$16,432
$151,885 Cut-out point for Scenario Two	$15,854	$16,432	N/A
$160,150 Cut-out point for Scenario one	$16,152	N/A	N/A

Table 3: Overall savings, as a percentage of current cost to taxpayers of funding NZS, from each scenario

Tax Scenarios	All on Married* Rate	All married on Married Rate All singles on Shingle sharing rate	Staus Quo Rates	All sharing accomodation on Married Rate Others on Living Alone Rate
1	29.6%	22.6%	20.0%	21.7%
2	24.1%	17,2%	14.6%	16.3%
3	24.6%	17.8%	15.2%	16.9%

* While the term Married is used in this table, it also applies to superannuitants in a civil union.

Methodology and modelling

Treasury's modelling of basic income options described here does not imply their policy endorsement. The full details of modelling, with assumptions and caveats, are outlined and the savings are summarised in Appendix 2 of St John (2025). The baseline net cost for 2025/26 for NZS is estimated as $18.956 billion for 864,000 recipients. A total of 12 combinations – four NZS net rate options costed by the three different scenario tax regimes – are modelled and summarised in Table 3.

Over time, as the baby boomers continue to swell the numbers over age 65, some still in work and others with high financial assets, savings under the NZSG will likely increase. This will be reinforced if the tax thresholds for the chosen NZSG tax schedule are not adjusted regularly for inflation. It is desirable, however, that any thresholds are indexed.

The first tax scenario of a flat 40% on other income, aligning the single living alone and single sharing rate to the married rate, achieves the most saving (29.6%, or $5.6 billion). Around one third or 9.2 percentage points of this saving is due to the alignment of the rates to the married rate. The loss of the living alone rate would mean more separate assistance with accommodation costs is needed for low-income retirees.

Even if the net rates are not changed (status quo), the costings show that 15–20% ($2.8–3.8 billion) savings of net NZS are possible as modelled under the three tax scenarios.

For the combination of all on the married rate and a flat tax schedule of 40%, 44,000 or 5.1% of age-eligible superannuitants are unlikely to apply, as they would not gain from the NZSG. For other tax combinations, around 4% drop out. It is likely that these figures are very much understated, as many would find it not worth the bother to ask for the NZSG, especially if they are in well-paid work.

Thus, the savings set out in detail in appendices 2 and 3 in St John (2025) for the 12 combinations are all likely to be underestimates of the true potential of the NZSG approach.

Realistically, it is likely that high-income people simply do not bother to apply for NZSG, even if they could be a few dollars better off. If, in the future, the income base is widened to include capital gains or PIE income, fewer wealthy superannuitants will bother to apply for the NZSG. But the option is always there for them should they need it.

Once in place, the NZSG would be less complicated than other forms of clawback, such as the old surcharge, a welfare-type income test directly on NZS, or even a negative income tax approach (see discussion in St John, 1991).

Discussion

If it is agreed that the cost of net NZS should be reduced by increasing the degree of targeting, using the tax system and the proposed NZSG has potential advantages compared with other targeting regimes. It is relatively simple and retains the principle of universality. Once seen as working well as a basic income, the NZSG could be usefully extended as a basic income to other groups, such as those in their 60s on the supported living payment.

This analysis suggests that the combined approach of using a separate tax schedule for other income and freezing the single rates so that over time there is alignment with the married rate will give large savings of at least between 24–30% of net NZS for the tax scenarios modelled here.

Paying a single rate of NZSG for all simplifies the treatment of relationship status in the system. There is little sound rationale for the difference between the single sharing rate and the married rate. With modern relationships of very different kinds, it can be very confusing.[8] But even if the net rates are not aligned (status quo), there are possible savings from the modelled tax schedules of around 15–20%.

Any alignment of rates would need to be done over time by freezing the single rates (or only CPI-adjusting them) while indexing the married rate to wages. There is a better rationale for a higher living alone rate, but that too is a blunt tool for compensating for higher living costs. If the single sharing and married rates are aligned while the living alone rate left as is, the savings are around 16–22%. This may be more politically saleable than paying those who live alone a lower rate.

Extending the income tax base

Median wealth including financial wealth is highly skewed, favouring older age groups (Ching, Forward and Parkyn, 2023). Inland Revenue has data on total PIE income received by individuals over 65, but it is not included in modelling the cost saving under the various scenarios. The integrity of the NZSG approach would require that the correct rate of tax is paid on all income. Gross PIE income is now recorded for each taxpayer by Inland Revenue and could be imputed as 'income' to be taxed under the NZSG tax regime, with a credit for tax already paid by the PIE on the member's behalf (as in the imputation regime for dividends).

Treatment of current annuities and defined benefit pensions raises other complex, but not insoluble, problems.

The current tax treatment of income from housing is widely perceived as unfair, with much of the current debate focusing on the need for a capital gains tax. A capital gains tax is not, however, a silver bullet. It may be better than doing nothing, but a broader view of the income from housing is possible. Better-off superannuitants are likely to have considerable amounts of untaxed imputed housing income from home ownership and rental property investments. The inclusion of such income (after a per person exemption), as suggested by St John and Baucher (2021),[9] would also draw more income into the NZSG net. The more the tax base is widened, the greater the savings, including those from many who may not bother to apply for the NZSG.

The design of the NZSG is a matter of judgement. The model Treasury has developed can be used to test other tax scenarios for their distributional impact and ability to save the required amounts of net Super costs. Preliminary use of the model to see if paying a higher aligned base NZSG above the married rate to help address elder poverty shows reduced, but still significant savings. Other scenarios outside the scope of this article can be tested with this powerful model.

A variant of tax scenario two, which offers protection for low-income people, may be easier to introduce than raising the age of [New Zealand Superannuation], and hence savings could be reaped earlier.

Conclusion

A variant of tax scenario two, which offers protection for low-income people, may be easier to introduce than raising the age of NZS, and hence savings could be reaped earlier. But raising the age slowly could be a companion policy if other protections are in place, with constant monitoring to ensure that individuals who are asked to

wait longer but cannot support themselves are not penalised.

Putting NZSG recipients onto a separate tax scale also helps perceptions of fairness when older people receive other help automatically, such as the untaxed winter energy payment and free public transport. There is a case for not offering a final tax reconciliation at all to high-income people who choose to take the NZSG and its associated benefits.

The revenue gained could relieve pressure on younger New Zealand taxpayers and help with providing extra assistance for those struggling with accommodation costs. It may, therefore, lead to improved perceptions of inter- and intra-generational equity. However, it should be seen as a supplement, not the full answer to New Zealand's need to raise more revenue from the holders of wealth to fund necessary climate change responses and reduce inequalities.

1 Susan St John (Panel with Brian Easton and Len Cook). Brightstar conference 'Delivering equity for Older New Zealanders', 31st April/1st May 2024, Millenium Hotel PIE Commentary 2024-4. https://www.auckland.ac.nz/assets/business/our-research/docs/economic-policy-centre/pensions-and-intergenerational-equity/PIE-Commentary-2024-4.pdf Addressing financial hardship.

2 A basic income is seen by proponents as a non-conditional payment for all, paid by progressive taxation, which offers protection against the insecurity and uncertainty of paid employment.

3 There are difficulties with these comparisons: see St John, 2024b.

4 See numbers on NZS: five-yearly comparisons at https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/index.html.

5 Of those on NZS, approximately 60.5% are married, 13.6% single sharing and 24.9% live alone. Gross NZS for 2025/26 (June year) is forecast to be $24,522 billion, of which approximately $13.5 billion is paid to married persons, $3.8 billion to single sharing and $7.3 billion to superannuitants living alone

6 Paying the pension as a non-taxable grant and a progressive tax on other income makes the pension analogous to universal payments such as the old Family Benefit. It fits the ideas of progressive universalism, introduced with Best Start, Winter Energy Payment, free first year tertiary study fees introduced by Labour government

7 Stephens, Wang and Barnes (2025) describe how, even excluding student loans, 30% of all sole parents face EMTRs of over 50%, while some face EMTRs approaching 90–100% over significant income ranges.

8 The distinction famously led to a case taken by Winston Peters to the High Court in 2019 (see St John, 2019a, 2019b).

9 For a summary of this paper see St John, 2024a.

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