



Do tighter belts bring brighter golden years?

What higher KiwiSaver contribution rates and compulsory participation could mean for households now and later, and do they address the problems at hand?

Since KiwiSaver's inception, New Zealand has debated whether minimum contribution rates should be higher and participation in the scheme should be made compulsory. The intuitive case is straightforward: save more now, have more for retirement later. But the benefits to households of compulsion and higher minimum contributions depend on where the extra savings come from and what problem the policies aim to solve.

In this NZIER Public Good Insight, we use illustrative scenarios and existing research to examine the potential trade-offs associated with higher minimum KiwiSaver contribution rates and compulsory participation.¹ We discuss a set of questions fundamental to the retirement income system:

- How could higher minimum contribution rates affect households' capacity to meet current expenses?
- Do higher minimum contribution rates and compulsory participation increase overall saving, or simply change the ways in which households save?
- How do changes to KiwiSaver settings interact with the wider retirement income system?

Balancing retirement saving with current living costs

KiwiSaver was set up as:

"...a retirement savings scheme that supplements NZ Super and is particularly targeted at those who 'are not in a position to enjoy standards of living in retirement similar to those in pre-retirement'." (Te Ara Ahunga Ora Retirement Commission 2024).

A central question when considering changes to KiwiSaver settings is therefore whether New Zealanders are saving enough to maintain their living standards in retirement.

Higher minimum KiwiSaver contribution rates could help to ensure people have enough saved up to maintain their living standards, but also involve a trade-off between building greater retirement savings and maintaining pre-retirement spending capacity (Te Ara Ahunga Ora Retirement Commission 2024).

Replacement rates help to assess whether retirement incomes are sufficient to maintain pre-retirement living standards. They compare income available in retirement, including withdrawals from accumulated savings, with income available before retirement. RIIG² (2026) estimated that contribution rates of six percent each for employees and employers could result in minimum wage workers having replacement rates above 100 percent, meaning their incomes after retirement would exceed their pre-retirement incomes. At the

¹ Compulsory participation means requiring contributions, rather than membership alone.

² Retirement Income Interest Group of the New Zealand Society of Actuaries.

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same time, higher minimum contribution rates could reduce the income available before retirement after deducting tax, ACC levies and KiwiSaver contributions. The RIIG report proposed that a five percent default contribution rate for both employees and employers is sufficient to ensure that median earners can adequately fund their retirement.

Analysis of replacement rates can help assess whether retirement savings are adequate, in relative terms, but it does not establish how much households can feasibly contribute to retirement saving given their current incomes and expenses. Feasibility depends on personal circumstances, and we can illustrate the budget impacts for households using Statistics New Zealand's Household Economic Survey.

For each household type, we divide average household expenditure equally between adults and apply the resulting benchmark to selected individual annual earnings levels. We then calculate the income remaining after deducting income tax, ACC levies, employee KiwiSaver contributions and the expenditure benchmark. The same expenditure benchmark is used at each earnings level within a household type.

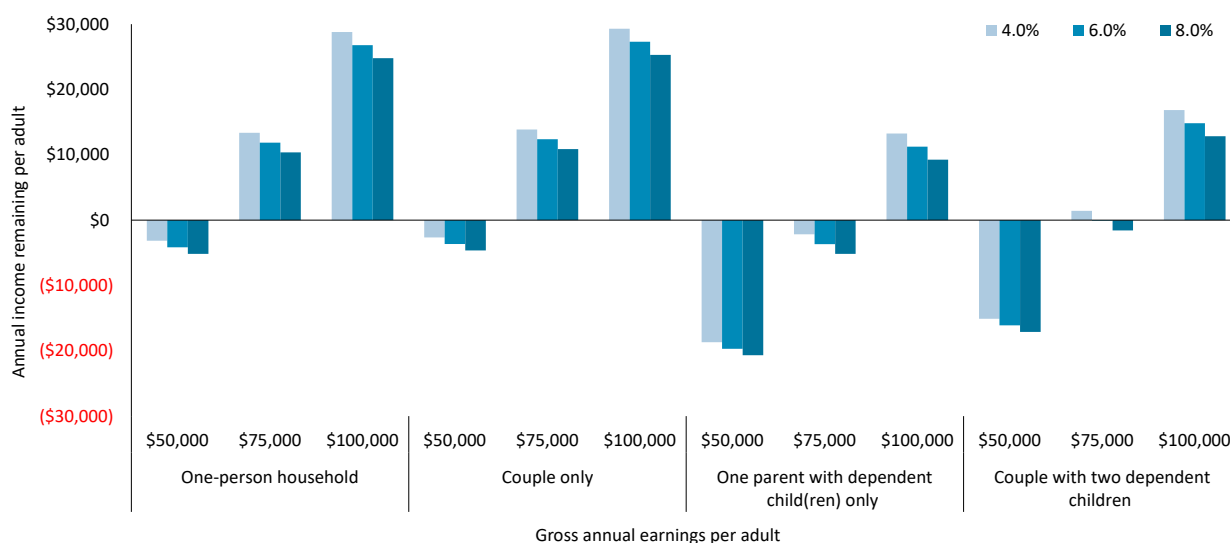
In these illustrative scenarios, shown in Figure 1, higher contribution rates reduce the income remaining across every household type and income scenario, on a per adult basis. Positive values indicate income remaining above the expenditure benchmark, while negative values indicate a shortfall relative to that benchmark.

At each contribution rate, lower earnings are associated with a smaller remaining balance or a larger shortfall. Assuming both adults earn the indicated amount, couple-only households have slightly higher remaining balances per adult than one-person households at the same earnings and contribution rates. By comparison, individuals earning \$75,000 or more in one-person and couple-only households retain positive balances at every contribution rate shown. These balances narrow as contribution rates rise.

Single-parent households show the largest shortfalls per adult at annual earnings of \$50,000 and \$75,000 across all contribution rates modelled. Couples each earning \$75,000 a year with two dependent children have positive balances at four percent and go into negative balances at higher contribution rates.

Figure 1 Illustrative effects of employee KiwiSaver contribution rates on income remaining after expenditure

Percentages in the legend are employee contribution rates. June 2025 \$ prices.



Notes: Excludes HES Group 13 ('Other expenditure') and Group 14 ('Sales, trade-ins and refunds'). The remaining balances do not account for all household resources or outgoings and should not be interpreted as an affordability threshold. Income remaining is after income tax, ACC levies, employee KiwiSaver contributions and assumed household expenditure divided equally between adults. Both adults in couple households are assumed to earn the indicated amount. See caveats section.

Source: NZIER from Stats NZ datasets

These scenarios illustrate how the effects of higher KiwiSaver contributions could vary across households based on illustrative earnings levels, household composition, and assumed household expenditure, but do not establish what individual households can afford or whether they experience financial hardship.

Income support and tax credits, including Working for Families, are excluded from the scenarios in Figure 1, which understates the resources available to some households. For example, an eligible household with two children that earns a total income of between \$99,501 and \$101,000 per year could receive approximately \$77 per week (\$4,004 per year) in Working for Families tax credits under 2026/27 settings, excluding a temporary additional payment of \$50 per week until March 2027 or if 91 petrol falls below \$3 per litre for four consecutive weeks.³

These payments increase the resources available to meet household spending and saving needs, but affordability also depends on individual circumstances and the scope to adjust spending. The shortfalls shown do not, on their own, establish whether households would need to reduce spending to accommodate higher contributions. Actual outcomes will depend on household resources, expenses and behavioural responses. Further assumptions and limitations are set out in the caveats section.

Do higher KiwiSaver contributions increase total household saving?

In theory, higher contributions increase projected KiwiSaver balances, but whether this increases total household saving depends on how those contributions are funded. KiwiSaver is only one form of saving, and the broader picture of how people save is what matters for retirement savings overall.

In its modelling of the economic impacts of increasing KiwiSaver contributions to four percent, the Treasury (2025a) assumed that:⁴

- Employers offset 80 percent of their higher contributions through reduced future wage increases.
- Around 80 percent of the increase in employee contributions comes from redirecting other forms of saving, such as mortgage principal repayments or contributions to other investments. The remaining 20 percent comes from reduced household spending.

These assumptions suggest that the Treasury doesn't expect increases in contribution rates to have a straightforward effect on KiwiSaver balances or overall retirement savings. Any increase in KiwiSaver balances depends on the interaction between higher minimum contribution rates and lower projected earnings to which they apply, relative to what would otherwise have happened.

Over time, slower wage growth and redirected saving offset the intended effects of higher minimum contribution rates to varying extents, and this affects total retirement savings balances. Slower wage growth shifts some of the cost of higher employer contributions onto employees, who now contribute at higher rates, but from potentially lower future earnings than otherwise.

Households already saving outside KiwiSaver may be able to redirect some of their saving toward higher contributions with little change in the total amount they save and the amount they have available to spend. The extent of this switching is uncertain and will vary across households. However, households that save little or nothing outside KiwiSaver have less scope to make this adjustment and may face greater pressure to reduce spending or increase debt levels to cover expenditure.

³ <https://www.ird.govt.nz/updates/news-folder/2026/in-work-tax-credit-increase-from-1-april>

⁴ The assumptions are specifically for the Budget 2025 changes, which may or may not hold for substantially higher compulsory rates.

Behavioural responses matter when considering compulsion- or incentive-based approaches

The case for compulsory KiwiSaver membership and contributions depends partly on why people do not currently contribute to the scheme and how they would respond to being required to do so. In the recent reforms, the government reduced incentives to join and contribute to KiwiSaver by cutting the maximum annual government contribution in half, from \$521.43 to \$260.72, and removing it entirely for those earning over \$180,000 per year (Inland Revenue 2025). The Regulatory Impact Statement (RIS) for the reform anticipated that:

“...to the extent some people do reduce their KiwiSaver contributions because of these changes, much of that will be offset by increases in other forms of retirement savings outside of KiwiSaver.”

However, it is unclear how this will play out or affect total retirement saving. As previously discussed, households differ in their ability to redirect saving between KiwiSaver and other assets. For some households, reductions in KiwiSaver contributions could be offset by increases in other forms of saving, while other households could end up saving less overall. Although responses to reduced incentives do not establish how households would respond to compulsion, they illustrate why changes in KiwiSaver contributions need to be considered alongside other saving.

There is a potential case for compulsion where inertia or difficulty maintaining a saving commitment leads people to save less than they would ultimately prefer. Redirecting existing saving to KiwiSaver generally ring-fences it for retirement, even where the total amount saved changes little. These potential benefits must be assessed alongside the costs of reduced access to savings and increased pressure on current household budgets.

Larger KiwiSaver balances alone do not show whether compulsory contributions would leave households better off overall. Kiwibank's State of Savings Index (2026) found that 40 percent of respondents had taken on debt to cover increased living costs in the previous year. This illustrates the financial pressure some households already face. For households borrowing to meet everyday expenses, higher compulsory contributions could lead to additional borrowing or slower debt repayment, offsetting some of the benefits of larger KiwiSaver balances.

Compulsory contributions therefore involve a potential trade-off between retirement preparedness and financial resilience today. A household can become better prepared for retirement while becoming less able to manage immediate financial pressures. For example, they could hold more savings locked up in KiwiSaver but:

- have less in emergency savings
- repay their mortgages more slowly
- use more short-term debt to cover week-to-week shortfalls.

The potential for increased hardship withdrawals

Higher minimum KiwiSaver contribution rates and compulsory participation could also affect the use of hardship withdrawals. KiwiSaver members can withdraw funds where they are experiencing significant financial hardship, including when they cannot meet minimum living expenses.

Hardship withdrawals can materially reduce retirement balances because members lose both the amount withdrawn and the investment returns that would otherwise have accumulated on those funds. This means the effect of higher contribution rates on final KiwiSaver balances will depend not only on the additional contributions made, but also on how households respond when those contributions become difficult to sustain.

How do the proposed changes address different policy objectives?

1 Uneven KiwiSaver participation across types of employment

Research on self-employed people reports that 44 percent actively contribute to KiwiSaver, compared with 78 percent for employees. Surveyed sole traders who contributed to KiwiSaver had average annual incomes of around \$73,000 compared to \$41,000 for non-contributors (Te Ara Ahunga Ora Retirement Commission 2025b; Te Ara Ahunga Ora Retirement Commission and HNR 2025).

Among surveyed sole traders who were not contributing to KiwiSaver, 46 percent said they could not afford the contributions, 24 percent wanted access to their funds, and 21 percent were already investing elsewhere. Self-employed participants were more likely than employees to hold investments, but their reported savings were generally smaller. While 40 percent held investments, compared with 32 percent of employees, fewer had \$30,000 or more in savings or investments: 30 percent versus 45 percent. The report also notes sample-size limitations (Te Ara Ahunga Ora Retirement Commission and HNR 2025).

These findings suggest that lower participation among self-employed people reflects a mix of affordability constraints, preferences for access to funds and investment elsewhere. Participation rates alone therefore cannot establish whether this group is inadequately prepared for retirement. Without employer contributions, and with reduced government support, the relevant policy question is whether compulsion or different incentives and contribution arrangements would better address their barriers to saving for retirement.

2 Fiscal pressures from NZ Super

NZ Super expenditure is projected to grow in total and relative to our economy, rising from just over five percent of GDP in 2025 to eight percent in 2065, and reform of NZ Super has been discussed as a means to keep future

expenditure more affordable (The Treasury 2025b).

However, higher KiwiSaver balances do not automatically reduce NZ Super entitlements or expenditure under current settings. KiwiSaver was set up to supplement NZ Super for retirees. If reducing future NZ Super expenditure is the objective, proposals need to explain which NZ Super settings would change and how higher KiwiSaver savings would support those changes.

3 Living standards in retirement

Living standards in retirement depend on KiwiSaver, NZ Super, housing wealth and housing costs, other financial assets, debt and household circumstances. Increasing KiwiSaver balances therefore addresses only part of the picture and, for some households, can come at the expense of other parts.

Halving the maximum government annual contribution reduced support that was proportionately more valuable to lower earners (Te Ara Ahunga Ora Retirement Commission 2025a). Under the previous settings, government contributions could account for around 20 percent of the KiwiSaver balance accumulated over a working life for a low-income earner, compared with around 10 percent for a median earner and less than five percent for a high-income earner.

Making contributions compulsory and increasing minimum rates while reducing government support asks households to save more without addressing the constraints some already face. If the objective is better retirement living standards, proposals need to demonstrate how any changes are expected to improve households' overall financial positions across the retirement income system, accounting for debt and other assets alongside KiwiSaver.

Conclusion

Higher KiwiSaver contributions can produce larger balances at retirement. Whether this leads to households being better off than they previously were depends on how the additional contributions are funded, their effects on current spending capacity, and changes in other assets and debt.

Before deciding how much New Zealanders should be required to contribute, proposals should identify which households are at risk of inadequate retirement incomes, demonstrate how the changes would improve their retirement position, and assess the costs to their current living standards and financial resilience.

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Caveats

We compare income after income tax, ACC levies and employee KiwiSaver contributions at selected earnings levels with average household expenditure to illustrate how higher KiwiSaver contributions may affect individuals' and households' capacity to meet typical living costs. The calculations exclude government transfers, tax credits, investment income and other household resources, which can understate the resources available to some households.

Both adults in couple households are assumed to earn the indicated amount, and total household expenditure is divided equally between the two adults to present results on a per-adult basis. This does not imply that household costs are actually shared equally between partners.

Expenditure from the Household Economic Survey (HES) for the year ended June 2023 has been adjusted to June 2025 prices using the Household Living-Costs Price Indexes (HLPI). This adjustment captures price changes but not changes in household spending patterns since the survey. The same average expenditure benchmark for each household type is applied across all earnings scenarios.

The HES and HLPI expenditure classifications do not align perfectly. HES housing expenditure includes home-ownership expenditure, such as purchases of housing and alterations, additions and improvements. These components do not align directly with the housing costs covered by the HLPI adjustment used in this analysis. Therefore, applying that adjustment to the broader HES housing category is an approximation.

HES Group 13 ('Other expenditure') is excluded because it includes savings contributions that could overlap with the separately modelled KiwiSaver contributions. However, this also excludes interest payments and transfers, thereby understating some household outgoings. Excluding Group 14 ('Sales, trade-ins and refunds') removes offsets to expenditure. These exclusions affect the remaining balance in different directions.

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