Retirement saving policy in New Zealand
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https://wp.me/p6xNey-1rC

An update on policy for how much to save for retirement in New Zealand. A PDF of this post is here.

A previous post discussed my key questions for future KiwiSaver policy. All were concerned with how much people need to save given how much they are likely to spend in retirement. I expanded on the policy implications in a Policy Quarterly article:

> *In making any case for higher contributions, policy makers 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 of "How much should I save?" therefore provides opportunities to help savers understand both accumulation and decumulation phases consistently.*

If we understand how much people need to spend in retirement, then we can calculate how big their KiwiSaver fund needs to be at the point of retirement to provide the income needed in addition to the state pension New Zealand Superannuation. From that, we can calculate how much people would need to regularly save before they retire.

The importance of the default

In practice, life is not that simple. People have different needs and would make different choices for how much to spend in later life, and for how much they can or want to save through their working life. There is uncertainty about investment returns, inflation, how long they will live, and what enforced breaks they might have to take from saving.

But policy demands simplification in the form of a default contribution rate for KiwiSaver. The default employee contribution to KiwiSaver is expressed as % of pay. Employees are opted in to save at this rate. They can opt out temporarily or save more. Employers must match that contribution.

As at January 2026, the KiwiSaver default contribution is 3%, meaning a total contribution, with employer match, of 6% of pay. Budget 2025 increased default employee contribution rates to 3.5% of pay from 1 April 2026, and 4% from 1 April 2028, and introduced the option to temporarily save at only 3%.

The headline default % effectively acts as a benchmark for how much people should save to achieve adequate income in retirement. Almost two-thirds of employees contribute at the default rate. It may not turn out to be the best rate of saving for everyone, because of the uncertainties and differences across the population. But, because of its influence on savings behaviour, we should expect there to be a coherent narrative behind the choice of a default. It should describe a broadly suitable savings rate for adequate income in retirement.

A coherent narrative?

[Te Ara Ahunga Ora](), the Retirement Commission (TAAO), recommended a default of 4%, so 8% in total, in a 2024 paper which covered other useful and complementary policies to improve the outcomes from KiwiSaver. Government has adopted the 4%, but not many of the other recommendations.

[RIIG*]() suggested a default of 5%, so 10% in total. RIIG noted that this may be suitable for the median earner, but that lower-earners would need to save less and higher-earners may want to save more.

Both TAAO and RIIG used modelling to calculate what different levels of contributions would achieve in a KiwiSaver fund and test whether this would give adequate retirement income. Such modelling uses many assumptions. People will have views on the right value of these assumptions. Both models were run to show results on varying key assumptions.

RIIG made some different core assumptions that led to a higher recommended default:

- RIIG's adequacy target reflected recent research showing people tend to **spend less** in real terms as they go through retirement, in New Zealand and other countries. This will reduce the amount needed at retirement, all other things being equal.

- RIIG's adequacy target was based on **New Zealand tax** realities: NZ Superannuation is taxed but income withdrawn from KiwiSaver is not. Other countries tax pensions differently. Using international benchmarks without adjustment is therefore not correct. In addition, RIIG used the **latest international research** for how much people drop their income at the point of retirement. This shows a smaller gap than previously thought. All other things being equal, these assumptions increase the amount needed at retirement.

- RIIG used **higher investment returns**, based on its own view on long-term prospects. This would tend towards a lower default contribution rate needed, as would RIIG's modelling of **savings starting at age 22**, earlier than TAAO's age 25. Most New Zealanders move into full-time employment at some point in the 20 to 24 age range.

The difference that makes the most impact is probably RIIG's more forensic analysis of income need in retirement, from analysis of actual spending through retirement, the tax situation in New Zealand and the latest international research. In addition, RIIG deliberately allowed a margin to reflect the many uncertainties that could prevent people saving for a complete working life from age 22 to 65. Many KiwiSaver members will start saving later, stop work sooner, have a break in mid-career or withdraw funds early to buy a home or for hardship reasons.

> *On balance, RIIG suggests that the default level of KiwiSaver contributions should be set so the median earner is likely to achieve our definition of adequacy with a modest buffer against adverse changes in the savings phase. Some flex from the hypothetical full savings career should be allowed for but should not be so large that it causes over-saving.*

[National Party policy]() is to keep on increasing from the Budget 2025 policies to a KiwiSaver default contribution of 6%, so 12% in total. The rationale for this is given as more investment is better, for individuals and the economy, and that 12% matches Australia. In fact, this glosses over tax and distribution differences between the New Zealand and Australian pension policies.

RIIG suggests 6% will be too high for most people:

> *The highest-income 10% of earners may find a higher than 5% matched contribution rate more suitable for their personal targets. They are likely to be able to make additional voluntary contributions and seek personal advice. Default contribution rates should not be set by the preferences of this group.*

RIIG shows that 6% is likely to prove too high for the median earner, especially if they work and save to age 67 in response to a rise in the age of eligibility for NZ Superannuation. Lower income people will be struggling to afford 6%. The policy will need, at the very least, more active guidance and ways to opt down to a lower contribution rate.

It looks like a matched 6% default has less of a coherent savings policy narrative than a desire to push money into investments for macro-economic reasons and an incorrect "be like Australia" soundbite.

I remain convinced that pension policy should be determined by what delivers good pensions to people and underpinned by evidence-based analysis.

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* I was a member of the RIIG team, writing its publications from 2015-2025. RIIG is the Retirement Income Interest Group of the New Zealand Society of Actuaries.

Nothing on this blog is personal financial advice. This post is about policy, not what is best for any individual.