

Should KiwiSaver be compulsory?

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A policy question that never seems to go away is whether it should be compulsory to save in KiwiSaver. This article gives a quick recap on what's good about KiwiSaver, before considering the questions to answer before compulsion could be achieved, and suggesting an alternative.

A PDF of this post is [here](#).

What's good about KiwiSaver?*

By international standards, KiwiSaver is a great product. It's simple and has brand recognition. A KiwiSaver account can be the only account an individual needs to save for a first home and for retirement.

KiwiSaver members can choose a provider and between funds of varying investment risk-return. If they don't want to make those choices, there is a considered default. Regulation supports the conduct of the providers. It's possible to invest at internationally low fee levels.

KiwiSaver is also low cost for the taxpayer. System 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.

KiwiSaver schemes have the same capped tax rate on investment returns as other managed collective schemes (PIEs). The only extra incentive in KiwiSaver is that Government adds a maximum \$5 a week. At around 0.1% of GDP in total, that costs the taxpayer massively less than private pension incentives in other countries. The NZ Society of Actuaries estimated this cost at around 1.5%-2% of GDP each year in Australia or the UK.

The incentive for employees to join KiwiSaver is that there is generally free money from their employer, as it is compulsory for employers to match KiwiSaver employee contributions. As has been well covered by the Retirement Commission, this breaks down for the self-employed, or when employers adopt a "total remuneration" approach. Total remuneration means employer KiwiSaver contributions are not on top of pay as intended, but offset against it, reducing the amount of take-home pay received.

New Zealanders have embraced KiwiSaver. Around 90% of eligible paid employees (the main target of the scheme under current settings) are actively contributing. This is a higher percentage of the working-age population than in the compulsory Australian scheme.

So why - and why not - make it compulsory?

Two [arguments](#) are made to make KiwiSaver compulsory. First, because people will be better off in retirement if they save more. Second, because the country will benefit from a bigger pool of investment assets.

Both arguments are often linked to a call to increase default contribution rates. There is also a suspected, if not actually stated wish, to use higher future retirement income from KiwiSaver as a reason to reduce NZ Super to save costs in our ageing society.

[Budget 2025](#) started increasing default employee contribution rates from 3% of pay to, eventually, 4%. [National party policy](#) is to keep on to 6%, making a total of 12% from both employee and employer. This is said to match Australia.

However, be careful what you wish for. There are myriad fishhooks in Australia's 12%, not least that it is paid by employers only, into a system with the costly tax incentives described above, and for many Australians, is simply too much. Australian households are more indebted than New Zealanders. According to the [Grattan Institute](#), Australian superannuation is "a massive, taxpayer-subsidised inheritance scheme", with half of account holders leaving two-thirds unspent by average life expectancy.

In New Zealand, this might seem far-fetched as we hear so much about not saving enough. But [I don't believe we have a good handle on how much is "enough"](#).

The [Retirement Commission](#) recommended a matched default contribution of 4%, so 8% in total. The Retirement Income Interest Group ([RIIG](#)) of the NZ Society of Actuaries suggested setting the total default at 10% after [a detailed review of assumptions](#) into how much a median earner might need through retirement and suggesting a modest buffer in case a full working life of saving is not possible.

The proposed 12% has no need-based justification. It is led by general sentiments that more investment must be better. Higher invested assets could hopefully lead to more investment in New Zealand infrastructure.

RIIG showed how the highest-income 10% of earners may find a total contribution higher than 10% more suitable for their personal targets, but these are hardly the people around which policy should be set. People at the lower end of the income distribution could be severely stretched by contributing more than the 3% minimum. And those with a lifetime of earning around \$30,000 a year or less will find NZ Super might well be adequate without a KiwiSaver top-up.

People will not be better off by being forced to save too much, or if saving comes at the cost of reducing their standard of living before retirement.

Questions to answer before compulsion

This shows that before we even tackle the question of whether KiwiSaver should be compulsory for individuals, we need to answer others. How much do people realistically need in KiwiSaver? How does that vary by income? Are we prepared for the compulsory default to vary by income? Are we prepared to bring the self-employed into compulsion? And outlaw total remuneration schemes?

Like all private pension savings schemes, KiwiSaver widens the inequality gap. It is income based, so higher income people will save more dollars than lower income people and the employer contribution will be worth more. NZ Super gives the same basic income for all eligible New Zealand residents. How much do we want to change the balance towards unequal outcomes? And is it right to mandate people to engage with KiwiSaver if they don't want to save that way?

There is another way to get at the underlying desire for greater invested assets. If higher contributions were channelled to the New Zealand Superannuation Fund, investment in infrastructure could be more focused. All New Zealanders would benefit equally from the investment nous of the Superannuation Fund managers, rather than taking the chance of their own KiwiSaver fund being a winner or loser. NZ Super could be more secure. KiwiSaver could retain choices.

Of course, there are fishhooks too in this proposal. But if we're serious about retirement income policy reform, then we need to look at the mix of NZ Super, NZ Superannuation Fund and KiwiSaver as a system, not just pick off a simple soundbite.

** This section draws on my 2025 article [*KiwiSaver: Maturing Well?*](#) in Policy Quarterly and Te Ara Ahunga Ora Retirement Commission publications [*KiwiSaver Opportunities for Improvement*](#) and the [*2025 Review of Retirement Income Policies*](#).

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.