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White Paper #3

KiwiSaver's Growing Pains

The Issues Emerging as the System Reaches Adulthood

□ Provider consolidation	□ Marketing over advice
□ Low average balances	□ Rising hardship withdrawals
□ Fee complexity	□ Political instability
□ Retirement misconceptions	□ Identity conflict

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Introduction: KiwiSaver at 18 — A System Coming of Age

KiwiSaver is now old enough to vote, go flatting, and have its own opinions. And like any 18-year-old, it's showing signs of maturity, but also signs of strain. The system that began in 2007 as a light-touch behavioural nudge is suddenly expected to carry a much heavier load. It must help people into homes, help them cope with rising living costs, help them build real retirement security, and somehow weather political tinkering along the way.

For its first decade, KiwiSaver could get away with being simple. Balances were small, people didn't check apps daily, and contributions of 3% seemed 'fine'. No one was expecting miracles. But now the stakes are higher. Balances are larger, fees matter more, hardship withdrawals are rising, switching behaviour is distorting long-term outcomes, retirement expectations are mismatched, and government policy continues to shift under the surface.

This article explores the key issues shaping KiwiSaver today. Not the theoretical concerns from 2007, not the structural questions from 2012, and not the COVID-era volatility questions. These are the issues clients face right now.

1 A System Dominated by a Few Providers

One of KiwiSaver's bold promises in 2007 was competition. The idea was that dozens of providers would compete on fees, value, education, and quality of investment management. Reality took a different course.

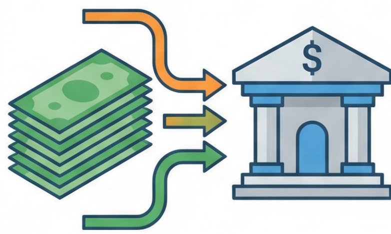
Massive consolidation has reshaped the landscape

What was once a diverse field of 30-plus providers has become dominated by a small group: ANZ, ASB, Booster, Westpac, Fisher Funds, Milford, and Generate. This shift matters because market concentration reduces competitive pressure on fees, service, innovation, and transparency. Members are less likely to switch. Providers invest more in marketing than advice. Boutique competitors struggle to achieve scale. Bank-based inertia becomes a superpower. KiwiSaver is not broken, far from it. But it is becoming less competitive, and that has downstream effects on member outcomes.

2 The Misconception That KiwiSaver Should Be Withdrawn at 65

This is one of the most persistent and damaging misunderstandings in the system. Clients genuinely believe: 'You turn 65 and you take your KiwiSaver out.' Because the law allows access at 65, people interpret that as an instruction rather than an option. Behavioural inertia leads thousands to withdraw into bank accounts, lose investment exposure, spend too quickly, and misjudge longevity risk.

Australian retirees face the opposite problem: they have to plan for the transition from accumulation to pension phase, and their decisions are shaped by means testing. Kiwis receive none of those cues. KiwiSaver members need to understand that age 65 is not a finish line. It is a transition point, and the strategy matters.



Age 65 is a transition point, not a finish line. The decision about what to do at that point matters enormously.

3 Fees and Performance Fees: Complexity in a 'Simple' System

As balances grew, fees finally started to matter. Most New Zealanders now have enough in KiwiSaver that an extra 0.30% translates into hundreds or thousands of dollars over time.

Performance fees complicate the picture

Performance fees can reward genuine outperformance, incentivise excessive risk-taking, or transfer value from members to providers during lucky market cycles. Some schemes charge base fees only; others layer on performance fees with or without permanent high-water marks. This creates two risks: members have no idea how performance fees work, and providers can use headline low base fees to appear cheaper while the real margin is embedded elsewhere. The FMA has flagged this as an area of concern, and rightly so.

4 KiwiSaver as a Marketing Machine: More Salespeople, Not More Advice

When KiwiSaver launched, no one expected the industry to become a high-volume marketing battleground. Yet here we are. Providers employ dedicated sales teams, large bank branches push their own schemes, switching incentives include giveaways and referral bonuses, and social media advertising targets under-35s. Provider-sponsored content is often dressed up as education.

What's missing is advice

As providers compete for market share, education gets simplified into slogans, switching becomes reactive, aggressive funds get marketed during bull markets, and younger members get drawn into performance-chasing. The FMA has warned that marketing is beginning to distort informed choice, and the data backs this up.

5 Low Balances: The Quiet Crisis

The average KiwiSaver balance for a 55 to 64-year-old is still only around $60,000. Even accounting for first-home withdrawals, late entry to the system, and low contribution rates, it is still well below what most people need to meaningfully supplement NZ Super.

Why this matters now

KiwiSaver is moving from a 'nice top-up' to a critical component of retirement income. But the system was never designed to fully fund retirement, and the contribution settings guarantee that it won't. This is becoming one of the biggest policy gaps in New Zealand's entire financial framework.

6 Financial Hardship Withdrawals: A Symptom of Economic Strain

Hardship withdrawals were once a rare, last-resort option. But in the last few years, through inflation spikes, rising interest rates, and cost-of-living stress, applications have climbed steeply. Approvals for significant financial hardship withdrawals have risen sharply since 2021. Many requests relate to unavoidable expenses such as rent arrears, utilities, and medical bills.

Why this matters

KiwiSaver was never designed to function as an emergency fund, yet that is exactly how more New Zealanders are using it. Balances are eroded in the very years they should be compounding fastest. Members who withdraw once are more likely to withdraw again. And hardship withdrawals disproportionately affect lower-income workers, widening long-term wealth inequality. This is not a behavioural flaw. It is an economic signal.

7 The Rise of the Aggressive Fund: Do People Know What They're In?

Many younger members, and even some older ones, have moved into aggressive or growth funds. On the surface this is a good thing: long horizons reward higher-risk portfolios. But a lot of people choose aggressive funds because they have seen good returns over the last decade and think that pattern will simply continue.

A system-level shift, not just individual choice

Back in December 2019, about 37.6% of KiwiSaver money sat in Growth and Aggressive funds. By September 2025 it was about 44.1%. That is a meaningful shift in how New Zealanders are positioned for market ups and downs. The issue is not whether growth or aggressive is 'good' or 'bad'. The issue is whether this drift is happening because people have deliberately chosen it, or because performance-chasing, nudges, defaults, and easy switches have done the choosing for them.

8 App-Based Engagement: The Illusion That Everything Is Going Up

KiwiSaver apps have been a revolution for member engagement. But they have also introduced a powerful optical illusion. Contributions keep the balance going up every fortnight. So even when markets go sideways for months, members see 'growth'. Members often assume their fund is performing well, that markets are always positive, and that volatility doesn't matter much.

This illusion is strongest among younger members, first-home savers, and new investors who watch the app more often than the news. When a real market downturn arrives, the shock will feel personal, not financial. The generation raised on KiwiSaver apps has never seen a sustained bear market.

9 Total Remuneration Packaging: The Silent Reduction of Employer Value

In the early years of KiwiSaver, employer contributions were an obvious benefit. Now, increasing numbers of employers treat KiwiSaver as part of Total Remuneration. This means the employer contribution is included within an employee's salary package, not added on top.

If KiwiSaver contributions rise in future, say from 3% to 4%, total remuneration packaging means the increase comes out of the employee's own pay packet. It's the opposite of Australia, where employer contributions must be on top of salary. This is one of the quiet structural weaknesses in our system. It makes contribution increases politically difficult. And most employees don't realise it's happening.

10 Employer Contributions and the Tax Drag Problem

KiwiSaver employer contributions used to be tax-free. Now they're subject to ESCT (Employer Superannuation Contribution Tax), taxed at the employee's marginal rate. The outcome is simple but damaging: the 3% employer contribution is not actually 3%.

A worker on the 33% ESCT rate receives 3% multiplied by 0.67, which equals roughly 2% net contribution. That is a one-third haircut. This is not well understood by members. They believe they are receiving 3%, but they are not. In Australia, employer super contributions are taxed at 15% in-fund, significantly lower for most workers.

11 Government Tax Credit Changes (2025 Budget)

The 2025 Budget halved the Government Tax Credit from 50 cents per dollar contributed to 25 cents, with a new annual cap of approximately $261 and an income cap of $180,000. This change aims to deliver the credit where it has the highest marginal impact, but it also introduces confusion. Some people who previously qualified no longer will. And many people still assume the government gives a $1,000 'kick-start', which it hasn't since 2015.

12 The Housing-First Mentality: KiwiSaver's Accidental Redirection

KiwiSaver's first-home withdrawal feature was wildly successful, perhaps more successful than policymakers anticipated. But it has also changed the system's purpose. For many New Zealanders under 40, KiwiSaver equals house deposit, not retirement plan.

Members withdraw in their late 20s or 30s, contributions restart from a near-zero base, and compounding is disrupted during critical years. Most members will withdraw again when their second larger home is purchased or when they restructure lending. It is a double reset. Housing access is valuable, but retirement adequacy suffers in the background.

13 Political Tinkering: KiwiSaver's Instability Problem

One of the system's biggest weaknesses is that KiwiSaver has never been politically sacred. Australia treats super as the backbone of the retirement system. KiwiSaver is treated as an adjustable policy lever. Over 18 years it has been launched with a kickstart, stripped of the kickstart, adjusted on employer tax, adjusted on member tax credits, restructured at every default tender, and influenced by housing and first-home grant rules.

Every time the system changes, trust erodes a little more. New Zealanders do not see KiwiSaver as a stable, long-term anchor for their financial planning the way Australians see super. That makes people more reactive, more anxious, and more likely to withdraw early or switch funds based on headlines.

14 The Contribution Rate Debate: Why 3% Was Never Going to Be Enough

New Zealand's contribution settings have always been too low for the system to deliver adequate retirement income. That wasn't a flaw; it was a design choice. KiwiSaver was built to nudge, not compel. But the world has changed: living costs are higher, NZ Super is no longer enough for many households, life expectancy continues to lengthen, and housing absorbs disproportionate income.

The political challenge

Raising contributions from 3% to 4% and eventually higher is becoming inevitable. But total remuneration packaging means too many employees will pay the entire increase themselves. And most don't know that. Increasing contributions under total remuneration feels like a stealth pay cut. Yet keeping contributions at 3% guarantees retirement inadequacy for hundreds of thousands of New Zealanders.

15 KiwiSaver's Two Identities: The Core Tension

KiwiSaver has two competing identities. The first is a long-term retirement savings vehicle expecting disciplined investing, compounding, and consistent contributions. The second is a short-term strategic financial tool used for housing deposits, hardship withdrawals, cost-of-living relief, and investment experimentation.

It was designed as a retirement tool, but behaviourally it functions as a multi-purpose wallet. This identity conflict explains many of the system's current issues. KiwiSaver is being asked to solve long-term and short-term problems simultaneously, something no system can do well without significant structural tension.

16 What Needs to Change: A Clear and Practical Perspective

Here is what would materially improve retirement outcomes for New Zealanders without turning KiwiSaver into compulsory super.

1. Increase contribution rates gradually and predictably. Move minimums from 3% to 4% for employees as signalled, encourage voluntary increases to 6%, 8%, or 10%, and ensure employer contributions are on top of salary, not inside it. This single change would materially improve balances over 30 to 40 years.

2. Fix total remuneration ambiguity. Make disclosure mandatory. Employees should know whether their '3% KiwiSaver' is actually coming out of their own pay.

3. Improve hardship support outside KiwiSaver. KiwiSaver should not be absorbing the failures of social support systems. More robust short-term assistance would protect long-term balances.

4. Mandate simpler, more transparent fee disclosure. Especially around performance fees, valuation methodologies for unlisted assets, and total cost of ownership. If members cannot understand the fee model, the model is broken.

5. Strengthen ethical disclosure rules. Members deserve clarity about exclusions, stewardship practices, carbon reduction strategies, and real-world impact. Ethics is not a marketing term.

6. Introduce structured retirement-phase defaults. At 65, most members have no plan. A well-designed transition framework would reduce rash decisions and premature withdrawals.

KiwiSaver is one of the most successful financial initiatives in New Zealand's history. Over 3.3 million people now have long-term investments, something unimaginable in 2007. But the system is showing strain because it is being asked to solve problems it was not designed for.

Sources

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