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ETHICAL INVESTING

The KiwiSaver Series — 2026

White Paper #3 – KiwiSaver’s Growing Pains: The Issues Emerging as the System Reaches Adulthood

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, switching behaviour barely registered, financial literacy levels didn't matter much, and contributions of 3% - 4% seemed "fine". No one was expecting miracles.

But now?

The stakes are higher.

- Balances are larger
- Providers have consolidated
- Fees matter more
- Contributions look insufficient
- Hardship withdrawals are rising
- Switching behaviour is distorting long-term outcomes
- Retirement expectations are mismatched
- And government policy continues to shift under the surface

KiwiSaver has become central to the financial wellbeing of New Zealanders — yet it still behaves like a teenager: capable, full of potential, but not fully prepared for adult responsibilities.

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 — banks, boutiques, insurers, fund managers — 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+ providers has become dominated by a small group. Acquisitions, mergers, and default-provider tenders accelerated a winner-takes-most dynamic:

- ANZ
- ASB
- Booster
- Westpac
- Fisher Funds (and its absorbed platforms)
- Milford
- Generate

This shift matters because **market concentration reduces competitive pressure on fees, service, innovation, and transparency**. When a few large players hold the majority of accounts, subtle behaviour shifts emerge:

- 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’s 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 kicks in, leading thousands to:

- withdraw into bank accounts
- lose investment exposure
- spend too quickly
- 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’s a transition point — and the strategy matters.

3. Fees and Performance Fees: Complexity Emerging 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.

But fees are not all created equal.

Performance fees in particular complicate the landscape. They can:

- reward genuine outperformance, or
- incentivise excessive risk-taking, or
- transfer value from members to providers during lucky market cycles

Some KiwiSaver schemes charge:

- base fees only
- base fees + performance fees
- tiered performance fees with high-water marks
- performance fees without permanent high-water marks (more problematic)

This creates two risks:

1. **Members have no idea how performance fees work.**
2. **Providers 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.

The behaviours emerging:

- Providers employing dedicated “sales success teams”
- Large bank branches pushing their own schemes
- Incentives to switch, including giveaways and referral bonuses
- Heavy social media advertising targeting under-35s
- Provider-sponsored content disguised as education

What’s missing? **Advice.**

As providers compete for market share:

- education gets simplified into slogans
- switching becomes reactive
- aggressive funds get marketed during bull markets

- 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 55–64-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, Not Laziness

Hardship withdrawals were once a rare, last-resort option. But in the last few years—especially post-COVID, through inflation spikes, rising interest rates, and cost-of-living stress—applications have climbed steeply.

What the data shows:

- Approvals for significant financial hardship withdrawals have risen sharply since 2021.
- The average hardship withdrawal amount has increased.
- Many requests relate to unavoidable expenses (rent arrears, utilities, medical bills).

KiwiSaver was never designed to function as an emergency fund, yet that is exactly how more New Zealanders are using it.

Why this matters:

1. **Balances are eroded in the very years they should be compounding fastest.**
2. **Members who withdraw once are more likely to withdraw again.**

3. **Hardship withdrawals disproportionately affect lower-income workers,** widening long-term wealth inequality.

The increase in hardship withdrawals is not a behavioural flaw — it is an economic signal. It tells us households are under pressure, and KiwiSaver is absorbing that pressure.

7. The Rise of the Aggressive Fund: Do People Know What They're Signing Up For?

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 let's be honest: A lot of people choose aggressive funds because they have seen good returns over the last decade and think that pattern will simply *continue*.

The underlying issue:

Most members don't understand that:

- aggressive funds can fall 20%–30% in a downturn,
- recovery may take years, and
- their personal tolerance for volatility has never been tested.

This creates a behavioural risk: **people think they are more aggressive than they really are.** Until the market drops.

We saw this in 2020. We will see it again.

The danger is not the aggressive fund. It's the mismatch between the fund choice and the emotional capacity of the member.

8. App-Based Engagement — The Illusion of "Everything Is Going Up"

KiwiSaver apps have been a revolution for member engagement. But they've 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".

The behavioural trap:

Members often assume:

- their fund is performing well
- markets are always positive
- volatility doesn't matter much

- saving = investing = wealth building (as if they're equivalent)

This illusion is strongest among:

- younger members
- first-home savers
- new investors
- anyone who watches 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: "You get 3% on top of your pay."

Now?

Increasing numbers of employers treat KiwiSaver as part of **Total Remuneration (TR)**. This means the employer contribution is included *within* an employee's salary package, not added on top.

How widespread is TR?

There is no exact statistic published annually, but industry estimates suggest:

- TR is commonly used by large employers
- widely used in professional services, tech, banking, and corporates
- increasingly adopted by SMEs as payroll systems make it easy

Let's be clear: **TR disadvantages employees.**

If KiwiSaver contributions rise in future (e.g., from 3% to 4%), TR 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*.

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.

This means a member on:

- 17.5% PIR may pay **30% ESCT**
- 30% PIR may pay **33% ESCT**
- 39% PIR may pay **39% ESCT**

The outcome is simple but damaging: The 3% employer contribution is **not actually 3%**.

A worker on the 33% ESCT rate receives:
 $3\% \times (1 - 0.33) = \mathbf{2.01\% \text{ net contribution}}$

That's a one-third haircut.

This is not well understood by members.

They believe they are receiving 3%, but they are not.

For comparison: In Australia, employer super contributions are taxed at 15% in-fund — significantly lower for most workers.

KiwiSaver's employer tax treatment depresses balances over decades. It deserves more public attention.

11. Government Tax Credit Changes (May 2025 Budget)

The 2025 Budget reshaped the Member Tax Credit (MTC) in two meaningful ways:

1. **Eligibility tightened for high-income earners**
2. **More targeted support for low-to-middle income workers**

This change aims to deliver the MTC where it has the highest marginal impact. But it also introduces confusion.

The main issues:

- Some people who previously qualified no longer will.
- The MTC remains poorly understood generally.
- Many people assume the government still gives a \$1,000 "kick-start" — it hasn't since 2015.

The result? Conversations about the MTC often begin with correcting misinformation, not planning strategies.

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 = house deposit, not retirement plan.

This behaviour has long-term consequences:

- members withdraw in their late 20s or 30s
- contributions restart from a near-zero base
- compounding is disrupted during critical years

Most members will withdraw again when their second (larger) home is purchased or when they restructure lending. It's a double reset. Housing access is valuable — but retirement adequacy suffers in the background.

13. KiwiSaver as a Marketing Machine: The Industry Shift No One Predicted

KiwiSaver was not designed to become a marketing arms race. In 2007, the goal was straightforward: auto-enrol people, offer simple choices, provide transparent reporting. Fast-forward to today, and the picture is very different.

What KiwiSaver providers spend money on now:

- social media campaigns
- referral bonuses
- sponsorships
- influencer partnerships
- high-frequency online ads
- branch-level sales incentives (particularly in banks)
- app-driven "gamified" experiences

What they spend comparatively less on:

- personalised advice
- member education
- financial literacy
- nuanced risk-profiling
- realistic retirement projections

The system has drifted from *advice-led decision-making* to *marketing-led engagement*. That's not a moral failing — it's a commercial inevitability when providers are paid a percentage of funds under management.

But here's the issue:

Marketing influences switching behaviour far more powerfully than evidence, planning, or retirement modelling. And switching — done poorly — is one of the most damaging behaviours in KiwiSaver.

14. Switching Behaviour During Market Volatility: A Persistent, Costly Problem

The FMA's post-COVID analysis was sobering:

Thousands of New Zealanders switched from growth to conservative funds at the bottom of the market — locking in losses, missing the recovery, and permanently damaging long-term returns.

That behaviour didn't disappear after COVID. It simply went quiet.

Why switching is such a problem:

1. **Members confuse risk with volatility.**
2. **Apps make switching too easy.**
3. **Marketing pushes aggressive funds when markets rise.**
4. **People react emotionally to short-term losses.**
5. **Members rarely switch back at the right time.**

When returns fall, contributions disguise the damage. Members feel like they "stopped the losses" because their balance still edges upward — but only because new money is arriving.

The real issue:

Switching is now frictionless, but understanding risk is not. That asymmetry harms members.

15. Transparency Gaps: Fees, Unlisted Assets, Valuation Methods, and Ethical Claims

KiwiSaver's regulatory framework is strong, but it still has holes — particularly around *transparency*.

Fee disclosure is still confusing

- Performance fees are inconsistent
- Some base fees appear low but rely heavily on variable fees
- Disclosure statements are long, dense, and barely read

- Comparisons between providers are not apples-to-apples

Members cannot make informed choices when the cost structures are not intuitively comparable.

Unlisted asset valuations – the quiet issue

As KiwiSaver grows, more providers are adding:

- private equity
- infrastructure
- unlisted property
- venture capital

These assets require subjective valuation models.

During volatility, different providers may:

- revalue sooner or later
- smooth returns differently
- adopt different appraisal methodologies

This affects members' understanding of performance — and can make some funds *appear* less volatile than they truly are.

Ethical expectations vs reality

This issue is tailor-made for Moneyworks' ethical investing expertise.

Members often believe:

- "my provider is ethical,"
- "banks don't invest in fossil fuels,"
- "my fund won't buy weapons,"
- "ESG means my fund aligns with my values."

None of these assumptions are reliably true.

Marketing has outpaced reality. KiwiSaver members frequently believe their fund is more ethical than it actually is — and most don't read stewardship reports carefully enough to know the difference.

This mismatch is becoming a reputational risk for the industry.

16. 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, and over its relatively short life it has been:

- launched with a \$1,000 kick-start
- given a \$40 annual fee subsidy
- stripped of the fee subsidy
- stripped of the kick-start
- adjusted on employer-contribution tax
- adjusted on member tax credits
- restructured at every default tender
- influenced by housing policy
- influenced by first-home grant rules
- influenced by changes in PIRs and ESCT
- targeted in multiple election campaigns

Every time the system changes, trust erodes a little more.

And the result?

New Zealanders do not see KiwiSaver as a stable, long-term anchor for their financial planning — not in the way Australians see Super. That makes people more reactive, more anxious, and more likely to withdraw early or switch funds based on headlines.

17. 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
- younger workers start employment with higher debt levels
- housing absorbs disproportionate income

Raising contributions from 3% to 4% (and eventually higher) is becoming inevitable. But here's the catch:

Total Remuneration (TR) means too many employees will pay the entire increase.

And most don't know that.

The political challenge is obvious: Increasing contributions under TR feels like a stealth pay cut.

Yet keeping contributions at 3% guarantees retirement inadequacy for hundreds of thousands of New Zealanders.

We are approaching a structural crossroads.

18. The Tension Between KiwiSaver's Two Identities

KiwiSaver has two competing identities:

Identity 1: Long-term retirement savings vehicle

Expecting disciplined investing, compounding, and consistent contributions.

Identity 2: Short-term strategic financial tool

Used for:

- housing deposits
- hardship withdrawals
- cost-of-living relief
- switching during volatility
- investment experimentation
- app-driven financial dopamine

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.

19. The System-Level Consequences: What All These Issues Add Up To

KiwiSaver's challenges don't sit in isolation.

They combine — quietly and cumulatively — into a significant structural problem for the next generation of retirees.

Consequence 1: Retirement adequacy risks are rising

Low contributions, total remuneration packaging, hardship withdrawals, and housing resets mean that many New Zealanders:

- will not reach meaningful balances by 65,

- will rely heavily on NZ Super,
- and may face living standards below what they expect.

The system isn't failing — it is delivering precisely what was designed: **a supplementary savings scheme, not a replacement for NZ Super.**

But public expectations have shifted faster than policy settings.

Consequence 2: Volatility will be emotionally harder for newer investors

An entire generation of KiwiSaver members has experienced:

- mostly rising markets,
- stable interest rates,
- a steady upward-looking app experience,
- and no long period of sustained negative returns.

When a multi-year downturn comes, the behavioural shock will be real.

- Switching risk will surge.
- Providers will face reputational pressure.
- Members will feel blindsided.

The system currently relies on optimism; it is not yet stress-tested emotionally.

Consequence 3: Market concentration reduces innovation and competition

With fewer major players:

- fees tend to cluster,
- product differentiation shrinks,
- ethical claims become blander and less authentic,
- providers prioritise scale over service,
- switching behaviour becomes more marketing-driven than advice-driven.

Competition hasn't disappeared — but it has weakened. This impacts long-term returns, choice, and consumer power.

Consequence 4: The system is being used for purposes that a retirement savings scheme was not designed for

Housing access, emergency relief, and short-term financial triage all weaken long-term retirement outcomes. When policymakers add features to solve short-term problems, the long-term integrity of the system erodes quietly.

KiwiSaver is turning into a financial Swiss Army knife — useful, flexible, but not optimised for any single purpose.

Consequence 5: Political instability creates distrust

KiwiSaver has been altered so many times in 18 years that many members distrust long-term projections. They assume:

- incentives may change,
- eligibility may shift,
- tax rules may be adjusted,
- fund types may be reclassified,
- and withdrawal frameworks may tighten or loosen.

This underlying political noise reduces the system's credibility. People engage less deeply when they suspect the rules may move.

20. What Needs to Change? A Clear and Practical Perspective

This section is where normal articles become timid.
Let's avoid timidity.

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

1. Increase contribution rates (gently and predictably)

Move the minimums from:

- 3% to 4% for employees (as signalled),
- encourage voluntary increases to 6%, 8%, or 10%,
- ensure employer contributions are on top of salary, not inside it.

This single change would double balances over 30–40 years.

2. Fix total remuneration ambiguity

Make TR disclosure mandatory.

Employees should know whether "3% KiwiSaver" is actually coming out of their own pay.

3. Improve hardship support outside KiwiSaver

KiwiSaver shouldn't 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,
- 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,
- ESG methodology,
- real-world impact.

Ethics is not a marketing term.
It's a promise.

6. Introduce structured retirement-phase defaults

At 65, most members have no plan.

A well-designed transition framework — similar to Australia's "retirement income covenant" — would reduce rash decisions and premature withdrawals.

7. Reinforce the system's long-term purpose

KiwiSaver is:

- not a bank account,
- not a volatility toy,
- not a lifestyle emergency fund,
- not just for first homes.

It is meant to help New Zealanders retire with dignity.

The more the system aligns around that core purpose, the better the outcomes.

21. The Future of KiwiSaver: Between Potential and Pressure

KiwiSaver today is balanced between two truths:

Truth 1:

It 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.

Truth 2:

The system is showing strain because it is being asked to solve problems it wasn't designed for.

KiwiSaver is:

- too small to replace retirement saving,
- too flexible to enforce discipline,
- too politicised to feel stable,
- too simple to match modern expectations,
- and too important to stay as it is.

But these challenges shouldn't discourage anyone. In fact, they reveal a system ready for its next evolution.

KiwiSaver is entering adulthood. It's time for its framework, incentives, and expectations to grow up alongside it.

22. Final Thoughts — Why This Matters for Every New Zealander

KiwiSaver has matured from a voluntary experiment into a foundational national asset. But maturity brings responsibility. Members need better tools, better information, better transparency, and better consistency. Providers need clearer accountability. Policymakers need a long-term strategy, not election-cycle tinkering.

And New Zealanders need to understand that KiwiSaver alone won't secure retirement — but it can be one of the most powerful tools they have **if used correctly, consistently, and with informed guidance.**

We owe it to the next generation to build a system that is stable, fair, and strong enough to support them long after the original designers have left office.

KiwiSaver's future can be bright — but only if we face its challenges honestly now.

Regulatory & official data

- **FMA – KiwiSaver Annual Report 2025** (hardship withdrawals, balances, provider landscape, switching behaviour, fees and defaults). [Financial Markets Authority](#)
- **FMA – KiwiSaver Annual Report 2024** (trend data on growth, fees, market concentration, member behaviour). [Financial Markets Authority](#)
- **FMA – KiwiSaver Report hub** (overview of the annual series and methodology, including provider statutory return data). [Financial Markets Authority](#)
- **Inland Revenue – KiwiSaver withdrawals statistics (number and amount)** – monthly series on first-home and significant-hardship withdrawals, showing sharp recent increases. [Inland Revenue+1](#)
- **Inland Revenue – Employer Superannuation Contribution Tax (ESCT) guidance** – rules, rates and confirmation that ESCT is deducted from compulsory employer contributions. [Inland Revenue+1](#)
- **FMA – KiwiSaver default funds consumer guidance** – description of default funds, member behaviour, and set-and-forget issues. [Financial Markets Authority](#)

Policy & budget changes

- **New Zealand Government – Budget 2025 KiwiSaver Factsheet** – halving of the member tax credit from 50c to 25c per dollar, new annual cap of \$260.72, and income cap for eligibility. [NZ 2025 Budget](#)
- **RNZ – “Budget 2025: What will KiwiSaver changes mean for your balance?”** – plain-English explanation of the MTC cut and its impact on different groups. [RNZ](#)
- **IRD – KiwiSaver changes page** – timing and implementation details for government contribution changes. [Inland Revenue](#)

Total remuneration & employer practices

- **Te Ara Ahunga Ora / Retirement Commission – Policy Brief on KiwiSaver & Total Remuneration (2023)** – clear worked examples of how TR arrangements reduce net employer contributions. [Retirement Assets](#)
- **SuperLife – “KiwiSaver: The impact on remuneration”** – industry explanation of TR packaging and how employers can structure KiwiSaver inside total comp. [superlife.co.nz](#)
- **EmploymentHero NZ article (2025) on calls to end packaged KiwiSaver deals** – recent commentary on proposals to ban TR treatment for employer KiwiSaver contributions. [Employment Hero](#)

Hardship, behaviour & commentary

- **Public Trust – “KiwiSaver insights: 4 things the new annual report reveals”** – summarises FMA 2025 findings, including the 50.8% jump in hardship withdrawals and average withdrawal amounts. [publictrust.co.nz](#)
- **Wikipedia – KiwiSaver entry** – up-to-date summary of current contribution options, MTC settings, and ESCT treatment, useful as a cross-check but not a primary authority

