Regulatory Impact Statement: Reforms to KiwiSaver

Decision sought	*Reforms to KiwiSaver*
Agency responsible	*Inland Revenue*
Proposing Ministers	*Minister of Finance* *Minister of Revenue*
Date finalised	8 April 2025

The Government has indicated its wish to increase value for money on existing government expenditure on KiwiSaver, while promoting private savings through KiwiSaver to support financial security in retirement.

Summary: Problem definition and options

What is the policy problem?

The Minister of Finance and the Minister of Revenue (Ministers) have directed officials to identify options that increase value for money on existing government expenditure on KiwiSaver, while still achieving wider government objectives of promoting greater private savings among New Zealanders to support financial security in retirement.

Scope of problem definition

An ongoing area of focus for KiwiSaver has been ensuring the scheme supports New Zealanders in achieving adequate retirement savings, while managing the government expenditure on the scheme. Wider issues, such as retirement savings levels in New Zealand, have not been assessed as part of the immediate policy process.

Impact of KiwiSaver on retirement savings

The available evidence includes a New Zealand study from 2011, which found that only a third of contributions to KiwiSaver accounts represented additional saving, while the other two thirds were reallocated from other savings vehicles. Another New Zealand study from 2014 found that KiwiSaver membership has not been associated with any increase in net wealth accumulation.

Government contribution

KiwiSaver members are eligible for a maximum government contribution (GVC) of $521.43 in a given financial year. Total Crown expenditure on the GVC for the year ended 30 June 2024 was just over $1 billion.[1] This expenditure, at HYEFU24, was forecast to increase to $1.228 billion per year by 2028/29.

[1] Vote Revenue, Benefits or related expenses – KiwiSaver: Tax Credit, $1.011 billion for 2023/24.

The GVC is progressive because it forms a greater proportion of a low-income earner's income than a high-income earner's income. However, it is an untargeted universal payment, and its value tends to be captured by those on higher incomes. For example, for the financial year ended 30 June 2024, 48% of government expenditure on the GVC was received by those earning $70,000 or less per annum, conversely, 52% of government expenditure on the GVC was received by those earning more than $70,000 per annum. In the financial year ending 30 June 2024, 8% of government expenditure on the GVC was received by those earning more than $180,000.
What is the policy objective? The two objectives are to achieve greater value for money from government expenditure on KiwiSaver and to promote greater private savings among New Zealanders to support financial security in retirement.

What policy options have been considered, including any alternatives to regulation?
Ministers directed officials to consider ways to reduce KiwiSaver expenditure and support private savings through KiwiSaver by looking at employee and employer contribution rates, and eligibility settings for those aged 16 and 17.
The Ministers' preferred options are to:
• Increase the default employer and employee contribution rates from:
    o 3% to 3.5% from 1 April 2026; and
    o 3.5% to 4% from 1 April 2028;
• Introduce the ability for members to take a savings reduction at 3%, with employers able to match at this level;
• Reduce the GVC matching rate from 50% to 25% from 1 July 2025, limiting the maximum value to $260.72 per year;
• Limit GVC eligibility to those earning $180,000 and less from 1 July 2025;
• Extend eligibility for the GVC to those aged 16 and 17 from 1 July 2025; and
• Extend eligibility for employer contributions to those aged 16 and 17 from 1 April 2026.
Due to the timeframe officials had to provide advice and the objective to increase value for money from KiwiSaver expenditure, officials were limited to considering regulatory options. This involves amendments to the KiwiSaver Act 2006, the Income Tax 2007, and the Tax Administration Act 1994.

What consultation has been undertaken? Due to the Budget sensitivity of the policy, no wide consultation was undertaken either with the private or public sector. However, narrow consultation occurred with officials from the Ministries with a responsibility for KiwiSaver (Ministry for Business, Innovation and Employment, Inland Revenue and the Treasury). In analysing the options under consideration, officials have drawn upon recent research such as NZIER reports commissioned by Te Ara Ahunga Retirement Commission.[2]

[2] Aotearoa New Zealand in 2050: Preparing our retirement income policy for the future, (NZIER, April 2025), and Lessons from across the Tasman: Comparing the Australian and New Zealand retirement income systems, (NZIER, November 2024).

Is the preferred option in the Cabinet paper the same as preferred option in the RIS?

The preferred option for amending the GVC in the Cabinet paper differs from the preferred option in the RIS. The preferred option in the Cabinet paper for amending the GVC is to income test eligibility at $180,000 or less and halve the matching rate. Inland Revenue and Treasury recommend removing the GVC entirely, on the grounds of maximising fiscal savings, improving value for money (given the lack of evidence that the GVC is materially impacting net household savings behaviour), and preventing administrative complexity that will arise for Inland Revenue in administering eligibility to the GVC based on income.

The preferred options in the Cabinet paper for amending the contribution rates and age eligibility settings differ from the preferred options in the RIS. Inland Revenue and Treasury recommended deferring a decision on the contribution rates. This was because the increase would reduce profitability for many businesses, potentially diverting funds that could otherwise be used to support capital investment. This could risk undermining elements of the Government's growth agenda. Deferring a decision would also allow any changes to contribution rates to be considered in the context of a wider review of existing retirement income settings. This would allow any changes to KiwiSaver contribution rates to be made with a more strategic view of the Government's wider retirement income policy objectives. This approach would also allow for consultation with employers, KiwiSaver members, KiwiSaver providers, and the Retirement Commission.

Summary: Ministers' preferred option in the Cabinet paper

Costs (Core information)

Costs associated with changes to the GVC

Halving the GVC matching rate would directly result in lower KiwiSaver balances (if viewed in isolation from the package) for members who have otherwise been eligible for the full amount. GVC expenditure for the Crown represented roughly 9% of all contributions into KiwiSaver balances last year. [3]

Income testing the GVC will lower KiwiSaver balances for those earning above $180,000 even more when compared with the status quo. For someone making $180,000 a year and contributing at 3%, the GVC represents roughly 5% of their total annual contribution to KiwiSaver. Under the proposals, KiwiSaver members earning $180,000 per annum or less who currently qualify for the maximum GVC of $521.43 will receive half the amount and will be worse off by $260.71 per annum compared to the status quo. Members who earn over $180,000 per annum and currently qualify for the maximum GVC will no longer be eligible for any GVC and will therefore be worse off by $521.43 per annum.

These changes also reduce the incentive for people to make their own contributions. This incentive will be strongest for people who earn over $180,000 (as they will lose eligibility to the entire GVC), as well as the self-employed and those on total-remuneration contracts (as they do not have a financial incentive to contribute from the employer contribution). Officials are unable to quantify how many people will reduce their KiwiSaver contributions because of these changes to the GVC.

However, we believe that most people will continue to contribute, due to a combination of the remaining financial incentive to contribute (the reduced GVC and the employer contribution), as well as the strong auto-enrolment and auto-deduction settings for KiwiSaver that make it easier for most people to choose the default option of contributing. The available

[3] KiwiSaver Annual Report 2024 (FMA, September 2024).

evidence also suggests 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.

Costs associated with changes to contribution rates

Increasing the employee contribution rate would lead to a decrease in disposable income (net pay after tax and KiwiSaver contribution) for employees currently contributing to KiwiSaver at 3%. For example, a member who is on minimum wage[4] who works 40 hours a week would contribute $1,466.40 per annum at 3%. Under the 4% contribution rate, they would contribute $1,955.20, which would be $488.80 per annum (or $9.40 per week) less available in disposable income.

The impact on disposable income will be greater for those on “total remuneration” contracts who remain at this increased rate, as the employer contribution also comes out of their disposable income. For example, a member on a total remuneration contract, who earns $70,000, and contributes at 3% would contribute $2,100 per annum as an employee. Their employer contribution ($2,037 per annum) would also come out of their disposable income. If they contribute at the increased 4% rate, their employee contribution would rise to $2,800 per annum and their employer contribution would rise to $2,688 per annum. Compared to the status quo, they would have $1,351 (or approximately $26 per week) less available in disposable income.

With the introduction of a savings reduction that allows for employees to drop down to 3%, members are unlikely to take a savings suspension (where members pause their contributions) in response to this change. Members who choose to drop down will have the same level of disposable income as under the status quo, but will not realise the benefits to their balances.

Increasing the employer contribution rate from 4% will lead to higher labour costs for employers. These costs will be lower for employers whose employees choose to opt down to 3%, as those employers can reduce their contribution and match their employee at 3%. Officials cannot provide detailed estimates of the anticipated costs across industries, as Inland Revenue does not hold data on the proportion of members on total remuneration contracts. It is likely the increased labour costs will be passed on in part to employees in the long term in the form of slower wage growth.

Costs associated with changes for 16 and 17 year olds

Expanding age eligibility for the GVC and the employer contribution to those aged 16 and 17 would result in a fiscal cost of $29.300 million over the forecast period. Expanding age eligibility for the employer contribution to those aged 16 and 17 would result in a cost to employers, as it would increase labour costs for those employers who do not currently match their contributing employees who are aged 16 and 17.

Administrative and compliance costs

This proposed package will also impose additional administrative costs on Inland Revenue. Inland Revenue will meet the $7.250 million operating expenditure and $3.000 million capital expenditure to implement Ministers’ preferred package from existing baselines. The implementation of income testing the GVC makes up most of this cost.

There will also be a one-off implementation cost for payroll providers, KiwiSaver providers, and employers who will experience change costs due to the proposed options. These costs are not known and have not been quantified due to these proposals being progressed under Budget secrecy which restricted officials from being able to consult with affected parties.

[4] $23.50, assuming the level set as at 1 April 2025.

Benefits (Core information)

The Ministers' package of preferred options has a total fiscal savings for the Crown of $2.977 billion over the forecast period (including the costs identified above associated with expanding age eligibility). These savings arise from reduced expenditure on the GVC and changes in income tax and Employer Superannuation Contribution Tax (ESCT) because of the change to contribution rates.

Increasing the default contribution rate for employees and employers from 3% to 4% would fully offset the impact on account balances of reducing the amount of the GVC and restricting GVC eligibility for most members, assuming they do not take a savings reduction. This is shown in the table below, which represents the total combined contributions to a member's balance at different income levels under the status quo, and under the Budget 2025 proposal (including the 4% employee and employer contributions and the GVC they would be eligible to receive).

Annual member income	Total annual contributions under status quo	Total annual contributions under Budget 2025 proposal	$ increase[5]
$ 30,000	$2,093	$2,451	$358
$ 60,000	$3,806	$4,641	$834
$ 70,000	$4,091	$5,021	$929
$100,000	$5,531	$6,941	$1,409
$180,000	$9,539	$12,285	$2,745

These benefits may not eventuate if a member takes a savings suspension or a savings reduction, however in the timeframe available to us, we have not been able to analyse the likely impact of this.

Members who are aged 16 and 17 and who contribute to KiwiSaver would become eligible for employer contributions and the GVC which will increase their KiwiSaver account balances faster than under the status quo. For example, a member working 15 hours at the minimum wage[6] would contribute $733.20 per year at a 4% contribution rate and would be matched with $656.21 per year in employer contributions after ESCT. They would also receive $183.30 per year as a partial GVC.

Balance of benefits and costs (Core information)

Does the RIS indicate that the benefits of Ministers' preferred options are likely to outweigh the costs?

On the proposed change to the GVC: Ministers' preferred option is expected to generate total fiscal savings of $2.977 billion over the forecast period. This RIS does indicate that the benefits of the proposed changes to the GVC are likely to outweigh the costs.

On the proposed changes to contribution rates: On the available information, it is unclear whether the benefits from the change to contribution rates will exceed the costs. Inland Revenue and the Treasury recommend deferring any decision to increase employer and employee contribution rates, given the change in contribution rates would increase short-term labour costs for employers. This increase would reduce profitability for many businesses, potentially diverting funds that could otherwise be used to support capital investment. This could risk undermining elements of the Government's growth agenda.

[5] Assuming members contribute the new default minimum of 4% (that is, there is no increase in savings suspensions).
[6] $23.50 as at 1 April 2025.

Deferring a decision would also allow any changes to contribution rates to be considered in the context of a wider review of retirement savings settings and include consultation with affected parties, including members, employers and KiwiSaver scheme providers. On this basis, officials recommend carrying out further stakeholder consultation and analysis with a broader scope (Option Four).

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?

Inland Revenue will be responsible for implementing the proposals noted above and is confident that it can implement changes to the GVC and contribution settings. Inland Revenue will also issue guidance on the website to support understanding of the changes for employers, KiwiSaver scheme providers and KiwiSaver members.

The proposals will be implemented legislatively by amendments to the KiwiSaver Act 2006, the Income Tax Act 2007, and the Tax Administration Act 1994. To meet the timeframe provided by Ministers, officials recommend that the proposed changes should be enacted as part of Budget night legislation. Otherwise, officials recommend deferring implementation until after public consultation.

The legislative changes relating to the GVC would take effect from 1 July 2025, with the majority of the reduced GVC paid out from July and August 2026. The legislative changes to increase the contribution rates from 3% to 3.5% and to enable employees to take a savings reduction would take effect on 1 April 2026. The legislative changes to increase the contribution rates from 3.5% to 4% would take effect on 1 April 2028.

Limitations and Constraints on Analysis

Ministers directed officials to consider the impact of restricting eligibility and/or reducing the value of the GVC, increasing employee and employer contribution rates, and expanding eligibility for KiwiSaver incentives for those aged 16 and 17. Consequently, officials' analysis was limited to assessing the impact of these particular proposals and no consideration was given to other options. The impact of changes to employer and employee contribution rates are also uncertain and depend partially on behavioural change which we have not been able to model within time constraints.

I have read the Regulatory Impact Statement and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager(s) signature: s 9(2)(a)

Carolyn Elliott
Policy Lead, Inland Revenue
8 April 2025

Quality Assurance Statement	
Reviewing Agency: Inland Revenue and the Treasury	**QA rating:** does not meet
Panel Comment: A quality assurance panel with members from Inland Revenue and the Treasury reviewed the "Reforms to KiwiSaver" Regulatory Impact Statement (RIS). The analysis in the RIS was constrained by Ministerial decisions to focus on specific options, time constraints, and confidentiality requirements limiting consultation. The panel considers that: The RIS' information and analysis on adjusting Government contributions to KiwiSaver partially meets the Quality Assurance criteria. Specifically, the panel considers the information and analysis provides a sufficient basis for Cabinet to make a reasonably informed decision on the Government Contribution's relative value for money, bearing in mind the constraints on the analysis. The RIS' information and analysis on changing employer and employee contribution rates does not meet the Quality Assurance criteria. The constraints outlined above mean the analysis is not complete, convincing, and has not been consulted on. In particular, it lacks a clear assessment of the underlying market failure in savings policy and therefore what role the changes have in mandating higher or lower savings. The panel considers that had more time and consultation been available, the RIS could have considered the underlying problem and framework for savings policy, provide further economic and distributional analysis of the options, and incorporate the views of stakeholders.	

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

1. The Government is concerned with ensuring that New Zealanders achieve financial security and income adequacy in retirement. The Government's main tool for achieving retirement income adequacy and equity is New Zealand Superannuation, which is supplemented by voluntary private saving, including through KiwiSaver.[7] There has been long-running policy debate about New Zealand's national savings rate, and whether this caries implications for productivity performance, macroeconomic vulnerability and a risk of inadequate retirement incomes.

2. The Government has indicated it wants to see New Zealanders' KiwiSaver balances increasing over time and promote greater private saving to ensure they have greater financial security in their retirement. [8] The Government also wants to achieve greater value for money in its existing expenditure on retirement savings.

[7] Taxation of Retirement Savings, Discussion paper for Session 13 of the Tax Working Group, (July 2018).
[8] Nicola Willis mulls upping KiwiSaver contributions as Treasury rings alarm bells over cost of ageing population. (NZ Herald, March 2025).

3. Each of the options for change that could meet one or more of these objectives was assessed against a matrix of criteria:
   - Fiscal costs/savings;
   - Distributional impacts;
   - Impacts on savings;
   - Impact on economic efficiency; and
   - Administrative complexity and compliance costs.

What is the policy problem or opportunity?

4. KiwiSaver is a work-based retirement savings scheme. Under current settings, both employers and employees each contribute to a member's retirement savings account at a minimum rate of 3%. As at 30 June 2024, the KiwiSaver scheme has approximately 3.33 million members, with approximately $111.8 billion NZD in funds under management.[9]

5. KiwiSaver members are eligible for a maximum government contribution (GVC) of $521.43 in a given financial year. Total Crown expenditure on the GVC for the year ended 30 June 2024 was just over $1 billion.[10] This expenditure, at HYEFU24, was forecast to increase to $1.228 billion per year by 2028/29.

6. The overall objective of retirement income policy is to alleviate poverty and hardship in old age.[11] New Zealand achieves this objective through three main policy planks:
   - New Zealand Superannuation, which manages core old age poverty alleviation goals.
   - KiwiSaver, which supports private saving to complement New Zealand Superannuation for those who wish to achieve a more than basic standard of living in retirement.
   - Private decision-making on retirement saving, supported by various measures to improve the financial literacy of New Zealanders.

7. As set out in the Tax Working Group discussion paper Taxation of Retirement Savings, from a retirement income policy perspective, the question is whether individuals are saving sufficiently to provide themselves with an 'adequate' income in retirement relative to their pre-retirement income.[12] Research undertaken by The Treasury in 2004 found that household saving behaviour was broadly consistent with smoothing consumption into retirement, suggesting that private saving for retirement was generally adequate.[13] However, this conclusion was conditional on existing superannuation eligibility being maintained for all future retirees.

8. We do not have more recent evidence to determine whether households' savings are likely to be adequate for retirement. Rising housing costs could pose a threat to the adequacy of retirement savings. The rate of home ownership has declined from 73.8% in 1991 to below 60% in 2023.[14] Te Ara Ahunga Ora Retirement Commission have

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[9] KiwiSaver Annual Report 2024, (FMA, September 2024).
[10] Vote Revenue, Benefits or related expenses – KiwiSaver: Tax Credit, $1.011 billion for 2023/24.
[11] Retirement Income Position Paper 1: Income support, (Te Ara Ahunga Ora Retirement Commission, October 2012).
[12] Taxation of Retirement Savings: Discussion Paper for Session 13 of the Tax Working Group (Inland Revenue and the Treasury, July 2018).
[13] Saving for Retirement: New Evidence for New Zealand, (The Treasury, September 2004).
[14] Shared Home Ownership Report, (Deloitte, Westpac NZ, July 2024).

highlighted these themes in various Retirement Income Policy Reviews.[15] If households retire without owning a home to live in, it is more questionable whether New Zealand Superannuation alone would be sufficient.

9. An ongoing area of focus for KiwiSaver has been ensuring the scheme supports New Zealanders in achieving adequate retirement savings, while managing the government expenditure on the scheme. The Government is seeking to increase the amount of private savings held by New Zealanders. The Government's intention is to increase New Zealanders' financial strength and resilience in retirement and improve retirement savings adequacy, whilst managing the expenditure spent on the KiwiSaver to ensure value of money.

What objectives are sought in relation to the policy problem?

10. The Government's objectives for any changes to KiwiSaver are:

- To achieve greater value for money from existing government expenditure on KiwiSaver through targeted spending; and
- Promote greater private savings among New Zealanders to support financial security in retirement.

What consultation has been undertaken?

11. No external consultation has been undertaken on the policy problem under consideration, due to the constraints of budget secrecy.

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options to the status quo?

12. The available options for reforms will be assessed against the following criteria:

Criteria	Explanation
Fiscal costs/savings	This refers to the expected fiscal costs or savings to Government generated by the proposal.
Distributional impacts	This refers to who bears the costs of the proposals in the private sector (i.e. members across the income distribution, employers relative to employees)
Impact on savings	This refers to the anticipated effect that a proposal may have on the retirement savings of KiwiSaver members.
Economic efficiency impacts	This refers to the impact of the potential measures on economic efficiency and growth, including any potential impact on work incentives.
Administrative complexity and compliance costs	This refers to administrative costs for Inland Revenue, and compliance costs for KiwiSaver providers and employers.

[15] Review of Retirement Income Policies 2019, (Te Ara Ahunga Ora Retirement Commission, January 2019), and Review of Retirement Income Policies 2022, (Te Ara Ahunga Ora Retirement Commission, January 2022).

13. The key consideration for ensuring greater value for money will be examining how much gain there is per dollar spent on KiwiSaver. However, there will be some unavoidable distributional trade-offs as particular groups will bear greater costs than others. Om addition, any fiscal savings achieved through a reduction in government expenditure on KiwiSaver will affect members' retirement savings unless combined with other measures which offset the effect of reduced government expenditure.

What scope will options be considered within?

14. The scope of feasible options has been limited by Ministers' commissioning. The proposals we were asked to consider all require changes to the KiwiSaver Act 2006 and other legislation administered by Inland Revenue.

15. However, the options considered have drawn upon recent research undertaken by Te Ara Ahunga Ora Retirement Commission.[16] Other stakeholder perspectives that have informed the scope of the options under consideration include research led by the Financial Markets Authority and New Zealand's Exchange on growing capital markets, and the Financial Service Council's framework for KiwiSaver policy priorities.[17]

What options are being considered?

16. Ministers directed officials to analyse specific options for reducing KiwiSaver government expenditure, as well as increasing employee and employer contribution rates, and expanding age eligibility for KiwiSaver incentives. These options are set out in the following section. The objective of assessing the following options for reform is to reflect on whether there is an opportunity to reduce government expenditure whilst supporting an increase in private savings through KiwiSaver.

Reducing government expenditure on KiwiSaver

Option One – Status Quo / Counterfactual

17. Under the status quo, the Government contributes 50 cents for every dollar saved by a KiwiSaver member between the ages of 18 to 65, up to a maximum annual value of $521.43. Members who contributed $1,042.86 between 1 July and 30 June every year are eligible for the current maximum GVC.

Option Two – Remove the GVC

18. The GVC would be removed entirely, and members would no longer receive any amount from the Government in connection with the funds which they contribute to their KiwiSaver accounts.

Option Three – Reduce the GVC matching rate

19. The Government would reduce the matching rate from 50 cents to 25 cents for every dollar contributed up to a maximum value of $260.72. This means that KiwiSaver members who contribute $1,042.86 would be eligible for a new maximum value of $260.72 per annum.

[16] KiwiSaver: Opportunities for Improvement, (Te Ara Ahunga Retirement Commission, June 2024), Aotearoa New Zealand in 2050: Preparing our retirement income policy for the future, (NZIER, April 2025), and Lessons from across the Tasman: Comparing the Australian and New Zealand retirement income systems, (NZIER, November 2024).
[17] Growing New Zealand's Capital Markets 2029, (Capital Markets 2029, September 2019).

Option Four – Restrict eligibility for the GVC by income

20. Eligibility for the GVC would be restricted to those earning under a given income threshold. On this approach, members with income below a specified threshold would remain eligible for the maximum GVC, while those who earned over the specified threshold would no longer be eligible for any amount of the GVC.

Increasing KiwiSaver participation

Option One – Status Quo / Counterfactual

21. Under the status quo, both employers and employees contribute to members' KiwiSaver accounts at a minimum rate of 3% each.

Option Two – Increase the minimum employer and employee contribution rates to 4%

22. The minimum employer and employee contribution rates would be increased from 3% to 4%. Both employers and employees would be required to contribute 4% each to a members' KiwiSaver accounts.

Option Three – Increase the default contribution rate to 4%, and introduce the ability to take a savings reduction to 3%

23. The default employee contribution rate would rise from 3% to a new rate of 4%. Employers must match their employee's contribution rate at this increased default rate. An employee could apply to take a savings reduction to contribute at 3% through myIR, and an employer would be able to drop down to match them at this lower rate.

Option Four – Defer a decision on contribution rates pending further advice and public consultation

24. The Government would defer a decision on contribution rates and commission further advice on KiwiSaver from agencies including the Treasury and the Public Service Commission. This option would also allow for public consultation with relevant stakeholders.

Option Five – Expand eligibility for the GVC to those aged 16 and 17

25. KiwiSaver scheme settings restrict access to the GVC to those aged 18 to 64. Under this option, access to the GVC would be extended to those aged 16 and 17. If members in this age range contributed sufficiently to their KiwiSaver accounts, they would be able to receive the maximum GVC.

Option Six – Extend eligibility for employer contributions to those aged 16 and 17

26. Age eligibility for employer contributions would be extended to those aged 16 and 17. This means that employers would be required to contribute to their KiwiSaver accounts of their employees aged 16 to 64, provided their employees similarly contribute to their KiwiSaver accounts.

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

Reducing government expenditure on KiwiSaver

Fiscal costs/savings

27. Options Two (Removing the GVC), Three (Reducing the GVC matching rate) and Four (Restricting eligibility for the GVC by income) all create fiscal savings for the Government by reducing how much is spent on the GVC. Crown expenditure on the GVC for the year ended 30 June 2024 totalled approximately $1 billion. Limiting GVC expenditure would allow these funds to be reallocated elsewhere and fund new initiatives or reduce the operating balance deficit, according to the Government's priorities. Option Two (Removing the GVC) would create the largest savings of around $4.630 billion over the forecast period (assuming removal from 1 July 2025, applying to the 2025-26 government financial year), whilst the fiscal savings from Option Three (Reducing the GVC matching rate to 25%) would generate roughly half that level of fiscal savings, around $2.3 billion over the forecast period.

28. Option Four (Restricting eligibility for the GVC by income) would provide a smaller amount of fiscal savings, but the amount would depend on where the threshold is set. If it was set at $180,000, this option would generate around $0.158 billion in additional savings over the forecast period (assuming this option was progressed alongside reducing the GVC matching rate).

Impacts on savings

Direct impact on KiwiSaver balances

29. GVC expenditure represented roughly 9% of all contributions into KiwiSaver balances last year.[18] Any reduction in the GVC could therefore have a material impact on total KiwiSaver balances, as well as the individual KiwiSaver balances for many members.

30. Option Two (Removing the GVC) would have the largest negative direct impact on KiwiSaver balances. Even without behavioural change, removing the GVC in isolation would result in lower KiwiSaver balances for members who would have received it. Option Three (Reducing the GVC matching rate) would still reduce balances for members, but to a lesser extent as they would be eligible for up to $260.72 per annum and would need to contribute the same amount as under the status quo to receive the GVC. Option Four (Restricting eligibility for the GVC by income) would reduce the balance of members above the chosen income threshold by $521.43 per annum, while those under the threshold would continue to be eligible for the full GVC as under Option One (the status quo).

Impact on incentives to contribute to KiwiSaver

[18] KiwiSaver Annual Report 2024 (FMA, September 2024).

Impact on incentives to contribute to KiwiSaver

31. Removing or reducing the GVC lowers the effective return from contributing to KiwiSaver, which would incentivise some members to take a savings suspension or reduce their voluntary contributions. The individuals most likely to make this decision are those on total-remuneration contracts (who would no longer have any financial incentive to save via KiwiSaver if the GVC is removed)[19] and self-employed individuals (who often contribute only the amount necessary to ensure they qualify for the maximum amount of GVC).

32. Full removal of the GVC (Option Two), as well as Option Four (Restricting eligibility for the GVC by income) would have the largest negative impact on incentives to contribute to KiwiSaver. While the precise behavioural response of all KiwiSaver members to the removal of the GVC cannot be estimated, we expect that the most likely response would be for people to continue to contribute. This is because most employees will still have the employer contribution as a financial incentive to contribute, and the automatic enrolment and automatic deduction requirements for KiwiSaver make it easier for most people to choose the default option of contributing.

33. As Option Three (Reducing the GVC matching rate) would still leave some financial incentive in place (other than the employer contribution) for KiwiSaver members to keep contributing, we expect the impact on KiwiSaver contributions to be even smaller than the impact described above. While the size of the incentive will be lower, we expect the number of people to respond by reducing their contributions to be minimal. This is because members would still need to contribute at least $1,042.86 to receive the full GVC.

Impact on incentives to save for retirement

34. While removing or reducing the GVC will lead to some people choosing to reduce their KiwiSaver contributions, this does not necessarily mean a reduction in how much they are saving for retirement. If a KiwiSaver member was to respond to the removal or reduction in GVC by opting out of contributing to KiwiSaver, they would have the choice of either using those funds to increase other forms of saving (e.g., putting the money in a bank account, paying down debt, or investing in financial assets), or increase their consumption.

35. The available evidence (which does have significant limitations as discussed below) suggests that the impact the GVC may have on overall retirement savings is likely to be small. While we would expect some individuals to stop contributing to KiwiSaver due to the GVC being removed, we would expect much of this reduction in KiwiSaver contribution to be offset by increased savings outside of KiwiSaver.

36. For reference, a New Zealand study from 2011 found that only a third of contributions to KiwiSaver accounts represented additional saving, while the other two thirds were reallocated from other savings vehicles.[20] Another New Zealand study from 2014 found

[19] We do not know how many employees are on total-remuneration contracts. However, a 2022 survey of 306 businesses conducted by the Retirement Commission found that almost half of employers use a total remuneration approach for at least some of their employees.

[20] KiwiSaver: An Initial Evaluation of the Impact on Retirement Saving. (Law, D., G. Scobie and L. Meehan, December 2011).

that KiwiSaver membership has not been associated with any increase in net wealth accumulation.[21]

37. The evidence regarding the net impact of the GVC as a behavioural incentive is limited, with studies primarily produced early in the life of KiwiSaver. There is a chance that the behavioural response to the removal of the GVC may not align with findings from over 10 years ago. These studies also rely heavily on self-reported survey data, which can result in measurement error and therefore limit the accuracy of the underlying data.

Distributional impacts

38. Under Option 2 (Removing the GVC), all KiwiSaver members who currently qualify for the maximum GVC would be worse off by $521.43 per annum. Members who do not contribute enough to qualify for the full GVC would be worse off by the amount of GVC they otherwise would have been eligible for.

39. Option Three (Reducing the GVC matching rate) will have minimal distributional impacts compared to the status quo. It will decrease the progressivity of the GVC relative to the status quo, in part because the value of the GVC as a proportion of a member's income declines as a member's income increases. Since Option 3 would halve the existing GVC, all KiwiSaver members who currently qualify for the full GVC would be worse off by $260.72 per annum.

40. Option Four (Restricting eligibility for the GVC by income) would impact those who earn over the $180,000 income threshold, increasing the progressivity of the GVC by making it more targeted. The distributional impacts will depend on whether Option Four is combined with another option (such as Option Two). If Option Four is implemented in isolation with an income threshold of $180,000 determining eligibility for the current amount of the GVC, then those earning $180,000 per annum and under would be no worse off, while those earning over $180,000 per annum would be worse off by $521.43 per annum.

Economic efficiency and growth

41. Option Four (Restricting eligibility for the GVC by income) would have a minor impact on work incentives for those earning between $180,000 and $180,428. This is because people who earn just one dollar more than $180,000 will lose eligibility to the entire GVC. If the additional pay someone receives from earning over $180,000 is less than $260.72 per annum, they will in theory be incentivised to reduce their income to below $180,000.

Administrative complexity and compliance costs

42. Option Two (Removing the GVC) would reduce compliance costs for KiwiSaver scheme providers relative to the status quo by removing the need for them to claim the GVC, as is currently required under the status quo.

43. Option Three (Reducing the GVC matching rate) would similarly not create any additional compliance costs for KiwiSaver scheme providers as the change in rate would not affect the process applied by them to credit KiwiSaver members' accounts. The administrative implications of Options Two and Three are broadly the same for Inland Revenue.

[21] KiwiSaver and the Accumulation of Net Wealth. (Law, D and G. Scobie, November 2014).

44. Option Four (Restricting eligibility for the GVC by income) is significantly more complex for Inland Revenue to administer. Eligibility for the GVC is determined based on contributions made over the government's financial year (1 July to 30 June) and paid out from July and August following the conclusion of that financial year. This is different to taxpayers' income years which usually run from 1 April to 31 March. Taxpayers' income tax assessments can occur any time up to 12 months after the end of their income year.

45. If Inland Revenue does not process GVC payments to members' accounts until the income tax assessment is processed, this could mean a delay in GVC payments to KiwiSaver accounts for some members when compared to the status quo. On the other hand, if Inland Revenue were to pay the GVC ahead of income tax assessments being processed, there is a risk of over-payment that would need to be corrected.

Increasing KiwiSaver participation

Fiscal costs/savings

46. A higher employer contribution rate will increase the amount of Employer Superannuation Contribution Tax (ESCT) that is collected by employers and paid to the Crown. However, this increase will be partially offset by lower income tax paid by employers because they will be entitled to larger income tax deductions arising from higher wage costs. The higher tax revenue from increasing the employer contribution rate does not include the impact of total remuneration contracts, or employers passing on the cost of the higher contribution rate to employees through slower wage growth over time. This means the fiscal benefit may be overstated.

47. The net fiscal impact of Option Two (Increasing minimum employer and employee contribution rates to 4%) is expected to be $0.540 billion over the forecast period. This is made up of increased ESCT revenue of $1.233 billion and a reduction in income tax revenue of $0.693 billion.

48. Option Three (Increase the default contribution rate to 4% and introduce the ability to take a savings reduction to 3%) is expected to generate a similar level of additional revenue. While some members may opt down to a 3% contribution rate (which would have the effect of reducing ESCT), others may choose 3% instead of suspending contributions entirely, increasing ESCT.

49. Option Five (Expand eligibility for the GVC to those aged 16 and 17) would pose an increased fiscal cost to the Government, as those aged 16 and 17 years old would become eligible for the GVC. This is estimated to be around $24.700 million over the forecast period (assuming this option was progressed alongside Ministers' preferred options for increasing contribution rates).

50. Option Six (Extend eligibility for employer contributions to those aged 16 and 17) would also result in a small fiscal cost to the Crown of $4.600 million over the forecast period (assuming this option was progressed alongside Ministers' preferred options for reducing the GVC). While extending mandatory employer contributions would lead to some additional ESCT revenue being collected, this is expected to be less than the value of the lower income tax that will be paid by employers. This is because the average ESCT rate for those aged 16 and 17 is expected to be lower than the average tax rate paid by employers.

Impact on savings

51. The primary objective of increasing employee and employer contribution rates is to increase the amount individuals contribute to their KiwiSaver. Option Two (Increase minimum employer and employee contribution rates to 4%) would support an increase in KiwiSaver balances for everyone that is actively contributing. Option Three (Increase the default contribution rate to 4% and introduce the ability to take a savings reduction to 3%) would also support an increase in KiwiSaver balances, without reducing the affordability of participation in KiwiSaver as members could choose to take a savings reduction to 3% and continue contributing the same as under the status quo.

52. There is limited evidence specific to New Zealand to suggest that either Option Two or Three would lead to a material increase in broader household retirement savings as members can simply reallocate funds from other saving vehicles. As was highlighted in the analysis of the GVC options impact on savings, existing local evidence is derived from study undertaken early in the life of KiwiSaver. Under Option Four, officials would further explore the possible behavioural responses to these options, and carry out consultation with affected parties, including members, employers and KiwiSaver scheme providers.

53. Option Five (Expand eligibility for the GVC to those aged 16 and 17) would directly increase the balances of these members who contribute. This is because they would be able to receive the GVC earlier in their savings lifecycle and their balances would benefit from the effect of compound interest.

54. Option Six (Extend eligibility for employer contributions to those aged 16 and 17) would also support younger contributing members in increasing their balances, especially relative to the status quo where they are not eligible for any matching employer contribution.

Distributional impacts

55. In terms of the direct distributional impacts of increasing contribution rates to 4% versus Option One (the status quo), this can be seen below for KiwiSaver members at various annual income levels:

Member income	Annual employer and employee contributions under Option One	Annual employer and employee contribution under Option Two	$ increase
$ 30,000	$1,643	$2,190	$ 547
$ 60,000	$3,285	$4,380	$1,095
$ 70,000	$3,570	$4,760	$1,190
$100,000	$5,010	$6,680	$1,670
$180,000	$9,018	$12,024	$3,006

56. The immediate impact of Option Two and Three for most employees will be a decrease in disposable income. This will be the case for all employees except for those already contributing at 4% or greater (estimated at 28% of contributing KiwiSaver members based on Inland Revenue data).

57. There is a risk that Option Two may lead to an increase in the number of savings suspensions among employees, as some employees may struggle to afford the additional 1% contribution. This risk is uncertain and unquantified, due to time constraints in

carrying out analysis. This incentive to stop contributing will be stronger for employees on total remuneration contracts. Option Three will reduce this possibility as members can take a savings reduction to 3%, maintaining their balances as under Option One.

58. The impact of Option Two and Three will be more direct for members already on total remuneration contracts (that include members’ contributions within the employees’ total gross salary). For example, a member who earns $70,000 and who is on a total remuneration contract and contributes at 3% would contribute $2,100 as an employee. Their 3% employer contribution ($2,037) would also come out of their disposable income. With an increase in contribution rates to 4%, their employee contribution would rise to $2,800 and their employer contribution would rise to $2,688. Compared to the status quo, they would have $1,351 less available in disposable income unless they chose to take a savings reduction.

59. The distributional impact of Option Five (Extend eligibility for the GVC to those aged 16 and 17) would differ across the income range and would also depend on the progression of the GVC and contribution rate options. Assuming the status quo for the GVC, a member earning $35,000 or more and contributing at 3% would receive a full GVC of $521.43. Alternatively, a member working 15 hours at the minimum wage ($23.50 as at 1 April 2025), who and did not contribute at a higher rate or make voluntary contributions, would be eligible for a partial GVC of $274.95.

60. Option Six (Extend eligibility for employer contributions to those aged 16 and 17) would lead to reduced disposable income for members who choose to contribute to be eligible for the matching employer contribution. It would lead to increased balances, depending on their income level. A member working 15 hours at the minimum wage[22] would have an additional $1,042 in their balance but would have $549.90 less available in disposable income (assuming they were not contributing under the status quo).

Economic efficiency and growth

61. Option Two (Increase minimum employer and employee contribution rates to 4%) would impose additional unexpected costs onto businesses in the short-term in the form of higher labour costs. These costs will be lower under Option Three for employers whose employees choose to opt down to 3%, as those employers can reduce their contribution and match their employee at 3%. Officials cannot provide detailed estimates of the anticipated costs across industries, as Inland Revenue does not hold data on the proportion of members on total remuneration contracts. We anticipate that this will lead to reduced profitability, particularly for labour intensive businesses such as the retail sector. It is possible that employers will respond to the increased costs of labour through increased use of total remuneration contracts.

62. An increase in labour costs could be enough to force some businesses to alter their hiring decisions or change their capital investment plans. This in turn could undermine elements of the Government’s growth agenda.

63. We expect much of the cost of the higher employer contribution to be passed on employees by way of slower wage growth. The exact level of pass-through could differ

[22] $23.50 as at 1 April 2025.

across industries and will depend how responsive employees and employers are to changes to wages and the benefit employees assign to the employer contribution.

64. We do not anticipate that Option Six would introduce a large increase in costs to employers to the extent that it would have significant impact on wage growth or the youth employment rate, especially as a proportion of employers already contribute to their employees aged 16 and 17.[23]

Administrative complexity and compliance costs

65. Option Two (Increase the minimum employer and employee contribution rates to 4%), Five (Expand eligibility for the GVC to those aged 16 and 17) and Six (Extend eligibility for employer contributions to those aged 16 and 17) have relatively little administrative complexity for both providers and Inland Revenue. Option Four (Defer a decision on contribution rates subject to further agency advice and consultation) would not have an immediate administrative impact.

66. In contrast, Option Three (Increase the default contribution rate to 4%, and introduce the ability to take a savings reduction to 3%) would add a minor level of administrative complexity into KiwiSaver. Whilst the implementation of an increase in the default contribution rate to 4% would be relatively simple, Inland Revenue would need to add a savings reduction option in myIR. This could operate similarly to the existing savings suspension model which allows KiwiSaver members to pause their KiwiSaver contributions for up to 12 months at a time. Through this process members could select a reduced 3% contribution rate. Inland Revenue would then notify the member's employer that a member has chosen a reduced rate of 3%. Employers would be able to match contributions at the lower rate. The decrease to a 3% contribution rate would apply for 12 months, before a member and their employer would automatically begin contributing at the higher rate (i.e., 3.5% from 1 April 2026 or 4% from 1 April 2028). Members could apply for additional savings reductions to 3% after the first 12 months expired, but an application would be required every 12 months. Any period of time could apply but we have suggested 12 months to align with the existing savings suspension model.

Is the Ministers' preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

Reducing government expenditure on KiwiSaver

67. Ministers propose to combine several options into a package:
    - Option Three – Halve the GVC matching rate from 50% to 25%, and
    - Option Four – Limit eligibility for the GVC to those earning $180,000 or less.

68. These options would apply from 1 July 2025. Inland Revenue and Treasury advised Ministers to progress Option Two (Full removal of the GVC). This is on the basis that removing the GVC in full will create the most significant fiscal savings, improve value for money (given the lack of evidence that the GVC is materially impacting net household savings behaviour), and reduce administrative complexity compared to other options. While there is limited evidence available about the efficacy of the GVC as a savings

[23] The mean employer contribution rate for this age group sits at 2.0% for those under 18 according to a Distributional analysis of KiwiSaver contributions carried out by New Zealand Research Institute and Te Ara Ahunga Ora Retirement Commission in 2024.

incentive, the available evidence we do have suggests that the removal of the GVC will not have significant impacts on retirement savings incentives.

Increasing KiwiSaver participation

69. As with the GVC option above, Ministers propose a package of options:

- Option Three – Increase default employer and employee KiwiSaver contributions from their current rate of 3% to 3.5% with effect from 1 April 2026, and again to 4% with effect from 1 April 2028. Members can take a savings reduction at 3% from 1 April 2026, with employers able to match at this level.
- Option Five – Extend eligibility for the GVC to those aged 16 and 17 from 1 July 2025; and
- Option Six - Extend eligibility for employer contributions to those aged 16 and 17 from 1 April 2026.

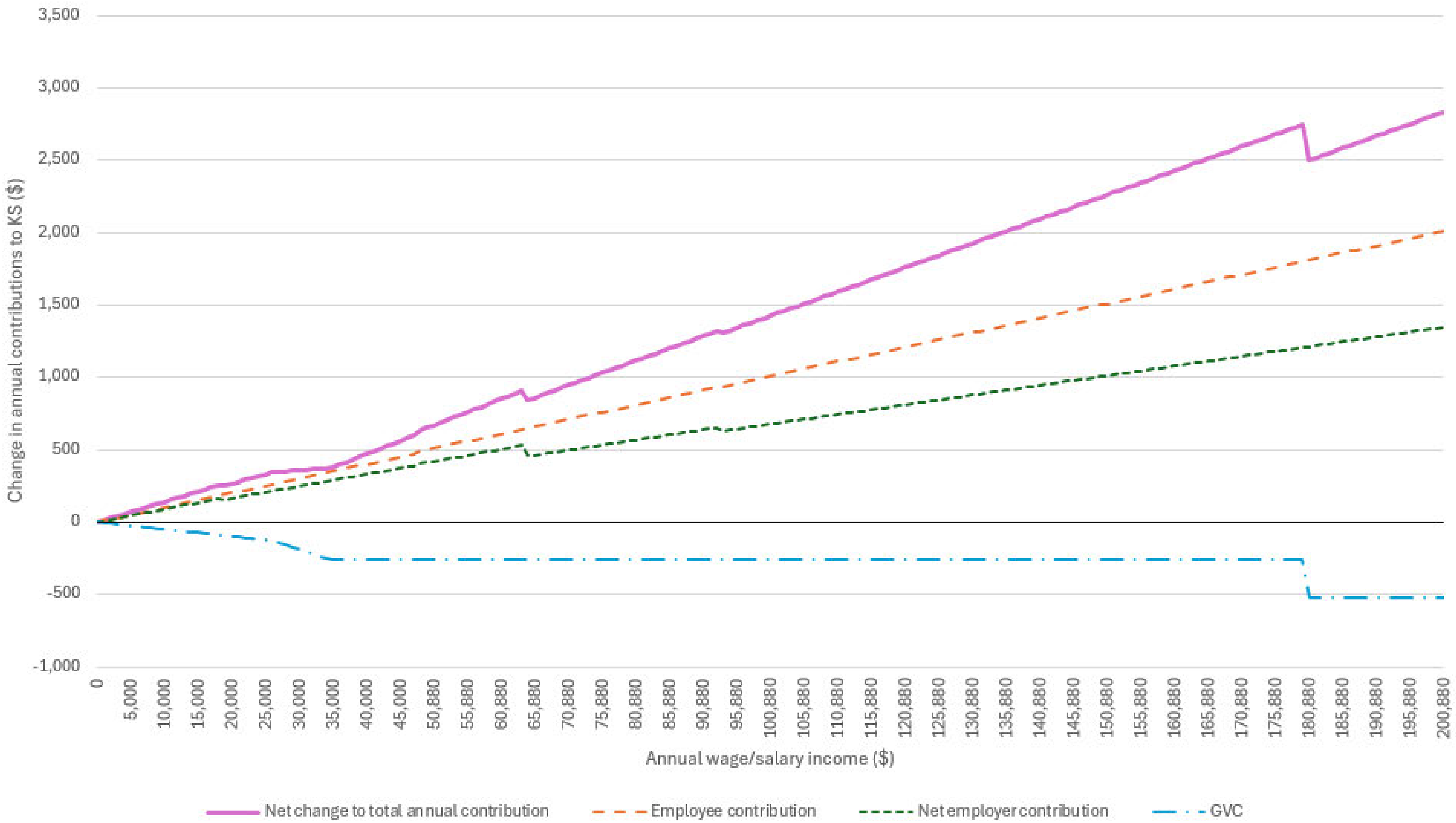
70. Inland Revenue and the Treasury recommended Option Four, which would defer a decision on contributions in favour of the government conducting a wider review of its objectives for KiwiSaver and retirement income policy more generally. This was based on two rationales:

- The proposal to increase contribution rates would impose additional unexpected costs onto businesses in the short-term in the form of higher labour costs. This will lead to reduced profitability, particularly for labour intensive businesses such as the retail sector. Given economic conditions and the risk of undermining business investment and the Government's economic growth objectives, Inland Revenue and The Treasury's view was that increasing costs for businesses should be avoided at this time.
- Deferring a decision on increasing contribution rates would allow for a wider review of retirement income settings to be completed (either alongside the Retirement Commission's regular review that was already underway, or through a separate review). This would allow any changes to KiwiSaver contribution rates to be made with a more strategic view of the Government's wider retirement income policy objectives. This approach would also allow for consultation with employers, KiwiSaver members, KiwiSaver providers, and the Retirement Commission.

71. In addition, Inland Revenue recommend Option Five (Expand eligibility for the GVC to those aged 16 and 17) and Six (Extend eligibility for employer contributions to those aged 16 and 17). On balance, officials view the benefits of increased contributions from an early age as outweighing the fiscal costs and costs to employers of expanding eligibility to these key KiwiSaver incentives.

72. The table below shows the impact of the full package of Ministers' preferred options compared to the status quo. This impact is demonstrated for the first full year that the proposed changes are fully in effect (i.e. from 2028).

Comparing the annual impact on KS contributions for employees between the Budget 2025 proposal (contribution 4%, GVC halved and income tested) and current settings at different wage/salary income levels



What are the marginal costs and benefits of the preferred option in the Cabinet paper?

Affected groups	Comment	Impact	Evidence Certainty
Additional costs of the preferred option compared to taking no action			
Crown	Expanding age eligibility for the GVC to those aged 16 and 17 would result in a fiscal cost. Extending age eligibility for the employer contribution to those aged 16 and 17 would also result in a fiscal cost due to the net changes in ESCT and income tax.	$29.300 million over the forecast period, including $24.700 million due to the cost of expanding GVC eligibility and $4.600 million in reduced tax revenue.	Medium.
Inland Revenue and KiwiSaver providers	The preferred package of options creates small one-off and ongoing administrative costs for Inland Revenue. It will also have a small implementation cost for payroll providers and KiwiSaver providers.	Inland Revenue will self-fund the departmental cost of $7.250 million operating expenditure and $3 million capital expenditure over the forecast period. Cost to external stakeholders such as payroll providers and KiwiSaver providers is uncertain.	Medium.
KiwiSaver members and employers	Employers will face increased labour costs. The government will similarly face fiscal costs as an employer. Employees who remain at 4% will face reduced disposable income in the short term. Employees broadly will likely face reduced wage growth in the long term. Testing the GVC by income would predominantly reduce the financial incentive for contributing for those who are earn over the threshold, especially those who are also self-employed.	Medium.	Low, as the level of these costs and how they are passed through differ across industries and will depend how responsive employees and employers are to changes to wages and the benefit employees assign to the employer contribution.
Total monetised costs		$10.250 million in administrative costs to Inland Revenue and $29.300 million in fiscal costs over the forecast period.	Medium.
Non-monetised costs		Medium.	Low.

Additional benefits of the preferred option compared to taking no action			
Crown	Large savings, as there is a reduction in GVC expenditure. There is also an increase in projected tax revenue from ESCT.	$2.977 billion in savings over the forecast period (including the costs associated with expanding KiwiSaver incentives to members aged 16 and 17 identified above).	High
KiwiSaver members	Most contributing members in employment will have increased KiwiSaver balances compared to the status quo. Members aged 16 and 17 will also have increased balances as they will be eligible for the GVC and employer contributions.	Medium.	Low, as the impact on balances depends in part on the behavioural response of members. Some members may choose to take a savings suspension.
Total monetised benefits		High.	High.
Non-monetised benefits		Medium.	Low.

Section 3: Delivering an option

How will the proposal be implemented?

73. The Minister of Revenue is responsible for overall administration of the KiwiSaver Act 2006, with Inland Revenue facilitating the transfer of KiwiSaver contributions from members to scheme providers. As the administrator of KiwiSaver, Inland Revenue also oversees registrations, opt-outs, savings suspensions, employer obligations and GVC payments.

74. The proposals will be implemented legislatively by amendments to the KiwiSaver Act 2006, the Income Tax Act 2007 and the Tax Administration 1994. Officials recommend that the proposed changes should be included enacted as part of Budget night legislation. This is to allow sufficient time for implementation for employers, KiwiSaver providers, and Inland Revenue.

75. The legislative changes relating to the GVC would take effect from 1 July 2025. The GVC is accumulated based on contributions across the fiscal year (i.e., 1 July to 30 June) and credited to KiwiSaver providers in July and August immediately following the end of the fiscal year. This means that members making contributions in the 2025/2026 government fiscal year will be aware of the GVC they will be eligible for. Payments of the reduced GVC will be made in July and August 2026.

76. The legislative changes related to the contribution rates would take effect from 1 April 2026, and 1 April 2028, in alignment with the income tax year. These dates allow for Inland Revenue to provide sufficient notice of changes to payroll specifications for payroll providers.

77. Inland Revenue systems changes would be required to enable the assessment GVC eligibility by income. Inland Revenue is confident that it can implement changes to the GVC and contribution settings. No major administrative barriers to implementation have been identified.

78. Inland Revenue will issue guidance on the website to support understanding of the changes. Inland Revenue will also work with external stakeholders, including payroll software providers and KiwiSaver providers in carrying out implementation post Budget announcements.

How will the proposal be monitored, evaluated, and reviewed?

79. Inland Revenue will track the fiscal savings associated with this proposal through its regular reporting function.

80. Inland Revenue would continue monitoring existing flows of KiwiSaver data such as the proportion of members contributing at particular rates, as well as the number of members taking a savings suspension, which may help capture the impact of the proposal. If for example, the rate of savings suspensions was to increase significantly, further consideration of initiatives to reduce the incidence of savings suspensions may be required. It is not anticipated that any additional monitoring, evaluation or review above that which already occurs will be required as a result of the proposed changes.

81. Inland Revenue’s relationship managers engage regularly with KiwiSaver providers, KiwiSaver administrators, the Financial Markets Authority, the Retirement Commission and the Financial Services Council.

82. Each KiwiSaver provider has entered into a Scheme Provider Agreement which is a legally binding contract with Inland Revenue that defines each party's role and set of responsibilities. One of the key requirements of the Scheme Provider Agreement is that we meet with each provider annually, and complete a health check on the relationship and discuss key KiwiSaver issues.

83. Inland Revenue runs an annual KiwiSaver meeting for KiwiSaver providers and administrators. The focus of the meeting is on KiwiSaver processes and systems. Where applicable we will also cover any proposed legislation changes. This provides an additional opportunity for providers to give feedback and raise concerns.