PRIVATE ASSET MANAGEMENT LTD
Building value for private clients

Brent Sheather's RESEARCH

March 2026

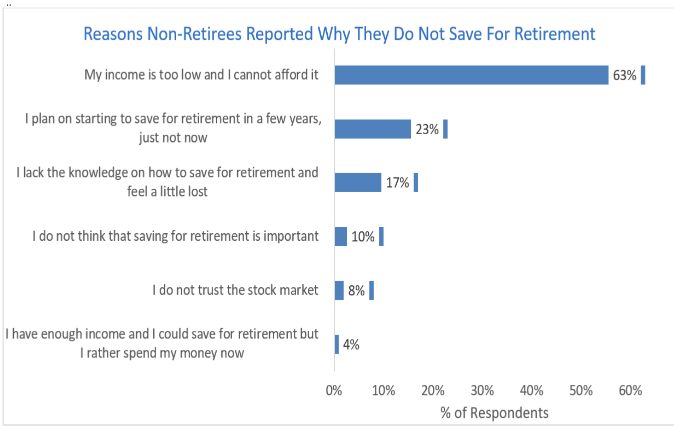
Brent Sheather is a Financial Advice Provider and a personal finance and investments writer.

RETIREMENT: HOW MUCH DO YOU NEED? (AGAIN) – Part 3: Careful What You Wish For

In my last column we looked at the opportunity cost of saving for retirement. Today we will cast a critical eye over some of the claims made by the local investment sector in their lobbying to move KS closer to the Australian pension model, ie higher contributions, compulsion and tax incentives. The Australian version of KS is compulsory and has mandatory contributions equal to 12% of salaries.

First off, we need to remind ourselves that the contribution to KiwiSaver from employers is not "free money". Whilst financial advisors selling KiwiSaver pitch KS to prospective clients as "free money" unfortunately that's not the case and we can be grateful to the Grattan Institute in Australia for their research on the topic. The conclusion of their 43-page report on the subject, is neatly summarized by its title: "No Free Lunch – Higher Superannuation Means Lower Wages". The Retirement Income Review (RIR), which I covered back in December of 2024 also demolished the notion that employer pension payments represent something for nothing: "the weight of evidence suggests the majority of contributions to superannuation are paid for through lower growth in wages".

Next up we consider the rather ridiculous argument from the financial sector that compulsion and tax breaks are needed to encourage people to save. We don't provide tax breaks to encourage people to work: people work because they want a comfortable standard of living and similarly most people who can afford to save for retirement do so for the same reason they get a job. As is typical those in favour of tax incentives provide no evidence demonstrating that tax incentives increase the level of overall savings and similarly no analysis is made of the cost of the incentives to the country providing them. The disingenuous narrative around tax incentives to encourage saving becomes obvious if you think about it: as the graph below illustrates the majority of people who don't save for retirement don't save because they don't earn enough so no amount of tax incentives will alter that. US data shows that the majority of the tax incentives flow to the wealthy who would save anyway. The compulsion option will just make the lives of those on low income more miserable.



Source: Saving and investing for retirement in the United States by Mario Ortez et al – Journal of Retirement 8/12/25

First piece of evidence supporting the contention that no tax incentives are needed is KS itself. In 18 years, it's grown to $123 billion despite high fees, 3% non-compulsory contributions and no tax incentives. Secondly recent independent research on this topic by Andrew Biggs and Alicia Munnell, which was covered by the column back in June of 2024, concluded that tax incentives for retirement saving in the US, amounting to US $185 billion a year, simply encourage people to move savings from taxable to tax advantaged vehicles without increasing the overall level of savings. Bill English made the same point about Australia in a recent speech: "Australia's compulsory saving scheme has caused a massive diversion of capital without improving savings".

Now let's consider the argument that higher levels of contributions, compulsion and tax incentives are

RETIREMENT: HOW MUCH DO YOU NEED? (AGAIN) – Part 3: Careful What You Wish For

required to ensure individuals have their own nest eggs at retirement and wont rely on the government to fund their expenses after age 65. This is not the Australian experience: In a summary of the key points of the Australian Treasury authored Retirement Income Review, back in 2020, Brendon Coates and Matt Cowgill of the Grattan Institute comment that "the review debunks the myth that boosting compulsory super would lighten the budgetary burden of an ageing population. Treasury modelling showed that lifting compulsory super from 9.5% to 12% would cost taxpayers more in super tax breaks than it would save in reduced Aged Pension spending until 2055. And even then there would be 35 years of accumulated debt to pay back before taxpayers ended up ahead". A few years back, the Economics Editor of The Australian newspaper argued that, despite tax concessions that reduce Australia's tax base by tens of billions of dollars a year, compulsory super has only marginally reduced the reliance on the Age Pension. The story also noted that the cost of superannuation tax concessions far outweighs the reduction in Age Pension outlays. The article went on to say that if compulsory super was abolished this would allow the Australian Government to cut income taxes dramatically and competition within the superannuation industry would "increase dramatically because those who choose to keep putting their own money into super would pay more attention to their funds' fees and performance". It noted giving people the choice of saving for their retirement, paying off their house or investing in their own business is consistent with a liberal government and economic policy and that a move to make Super voluntary "would destroy the myth that the company's contributions come on top of their wages".

Next on the hit list is the lobbying by fund managers to increase their funds under management and profitability by increasing the default level of KS contributions. Is 6% enough or should it be 12%? Again the RIR provides some genuinely independent perspective: "The appropriate adequacy objective for a system based on compulsory superannuation is to balance living standards across a person's working life and retirement. Saving for retirement involves forgoing consumption in working years. A rate of compulsory superannuation that would result in people having an increase in their living standards in retirement may involve an unacceptable reduction in living standards prior to retirement, particularly for lower income earners. Replacement rates align with the objective of achieving a reasonable balance between living standards during working life and retirement. The suggested benchmark replacement rate is 65-75 percent. "The authors of the RIR then go on to say that "at a 12% contribution rate the projected replacement rates for future retirees with typical working lives exceeds the suggested 65-75 percent benchmark rate". Note also that in the example in part two, the couple concerned would actually earn more in retirement than they would whilst working.

Peter Martin, of the Australian National University, in a story published in The Conversation, highlighted the fact that the RIR "*dispenses with the argument that the goal of a retirement income system should provide people with higher income in retirement than they had in their working lives*" and "*it finds that for retirees presently aged 65-74 the replacement rates for middle to higher income earners are generally adequate (at 9.5% contribution rate) and many lower income earners get more in retirement than they got while working*". Martin noted that most Australian retirees are reluctant to eat into their super and die with most of what they had when they retired intact, leaving the residual to the beneficiaries of their estate. The RIR sees this as a betrayal of the purpose of government supported super saying "superannuation savings are supported by tax concessions for the purpose of retirement income and not purely for wealth accumulation". Similarly a recent Grattan Institute study found that many Australian retirees shift to the next life with more savings than they began their retirement with. This is exactly my experience with most retired individuals with investments outside KS – they endeavour to live off their income and grow their capital.

The other, entirely predictable, consequence of a compulsory superannuation scheme with large tax incentives is that invariably the financial sector appropriates some of those tax incentives for itself via higher fees than would otherwise prevail. The financial services sector knows that generous tax incentives makes saving a no-brainer for investors, even it wasn't compulsory. Consequently investors will be less fixated on the cost of investing. Instead they, and their financial advisors, will promote the tax benefits of superannuation. Net net fees will be higher in this sort of environment. A report by the Grattan Institute estimated that the Australian superannuation fund fees were more than 3x the

Level 2, 2 Commerce Street. Whakatane
P O Box 244, Whakatane, 3158 New Zealand.
Tel. 64 7 307 0430. Freephone. 0800 802 345
Email address: info@cpam.co.nz

average for the OECD. An additional unfortunate consequence of tax incentives for saving is that investing becomes much more complex for retail investors, so they invariably need to engage a financial advisor, an accountant and hold their investments in a platform all of which adds to annual fees. A friend's daughter worked in New Zealand for a major stockbroking firm then shifted to Australia where she now works for an Australian financial advisory firm. She has told me that tax implications dominate virtually all investment decisions made by retail investors.

A further downside of a high level of compulsory superannuation, is that the size of individuals' balance sheets expands: on the asset side are all the savings but, as Bill English highlighted in a speech at a Centre for Independent Studies conference, about the Australian economy, "The growth in their super accounts is directly paralleled by their growth in debt and one reason Australia has one of the highest household debt ratios in the world is because it has compulsory super" . Higher savings = less ability to pay down mortgages. This is, of course, an ideal situation for the finance sector: firstly it expands the size of household balance sheets in that increased savings are to some extent financed by higher debt levels and secondly, the banksters clip the ticket on both the assets and the liabilities.

Lastly, from economic and geopolitical perspectives, should governments encourage a big finance sector which diverts scarce human resources to activities that create little value? The western world needs to prioritize and reward occupations that genuinely improve people's lives: engineering, science and medicine. It is a travesty that highly skilled individuals in these professions leave for jobs in the finance sector because they pay higher salaries.

There is an obvious, more achievable, and far less intrusive pathway to increasing KS balances which should be put in front of both new and existing KS members, each year, in their summary statements. We will get into that in part 4.

DISCLOSURE: Private Asset Management does not provide advice on KiwiSaver, doesn't sell KiwiSaver and Brent Sheather is not in KiwiSaver.