Brent Sheather's

RESEARCH

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RETIREMENT: HOW MUCH DO YOU NEED? (AGAIN) – Part 2: The Opportunity Cost of Saving for Retirement

My last column covered the recent paper from the Retirement Income Interest Group ….Today we will review the proposed increases in the default level of KiwiSaver, various threats to make KS compulsory and speculate what these changes might mean for the "consumption today" versus "consumption tomorrow" scenarios for the average New Zealander.

Around the time of the release of the RIIG paper there was a frenzy of activity from political parties and KS providers all of whom appear to be trying to outdo each other in terms of the level of default KS contributions. In the last quarter of 2025 we saw the following headlines in the media:

- At its annual conference on 7 September 2025 NZ First leader, Winston Peters, proposed making KiwiSaver compulsory and increase contribution rates to 16% and then 20%
- On 23 November 2025 National said it would increase the default level of KiwiSaver contributions to 12% but not make it compulsory
- Fisher Funds Chief Executive, Simon Power, former National Party minister in charge of the FMA, in a speech to the Trans Tasman Business Circle stated that he advocated making KS compulsory, increased contributions and raising the age for eligibility to National Super to 67.
- Various financial advisors have sensed the trailing fee opportunities too and have moved their "You aren't saving enough" propaganda up a notch via digital media on Youtube, Tiktok, Grindr etc.

For context recall that for many years now local fund management groups have looked enviously across the ditch at the Australian equivalent of KS which is compulsory at around 12% of earnings. Up until recently the politicians have been wary but, such is the size of the prize, KS providers have continued lobbying and it is pretty clear that the first step in their strategy of moving KS to the same level of profitability as in Australia has been to campaign to raise the level of default contribution. Next step towards higher profits will be to make it compulsory, preferably with tax breaks. However, as the situation in Australia, USA and the UK illustrates, compulsory, tax advantaged, retirement saving invariably favours the wealthy. The author of KiwiSaver, the late Sir Michael Cullen, would not be happy. One doesn't have to think too hard to see why the Australian model might appeal to a right of centre NZ government, besides offering the chance to cozy up with the finance bros and line up jobs in the private sector down the track: The Australian Aged Pension is means tested. Politicians are likely to privately hold the view that a consequence of higher KS contributions will be a lower internal deficit.

RETIREMENT: HOW MUCH DO YOU NEED? (AGAIN) – Part 1: The Opportunity Cost of Saving for Retirement

All the discussion of retirement saving seems to focus on the benefits of deferring consumption until after age 65 with little, if any, analysis of the opportunity cost involved. Whilst living frugally appeals to a small minority of the population most normal people enjoy a good coffee at least once a day, like going to a restaurant every now and then and spending money on sports equipment, not to mention needing to own a reliable car etc. Saving all your income above and beyond the very basic costs of living would be pretty confronting for many even if the increase/compulsory KS cheerleaders refuse to acknowledge that reality. These costs often explain why people aren't in KS. So, the elephant in the room, when talking about saving for retirement, really is the opportunity cost (OC) of KiwiSaver contributions.

The OC of saving is an important issue because the big increases in KS contributions proposed by the RIIG (from 6% to 10%), the National Government (from 6% to 12%) and NZ First (from 6% to 16%) will not just mean deferring overseas trips – increases of this magnitude, if made compulsory, will reduce income available to service the mortgage and mean mortgages will take longer to pay off. These factors might also influence decisions as regards the size of families too.

An example might illustrate: I have a friend who is aged about 30, married with one child and paying off the mortgage and a student loan. They live in a small NZ city with the wife looking after their one-year-old. Their income, before KiwiSaver, including a Working for Families payment and a Work and Income Accommodation Supplement, is $2,663 per fortnight. Their expenses are summarized in the table above and total $2,321 every two weeks. So after deducting the 3% employer and employee KS contributions their income, after tax is $2,481 per fortnight. A tight budget – income exceeds expenses by just $80 per week leaving no room for extraordinary costs like car breakdowns, dentist bills, house repairs etc. The only expense which could be described as nonessential is the $45 a week gym fee. Let's consider the impact on the cashflows of this couple if KiwiSaver was made compulsory at a 12% contribution rate, ie the same level that National proposed in November of 2025: the surplus of $80 per fortnight would turn into a deficit of $100 per fortnight and the only non-essential expense that could be eliminated would the gym fee. A very austere lifestyle.

SUMMARY OF EXPENSES	
Mortgage (interest & repayments)	$1,232
Rates	$172
Insurance	$141
Internet and Phone	$76
Power	$160
Food and Petrol	$450
Gym membership	$90
Total expenses per fortnight	$2,321

It is also worth estimating what income in retirement the 12% KS contribution would generate – my back of the envelope calculation is that, assuming contributions began at age 20 an individual with a similar long term earnings profile to that employed in the RIIG report would retire with a lump sum of approximately $720,000 in real terms and that would generate an annual after-tax income, using a decumulation model, of $45,000, after tax pa. National Superannuation for a couple today is $950 a week or $49,000 a year, pre-tax. So together, that would generate a pretax income of around $103,000 per annum. That's around 35% more than what the couple in the above example take home a year with KS contributions at just 6%. As we will see in the next story their situation is not untypical in Australia – Peter Martin of the Australian National University writing about the then proposed increase in Australian compulsory super to 12% said "*The bottom 60% of income earners will receive more in retirement than they did while working and* *the cost of this will be a lower standard of living while working than they otherwise would have enjoyed.*"

As noted earlier the end game for the finance sector is to move KS closer to the Australian model. New Zealanders, and our government, need to ask themselves if that model would be good for NZ and there is quite a bit of evidence from independent experts that the Australian model actually isn't a particularly good deal for Australia. The Lucky Country's $A4.5 trillion superannuation funds are frequently cited by the increase/compulsory team as a shining example of the benefits of higher savings via KS but, thanks to the fact that Australia has unconflicted research organisations, it also provides important evidence as regards to the costs of high levels of compulsory saving with generous tax incentives. We will get onto that topic in three weeks' time but, spoiler alert, the massive tax advantaged pension assets of the USA, Australia and the UK didn't just result from cutting back on lattes and smashed avocado – they arose from the diversion of existing and ongoing savings from other investments which didn't enjoy the same tax incentives and, in the case of Australia, from much higher levels of residential mortgage debt.

I sent a draft of this report to the RIIG and by email Helen Mexted, Chief Executive of the New Zealand Society of Actuaries, asked to include the following statement: "While our report recommended a default contribution rate of 5% plus 5%, we explicitly stated that 3% plus 3% remains appropriate as a minimum, reflecting concerns that some low-income earners could otherwise over-save. We also noted that NZ Superannuation alone may provide an adequate replacement ratio for those on very low incomes. No political parties were provided with advance copies of the research. Also, to be clear, RIIG has not endorsed replicating Australian retirement settings or the policies of NZ First or National."