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Home Truths: the KiwiSaver experience

February 2025

SUPER MEMBERS COUNCIL

Summary of key findings

This briefing note examines the impact of allowing superannuation withdrawals for housing purchases in New Zealand through the KiwiSaver scheme, and its implications for a similar proposal in Australia.

House price rises

Since withdrawals from New Zealand's KiwiSaver scheme began in 2010[1], house prices in New Zealand have risen by 1.5 times the rate as Australia – growing by 134 per cent (from June 2010-June 2024), compared to 86 per cent in Australia.

In the ten-year period before KiwiSaver withdrawals commenced (prior to June 2010), the yearly growth rate in New Zealand house prices was 7.6 per cent. In the period after withdrawals commenced (to June 2021[2]) it was 9.2 per cent.

In 2016, New Zealand's Treasury warned about the scheme's inflationary effects on house prices. Of a proposal to expand the scheme, it advised it would:

> *"…stimulate demand for lower-priced housing, when supply is constrained and demand already exceeds supply. The likely effect would therefore be to increase house prices, to some extent negating the goal of the proposal, and negatively impacting housing affordability."*

Lower home ownership rates

Allowing withdrawals from New Zealand's KiwiSaver scheme for a first home purchase has failed to lift home ownership rates across any age group. Rather, it has corresponded with a fall in home ownership rates, particularly among younger New Zealanders. Home ownership has fallen by about 7 per cent for people in their 30s.

Higher mortgage debt and stress

Since the KiwiSaver scheme commenced, more New Zealand first home buyers have been forced to access their KiwiSaver savings to remain competitive in the housing market. The proportion of first home buyers accessing KiwiSaver to buy a home has risen from 65 per cent in 2015-16 to 77 per cent in 2023-24.

Since KiwiSaver housing withdrawals commenced, and house prices began to surge, New Zealand first homer buyers have been forced to borrow more to buy homes. Since 2014, the total number of first home buyers taking out loans with a loan-to-value ratio over 80 per cent has tripled, and the proportion of high LVR loans taken out by first home buyers has risen from 25 to 75 per cent.

Lower investment returns

In part to manage KiwiSaver withdrawals, New Zealand retirement funds hold more liquid assets than their Australian counterparts and generally deliver lower long-term risk-adjusted returns than alternative growth asset classes. As at September 2024, Australian MySuper products had outperformed comparable KiwiSaver investments by an average of 1.16 per cent for each year over the past decade – resulting in significantly lower investment earnings for New Zealanders.

If KiwiSaver's lower net returns were replicated in Australia, Australians would have significantly lower retirement balances and less money to live on in retirement. Based on the KiwiSaver rate of return, a 30-year-old Australian worker with $25,000 in superannuation today and earning the median Australian wage would be $132,000 worse off at retirement age (67) in today's dollars.

Higher Age Pension costs

In Australia, retiree reliance on the Age Pension is falling, while in New Zealand it is increasing. Introducing the Super for Housing policy in Australia as proposed would see a substantially higher cost of Australia's pension system, with additional costs blowing out to a peak of $8 billion a year – and a total cumulative additional cost to the Budget of $304 billion by 2102.

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1 The KiwiSaver scheme commenced in 2007, however savings can only be withdrawn for a first home purchase after three years under the policy.

2 June 2021 was selected in this comparison to avoid coinciding with major housing tax reforms effective from 1 October 2021. Two major policy reforms introduced by the Ardern government were (i) doubling the holding period for the capital gains tax exemption for investors from 5 to 10 years and (ii) removing interest deductibility for investment properties.

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About the Super Members Council

We're a strong voice advocating for more than 11 million Australians who have over $1.5 trillion in retirement savings managed by profit-to-member super funds. Our purpose is to protect and advance the interests of super fund members throughout their lives, advocating on their behalf to ensure super policy is stable, effective, and equitable. We produce rigorous research and analysis and work with Parliamentarians and policy makers across the full breadth of Parliament

Introduction

Australia is in the grip of a housing crisis. Rising median house prices over several decades have led to falling home ownership rates, particularly among younger generations of Australians.

Policymakers have sought to address this issue with policy responses in two broad categories: those that seek to increase the supply of housing, and those that seek to increase the buying power of first home buyers, usually referred to as 'demand-side' policies.

The Liberal and National Parties (the Coalition) have proposed a 'Super Home Buyer Scheme' under which people would be allowed to withdraw up to 40% of their superannuation savings, up to a maximum of $50,000, towards a deposit for their first home. This proposal is a demand-side measure.

This briefing note is an evidence-based analysis of the super for housing proposal as an important contribution to public policy debate. It includes expert analysis of a real-world example of such a policy in action – clearly and factually setting out its effects on house prices, retirement savings, pension outlays and investment returns for super fund members.

New Zealand - a real-world example of 'super for housing'

New Zealand has had nearly two decades of lived experience with a scheme conceptually similar to that proposed in Australia by the Coalition.

New Zealand's KiwiSaver scheme allows employees to contribute between 3% and 10% of their gross earnings to 'approved saving schemes', in which case employers are required to contribute at least 3% of each participating employee's gross earnings to the employee's KiwiSaver account. While contributions are not tax-deductible, the New Zealand Government makes an annual contribution of up to a maximum of NZ$521.43 to each member's account.

New Zealanders who have been KiwiSaver members for at least three years are permitted to withdraw their savings to purchase a first home, subject to maintaining a minimum balance of NZ$1,000.

Since the beginning of the 2011-12 financial year, around 379,000 New Zealanders have withdrawn a total of just over NZ$9.7 billion from their KiwiSaver accounts towards the purchase of first homes.

What leading economists say about using super to get into the housing market

As outlined in a 2024 report by respected Australian economist Saul Eslake, demand-side policies have been the predominant response in Australia since the mid-1960s, over which time Australian house prices have risen faster and housing affordability has continued to decline.

> *"There is now almost six decades of evidence pointing unambiguously to the conclusion that, in circumstances where the demand for housing exceeds the supply of it, policies which enable Australians to pay more for housing than they would otherwise be able to do result in more expensive housing (to the benefit of those who already own housing) rather than in a higher proportion of the population owning housing." (Saul Eslake: 2024)*[3]

Indeed, there is broad consensus among the overwhelming majority of leading economists and policymakers that demand-side measures such as allowing super to be used to purchase a home are poorly targeted and won't arrest the systemic decline in home ownership for younger Australians.

Eslake (2024) concluded "that allowing prospective homebuyers to access some proportion of their accumulated superannuation savings …will result in residential property prices rising at a faster rate than they would otherwise, especially if (as seems likely) growth in the supply of housing falls short of the growth in the underlying demand for housing."

The House of Representatives Economics Committee (Inquiry into Affordable Housing) 18 March 2022 stated that "allowing first home buyers to access or borrow against part of their super to purchase a home would, in the absence of increased housing supply, likely increase demand and lead to higher property prices".

Dr. Luci Ellis, then Assistant Governor RBA and now Chief Economist Westpac said "super is there to enhance retirement incomes. If that were to be redirected to spending more on housing, the result

[3] 'Super for housing' – will it help solve or exacerbate the housing affordability crisis? Saul Eslake, 2024

would be that people would spend more on housing”.

Chris Richardson, (May 2024) said “You see this sort of thing from time to time. State Governments with their first homeowner grants and sometimes the Feds jump in as well. But house prices go up just as much as the extra money. We’ve seen this movie before. It’s dumb.”

The Chair of Australia's National Housing Supply and Affordability Council, Susan Lloyd-Hurwitz, has also warned such a policy would push up house prices.

“Is it a good idea to use superannuation, allow people to draw down on their superannuation to buy a home? That is a demand-side measure and, as we know, the demand-side measures that we've seen - and we've seen it again and again and again, including some COVID measures or first-home-buying grants - everything of that nature does one thing. Pushes prices up … I think it's very dangerous policy to allow people to diminish their superannuation, which they will need in retirement, to only serve to make the problem we're trying to solve worse.”

The inflationary impact of withdrawing super for house deposits is also reflected in the fact that only one of 49 of Australia’s leading independent economists surveyed in 2024 by the Economic Society of Australia and The Conversation supported early withdrawal of super to purchase housing.

The inflationary effect of this policy was also modelled by SMC in March 2024, indicating that house prices would rise by an average 9 per cent, or $75,000, across Australia’s five major capital cities.

What New Zealand’s Treasury said about KiwiSaver scheme

In 2016, New Zealand Treasury advice warned about the early withdrawals for deposits scheme in relation to a proposal to expand it. The advice questioned the original policy decision to allow housing withdrawals because of its failure to improve affordability and its inflationary impact on house prices, stating that expanding the KiwiSaver scheme would:

> *“…stimulate demand for lower-priced housing, when supply is constrained and demand already exceeds supply. The likely effect would therefore be to increase house prices, to some extent negating the goal of the proposal, and negatively impacting housing affordability[4].”*

What the evidence shows about the New Zealand experience

Data from the New Zealand experience confirms the scale of the potential inflationary effects that such a scheme could have in Australia. Since withdrawals of super for house deposits began in New Zealand, their house prices have risen at 1.5 times the rate of Australia.

House price rises in New Zealand have in turn flowed through to higher mortgages, which leads to higher rates of mortgage stress.

The New Zealand experience also shows the likely impact on Australians’ retirement savings if such a policy were implemented here. First, from lower retirement balances for those individuals whose accumulated retirement savings are withdrawn early, but also for all participants due to the lower returns stemming from higher liquidity exposure for super funds. These flow-on effects will ultimately contribute to a greater burden on Government pension schemes, in turn putting a greater cost of retirement onto taxpayers.

Australia’s super system is also more developed than KiwiSaver, with higher contribution rates leading to larger average account balances for Australians. Consequently, the amount first home buyers could withdraw in Australia is greater, which could amplify the inflationary impact on house prices.

The KiwiSaver experience is a cautionary tale that Australian policymakers and taxpayers should heed. Like all demand-side policies, it will only serve to make the housing crisis worse in Australia, while damaging the retirement savings of all Australian super fund members.

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[4] New Zealand Treasury, Response to Official Information Request, 15 October 2020, https://www.treasury.govt.nz/sites/default/files/2022-01/oia-20200334.pdf

Housing affordability and home ownership rates

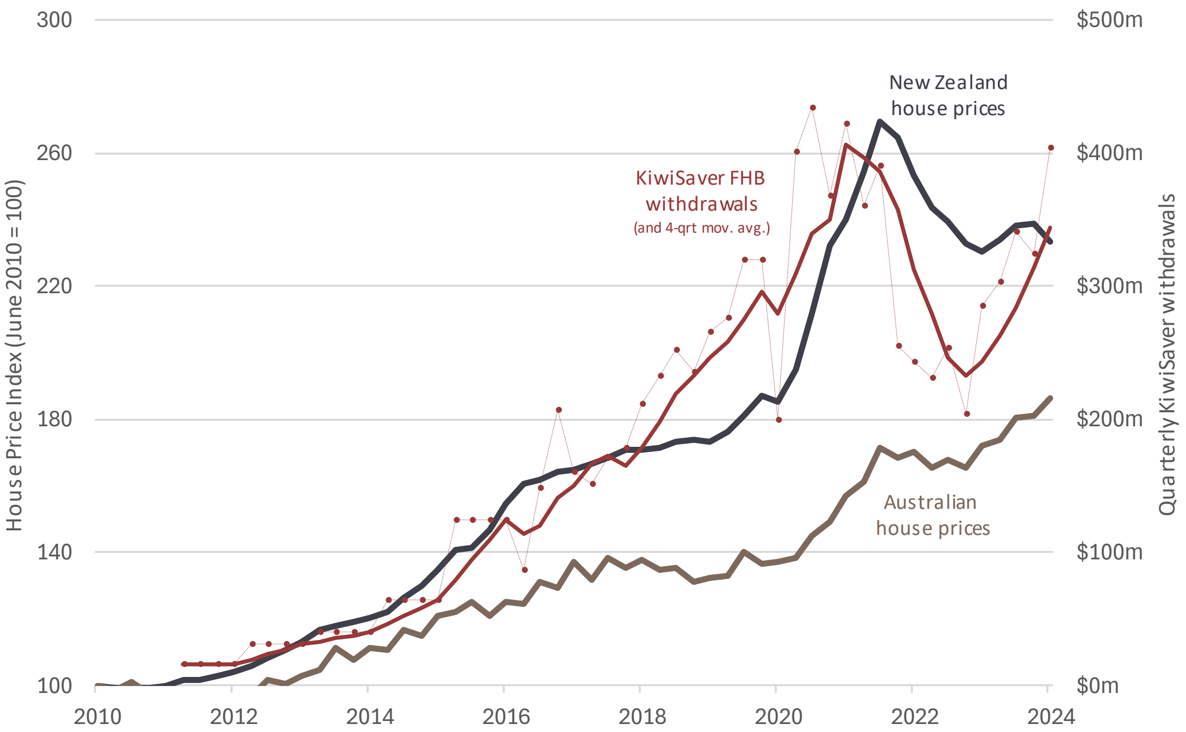
KiwiSaver withdrawals contributed to a 134 per cent increase in NZ house prices

Despite numerous factors influencing house prices, first home buyers' KiwiSaver withdrawals are a leading indicator of price trends, as illustrated in **Figure 1** below. The timescale starts when access to KiwiSaver retirement funds for property purchases commenced in 2010. Since then, New Zealand house prices[5] have risen by 134 per cent from June 2010 - June 2024. In comparison, Australian house prices[6] grew by 86 per cent over the same period. The rate of house price increases in New Zealand during this time was also faster than in the previous two decades (1990 - 2010). Up to the market peak in late 2021, house prices in New Zealand grew at twice the rate as in Australia.

Figure 1 also shows that as KiwiSaver balances have grown and New Zealanders were allowed to withdraw a higher proportion of their savings (following a policy change in 2015), the rate of KiwiSaver first homebuyer withdrawals accelerated. The yearly growth rate in New Zealand house prices in the ten-year period to June 2010 was 7.6 per cent, lower than the ten-year period to June 2021[7] (9.2 per cent), indicating KiwiSaver withdrawals for first homes have contributed to the inflationary impact in the New Zealand housing market. **Figure 1** also shows a corresponding acceleration in growth of house prices as members' KiwiSaver balances increased and withdrawals became more common - with withdrawals appearing to be a leading indicator of house price movements up and down.

It's also worth noting that while housing interest rates significantly impact on demand, the direction of monetary policy and interest rates in both jurisdictions over the same period has been generally consistent, acting to effectively control for these factors.

Figure 1. New Zealand house prices and KiwiSaver withdrawals



Source: SMC Analysis, RBNZ Housing (M10) Sep Quarter 2024. Inland Revenue KiwiSaver statistics, Jun 2024. ABS Cat.6432.0, Sep 2024.

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5 Based on House price index (HPI) published by RBNZ Housing (M10) September Quarter 2024.

6 Based on 5-capital cities median price (established and attached dwellings). ABS Total Value of Dwellings Cat.6432.0 September Quarter 2024.

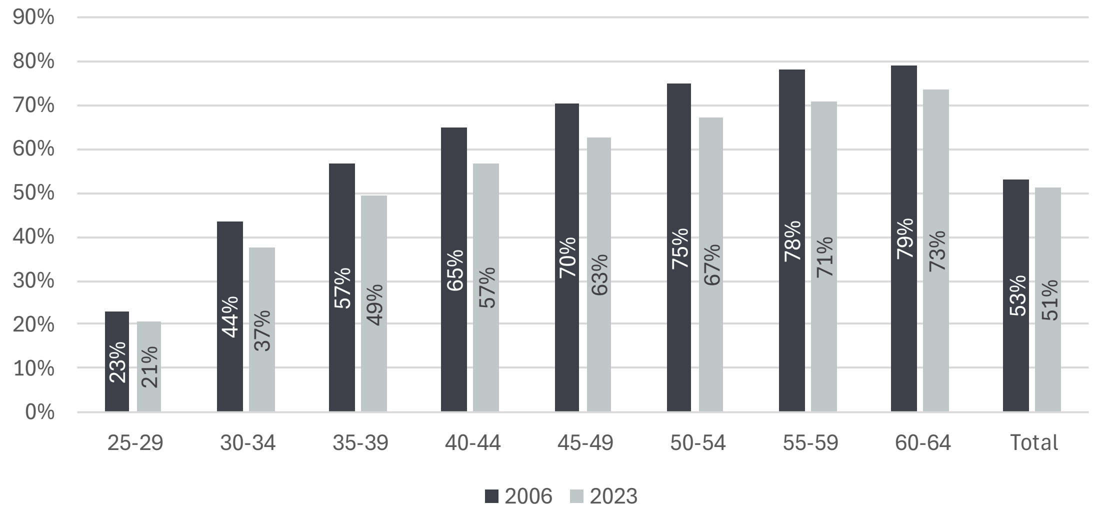
7 June 2021 was selected in this comparison to avoid coinciding with major housing tax reforms effective from 1 October 2021. Two major policy reforms introduced by the Ardern government include, (i) doubling of the bright-line test (if you sell a residential property within a set period after acquiring it you will be required to pay income tax on any capital gains) from 5-years to 10-years (this excludes inherited properties and owner's main home), and (ii) gradual phase out of interest deduction for investment properties acquired before 27 March 2021. However, from April 2024, these reforms have been reversed. Tenancy Services (2021), *Government housing package revealed*, Ministry of Business, Innovation and Employment, 23 March 2021, URL: https://www.tenancy.govt.nz/about-tenancy-services/news/government-housing-package-revealed/

KiwiSaver housing withdrawals coincide with worsening home ownership rates

In addition to corresponding with a period of accelerated house prices, the KiwiSaver scheme has also corresponded with a fall in home ownership rates, particularly among younger New Zealanders.

Figure 2 shows the continued decline of home ownership for individuals in New Zealand since 2006 - dropping by around 7 per cent for New Zealanders in their 30s. This data shows starkly that KiwiSaver withdrawals have failed to achieve any improvement in home ownership rates for New Zealanders, and instead, have contributed to making housing more unaffordable.

Figure 2. Home ownership rates for individuals in New Zealand



Note: Individual home ownership rate in the form of those that stated "Hold in a family trust" plus "Own or partly own" out of "Total stated - individual home ownership".
Source: SMC Analysis, Stats NZ, 2018 & 2023 Censuses.

The same people are buying the same houses but with more debt and less money for retirement

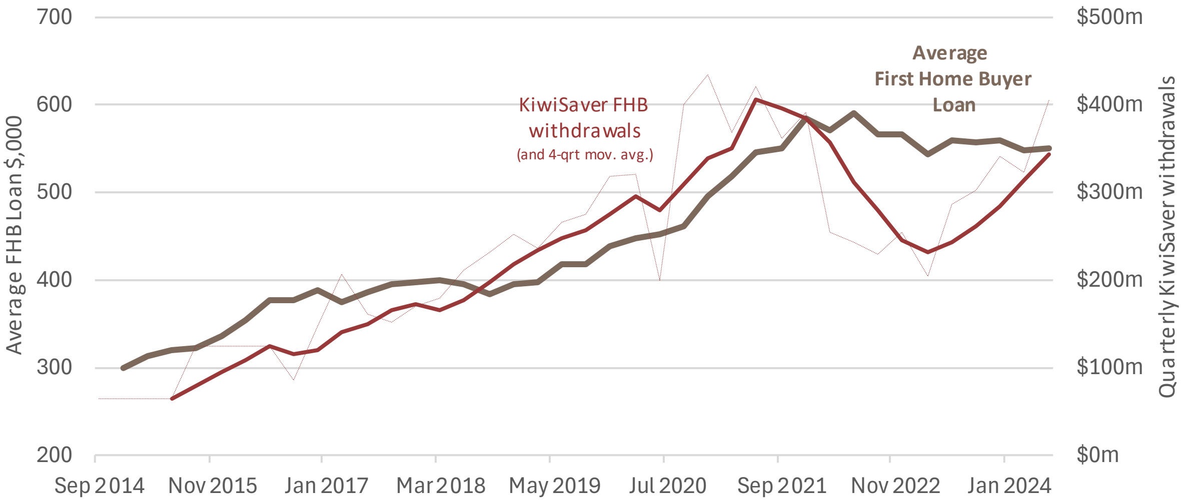
Once KiwiSaver withdrawals were allowed and house prices rose in New Zealand, more first home buyers were forced to access their KiwiSaver savings to remain competitive in the housing market.

In 2023-24, around 77 per cent of first home buyers dipped into their KiwiSaver for a house deposit - up from 65 per cent in 2015-16. Withdrawing retirement savings for a property deposit is now the norm - rendering any potential competitive benefit redundant.

At the same time, the retirement savings of first home buyers have fallen and their mortgage indebtedness has grown.

Figure 3 shows an increase in KiwiSaver withdrawals corresponding with an increase in the average first home buyer loan.

Figure 3. KiwiSaver withdrawals versus average first home buyer loan

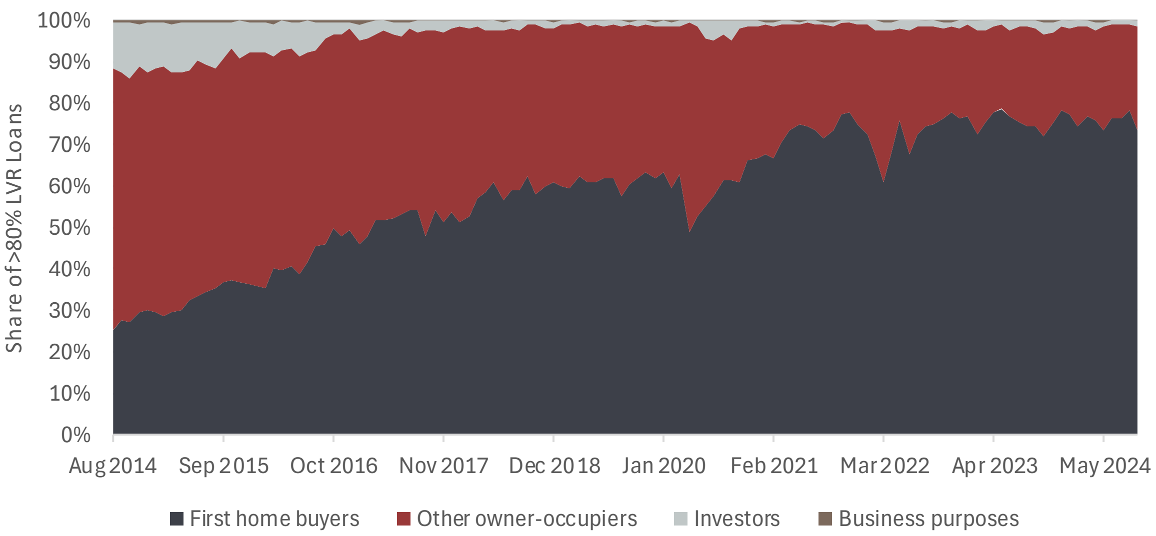


Source: SMC Analysis, RBNZ New residential mortgage lending by borrower type (C31), December 2024. Inland Revenue KiwiSaver statistics, June 2024.

Higher house prices mean larger deposits and higher borrowing. Rather than closing the 'deposit gap' and reducing a first homebuyers' mortgage burden, the opposite has occurred. Since 2014, the total number of first home buyers taking out loans with a loan-to-value ratio over 80 per cent has tripled, and the proportion of high LVR loans taken out by first home buyers has risen from 25 to 75 per cent.[8]

These buyers will have higher monthly repayments for longer loan periods and are more likely to retire with mortgage debt. They are also more exposed to interest rate rises, mortgage and financial stress.

Figure 4. Share of High Loan-to-Value Ratio Residential Lending



Source: SMC Analysis, RBNZ New residential mortgage lending by borrower type (C31), December 2024.

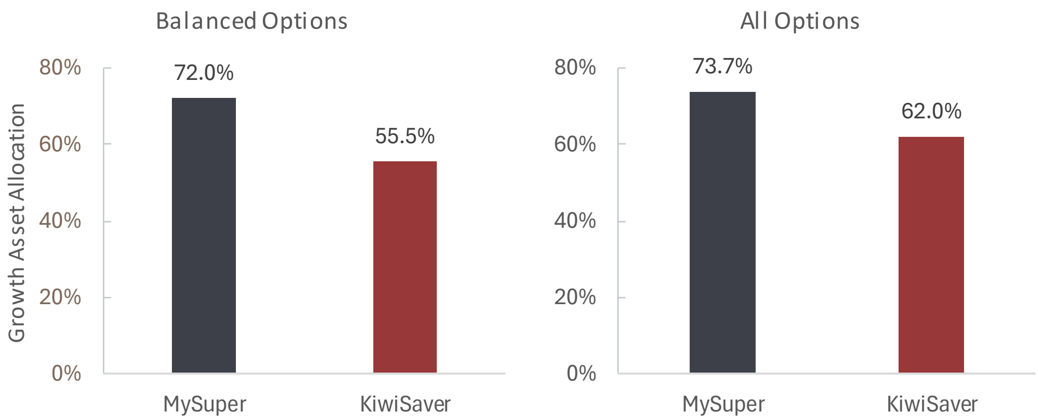
[8] New residential mortgage lending by borrower type (C31), Reserve Bank of New Zealand, December 2024

Effects on retirement savings and broader impacts

Housing withdrawals lower investment returns for all super fund members

Australian super funds have outperformed their New Zealand KiwiSaver peers over 3, 5, and 10 years, due to their capacity to invest with certainty in higher-performing asset classes over the long term. New Zealand funds hold more cash and other liquid assets, in part to fund first home buyer early withdrawals, which generally deliver lower long-term risk-adjusted returns than alternative growth asset classes. This poorer investment performance hits all members invested in KiwiSaver funds, and these losses are further exacerbated over time by lower compound returns.

Figure 5. Allocation to Growth assets



Source: SMC Analysis, SuperRatings Fund Crediting Rate Survey September 2024, Morningstar KiwiSaver Survey September 2024.

As of September 2024, Australian MySuper products (balanced options) had outperformed comparable KiwiSaver investment options by an average of 1.16 per cent every year for the past decade. Due to liquidity requirements, KiwiSaver had substantially lower exposure to growth assets over that period.

Table 1: Investment returns for Australian MySuper and NZ KiwiSaver (balanced options)

Years	MySuper	KiwiSaver	Difference
3	5.28%	3.43%	-1.85%
5	6.77%	5.36%	-1.41%
10	7.80%	6.64%	-1.16%
Growth Asset %	71.96%	55.46%	-16.50%

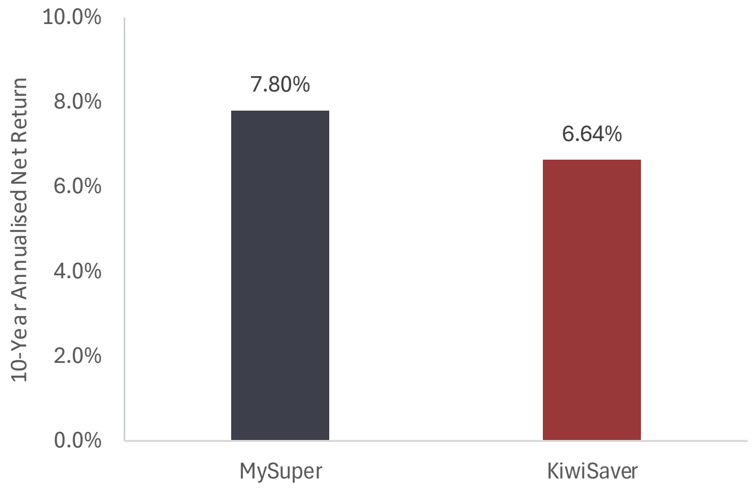
Notes: Returns are asset weighted.
Source: SuperRatings Fund Crediting Rate Survey September 2024, Morningstar KiwiSaver Survey September 2024.

Table 2: Investment returns for Australian MySuper and NZ KiwiSaver (all options)

Years	MySuper	KiwiSaver	Difference
3	5.33%	3.79%	-1.54%
5	6.81%	5.82%	-0.99%
10	7.78%	6.94%	-0.85%
Growth Asset %	73.67%	61.97%	-11.70%

Notes: Returns are asset weighted.
Source: SuperRatings Fund Crediting Rate Survey September 2024, Morningstar KiwiSaver Survey September 2024.

Figure 6. Net returns, MySuper and KiwiSaver

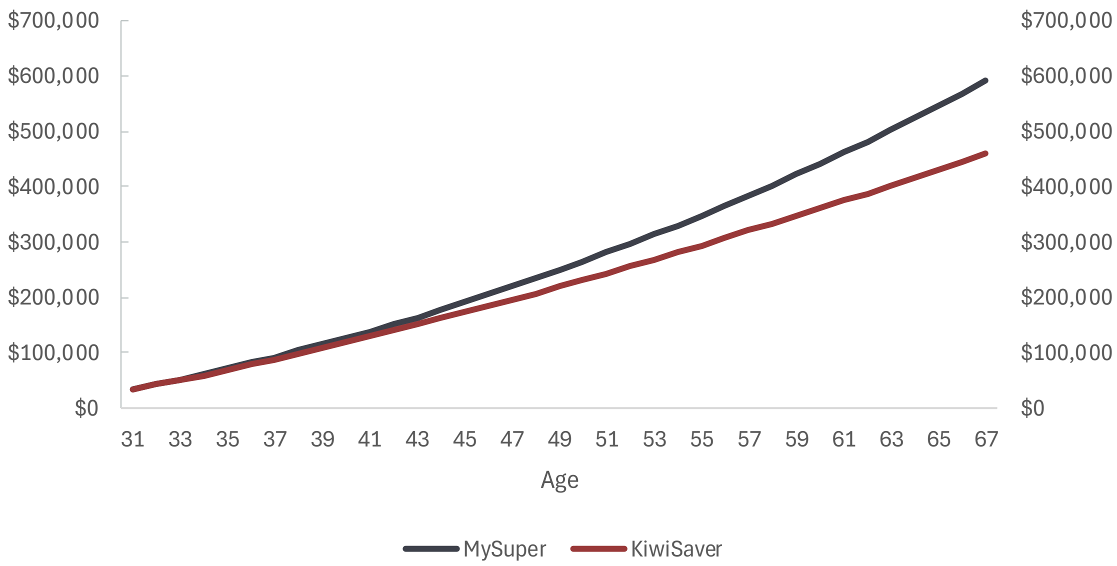


Notes: Balanced options only. Returns are asset weighted.
Source: SMC Analysis, SuperRatings Fund Crediting Rate Survey September 2024, Morningstar KiwiSaver Survey September 2024.

Housing withdrawals reduce retirement income

This gap in net returns makes a significant difference to a person's retirement balance over their working life because of the loss of compound returns. Based on the KiwiSaver rate of return, a 30-year-old Australian worker with $25,000 in superannuation today and earning the median Australian wage would be $132,000 worse off at retirement age (67) in today's dollars.

Figure 7. Accumulation phase balances by age - MySuper and KiwiSaver for the median income-earner

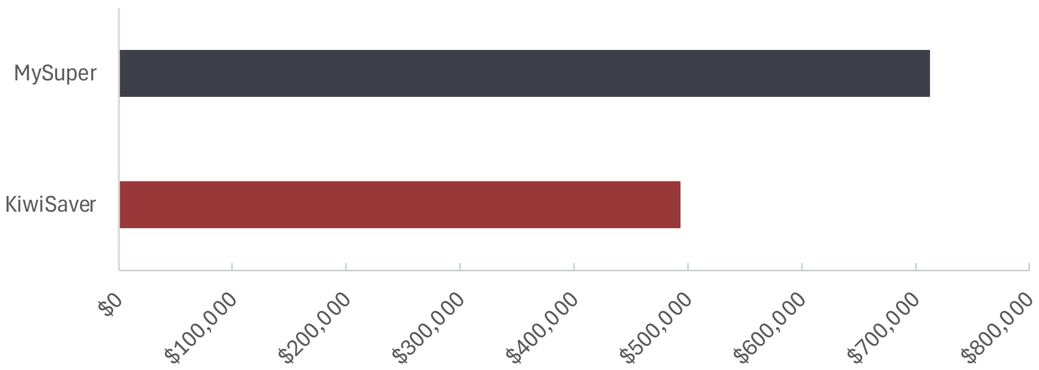


Source: SMC Analysis

Retirees will be hit hardest

But the impact does not stop at retirement age – it is magnified by the loss of earnings through the retirement phase. Taking into account this loss of accrued earnings and assuming an annual drawdown of 10 per cent in retirement, Australian retirees are an average $219,000 better off in income over a 25-year retirement (in wage-deflated terms) than their New Zealand peers.

Figure 8. Accumulated superannuation income over retirement – MySuper and KiwiSaver



Source: SMC Analysis

Allowing super for housing withdrawals in Australia would increase the cost to the federal budget and taxpayers

Australia's super system has driven down government spending on the Age Pension to close to the lowest in the OECD, lower than New Zealand. The OECD projects Australia's public pension expenditure to decrease by 2060 – one of the only OECD nations to do so – while New Zealand's is projected to increase.[9] The Australian Government's Retirement Income Review report, released in July 2020, supports this trend – projecting that public expenditure on the Age Pension to drop from 2.5 per cent of GDP in 2020 to 2.3 per cent by 2060.[10]

Research undertaken separately by Deloitte and the Parliamentary Budget Office (PBO) has shown the impact that significant changes to preservation rules would have on the Federal Budget due to increased reliance on the Age Pension.

Deloitte's analysis, released in May 2024, based on withdrawals of up to $50,000 or 40 per cent of a first home buyer's super balance, projects these additional costs to blow out to a peak of $8 billion per annum – and a total cumulative cost to the Budget of $304 billion by 2102. If the policy were expanded to allow uncapped withdrawals for first home buyers, this would blow out even further to a peak of $24 billion per annum and $1 trillion cumulative cost in the same time period.[11]

Separately, the PBO have estimated that if superannuation was replaced with an Age Pension that delivered comparable living standards to the median income obtained under super, the Budget would be $100 billion a year worse off by 2032, and Age Pension expenditure would double as a share of GDP (to 5.5 per cent) by 2032.[12]

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[9] OECD Pensions at a Glance, 2023

[10] Retirement Income Review final report, The Treasury, July 2020

[11] Deloitte modelling of the long-term fiscal costs of early release of super for housing, May 2024

[12] Would taxpayers be better off if superannuation never existed?