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KiwiSaver shakeup: private asset investment has risks that could outweigh the rewards

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New Zealand's superannuation is no longer enough to live on for the country's retirees. Research has found people need hundreds of thousands in savings to live a comfortable life after work.

But the KiwiSaver scheme, introduced in 2007 to encourage New Zealanders to build their retirement savings, continues to be a political football. Since its creation, there have been multiple tweaks to the scheme, threatening to undermine its core purpose: supporting New Zealanders in their retirement.

In late 2024, the government proposed changes that would make it easier for KiwiSaver managers to invest in private assets.

The government says these changes could unlock billions to fund essential infrastructure or to provide capital for businesses, outcomes that could benefit the country as a whole.

But the changes required to enable investing in private assets – such as reduced transparency around fees – are concerning and may not be worth the limited benefits it would bring to KiwiSaver members.

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Expanding KiwiSaver

At the moment KiwiSaver managers predominantly invest in publicly traded assets, specifically stocks and bonds.

The changes would open up KiwiSaver investors to a wide range of opportunities such as infrastructure projects (for example, toll roads), unlisted companies (KiwiBank has already been suggested by one provider) and property investments, among others.

Increasing private asset exposure from the current 2-3% of funds under management to a level similar to Australian super funds (15%+) could unlock significant investment for infrastructure or business capital.

But while there is definite appeal in using more KiwiSaver money to build roads and other essential infrastructure, the benefits to investors may be more modest.

The Ministry of Business, Innovation and Employment argues private assets may increase fund returns and should reduce risk for investors by reducing fund exposure to stock and bond markets.

But to achieve these possible outcomes KiwiSaver members risk being locked into a fund provider or having their funds split across providers when they opt to move. There is also the concern that transparency around the fees being charged by managers could worsen.

Gumming up the works

The advantage of the current system of investing in publicly traded assets is that they are relatively cheap to trade, can be bought or sold quickly and their market value is constantly known.

Private assets are none of these things.

Fund managers are currently required to release your funds within ten days when you opt to switch manager. Large investments in private assets that can not be sold quickly, or even worse, may be distressed (where the value is currently significantly below what it was bought for), could create a liquidity issue for a fund if a lot of investors decide to switch.

To encourage managers to invest in private assets the proposed changes would allow your existing fund manager to hold onto a portion of your investment until private assets could be liquidated if they deemed it in your best interest.

Essentially, you may have to stay with a fund manager for an indeterminate period even if you want to change, presumably while still paying them fees on the funds they are looking after.

Elderly man's hands putting coins in wallet

New Zealand’s retirees rely on KiwiSaver to top up insufficient superannuation payments.
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Hiding fees

The government’s changes also suggest allowing managers to change the way the fees they report is calculated.

To encourage managers to invest in private assets, the government has proposed allowing them to exclude the costs associated with private assets from their reported fees. Why? Because private asset investing is significantly more expensive.

Managers may need to build specialised teams to evaluate private asset investments. There are substantial costs (consultants, lawyers, experts etc) incurred when evaluating these investments in the same way that a home buyer faces costs such as builder and valuer reports.

Additionally, managers will need to hire valuers periodically to reevaluate the value of the assets, resulting in more costs.

Removing private asset costs from disclosures will make it harder for New Zealanders to compare the fees on different funds.

Multiple other problems

Several other problems also exist with the plan.

The KiwiSaver market is relatively fragmented with 21 providers, nearly half of which manage less than NZ$1 billion in assets. Many private asset investments would require tens of millions, which means funds run the risk of becoming heavily exposed to just a few large investments. Only a handful of funds currently have the size to effectively use private assets to reduce investor risk.

There is also the difficulty in valuing private assets. Valuers can provide a best guess, but it will depend largely on what the market is willing to pay at the time you come to sell.

What is also unclear is how the value of private assets will be reflected in the unit prices that impact the price at which you buy into or sell out of fund. This introduces yet more opacity to a system that is currently transparent.

KiwiSaver will increasingly become a critical aspect of New Zealanders' retirement. Changes to it need to be carefully considered and evaluated to avoid undermining confidence in KiwiSaver and to ensure that they support the primary goal, ensuring financial security in retirement. It is not clear that this change meets that threshold.