

Review of international pension reform

by Sharon Collard and Nick Moore

Department for Work and Pensions

Research Report No 663

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Sharon Collard and Nick Moore

A report of research carried out by the Personal Finance Research Centre at the University of Bristol on behalf of the Department for Work and Pensions

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Glossary of terms

Annuity	A financial services product purchased by means of a single premium or periodic payment to provide a regular income for a specified number of years or for a remaining lifetime.
Asset management	The process of placing, in accordance with fiduciary responsibilities, available capital in appropriate financial products and non-financial investment vehicles.
Contribution	A payment made to a pension plan by a plan sponsor or member for the purpose of accruing benefits or accumulating capital.
Defined benefit plan	Any pension plan other than a defined contribution plan, including all plans under which the financial or longevity risk is borne by the plan sponsor. Benefits are typically based on a formula including accrual rate, pensionable salary and length of employment.
Defined contribution plan	A pension plan under which benefits are solely based on the amount contributed to the plan plus the investment return thereon. The investment risk is borne by plan members.
Hybrid plan	A pension plan that combines features of both defined benefit and defined contribution plans.

Individual account	An arrangement in which capital belonging to an individual person accumulated from mandatory or voluntary contributions is recorded so that it may be withdrawn in the case of certain specified future contingencies (e.g. retirement).
Lump sum	A one-off cash payment representing part or all of the cash value of the beneficiary's accrued benefits or accumulated capital.
Mandatory occupational pension plan	An occupational pension plan in which at least one employer is required by law to participate as plan sponsor.
Pay-as-you-go financing	A pension plan under which current benefits are financed by current contributions
Pension	A regular income stream provided by a pension plan administrator in line with plan rules for a specified number of years or for a remaining lifetime.
Preservation age	In general, individuals can only access their pension savings when they retire permanently from the workforce and reach the minimum age set by law, known as the preservation age.
Rate of return	The income earned by holding an asset or portfolio over a specified time period.
Replacement rate	Pension benefits relative to earnings when working, either shown net (taking into account taxes and contributions into accounts) or gross.

Summary

The Department for Work and Pensions (DWP) commissioned this review of international pension schemes and pension reform to draw together evidence, potential learning points and areas of distinction between the UK and comparator countries, to inform implementation of the Government's workplace pension reforms. The review focused mainly on the introduction and implementation of workplace pension reforms that aimed to encourage private pension saving among individuals of working age. It centred on eight case study countries, all but one of which had instituted pension reforms that were similar in some respect to the proposed reforms in the UK. The review comprised a rapid evidence assessment and telephone interviews with pension experts in the case study countries.

The main gaps in knowledge highlighted by the review seem to be around attitudes to pension reform, pre and post-implementation; the effectiveness of incentives to encourage voluntary employee contributions above and beyond any minimum requirement; the outcome of pension reforms and pension schemes on incomes and living standards in retirement (although this may improve over time); and the wider macro-economic impacts of pension reform, such as the effect on aggregate savings levels, labour market impacts and the impact on small businesses. With the exception of **New Zealand**, there is a dearth of robust evaluation of pension reform in the case study countries we looked at.

Selection of case study countries

The eight case study countries selected for inclusion in this review were (in alphabetical order): **Australia, Canada, Denmark, New Zealand, Norway, Poland, Sweden** and **Uruguay**. They represent a range of pension schemes to promote private pension saving, most (with the exception of Canada) the result of pension reform instituted in the last 20 years. The desire to increase private pension saving was generally driven by concerns about the rising cost of public pension systems in the face of ageing populations, while at the same time wanting to raise standards of living in retirement. The low coverage of private pension saving was often an issue as well.

The aim of pension reform was therefore to encourage widespread participation in private pension saving among workers, typically through mandatory participation. It was, however, common for case study countries to have eligibility floors in terms of the age or income of workers who could participate. Except in Canada, where Registered Retirement Savings Plans are entirely voluntary, there was also an element of compulsion in terms of contributions, with employees and/or employers required to make at least a minimum contribution to pension saving.

The closest comparator country to the planned UK reforms in terms of scheme design is New Zealand. Even so, there are important differences in relation to scheme membership and the rules around contributions.

Implementing pension reform

The key implementation challenges faced by some of the case study countries were the protracted length of the legislative process, opposition from stakeholders and the logistics of setting up and running a new or reformed pension system.

Three main conclusions seem to flow from the experience of case study countries with regard to pension reform implementation: First, pension arrangements are both complex and critical for individuals and society as a whole. Changes ideally need to be debated thoroughly with the stakeholders involved, such as employees, employers and the pension industry. This takes time, but the benefits of building a consensus around the proposed changes are considerable.

Secondly, unless existing systems can be used, it takes time to establish appropriate and robust administrative systems. The more complex the system and the greater the volume of business, the longer is the time required.

Finally, three quite different sets of stakeholders need to be managed: individuals, both potential contributors and those who will be excluded from the scheme; employers; and the providers of pensions.

Employee outcomes and reactions

The evidence from several of the case study countries indicated higher-than-anticipated voluntary participation in reformed pension schemes among individuals who were not required to join. In **New Zealand**, the large number of people opting into KiwiSaver (rather than being automatically enrolled) is attributed primarily to government incentives, with good communications and changes to the tax system that favoured such saving also playing a role. In **Poland** and **Uruguay** high voluntary take-up of defined contribution pension saving among groups who were not mandatorily required to participate seems to have been driven by the expectation of better retirement benefits.

In most of the case study countries included in this review, there was an element of compulsion for members to save a minimum amount into their pension. It was relatively uncommon for people to save more than the minimum required

in pensions, where this was permitted. Where there was no requirement for individuals to save (as in **Australia, Canada and Norway**), only a relatively small proportion of members appeared to make voluntary contributions, even when there were financial incentives available to do so. Evidence from Australia indicates that cost, feeling too young, or having other financial priorities such as a mortgage may prevent voluntary pension saving.

Employer outcomes and reactions

For the most part, there is little evidence to indicate that the costs and burdens of pension reform are a significant issue for employers. There have been some concerns, however, about the disproportionate cost and burden of pension reform for small businesses, though it is unclear how much evidence exists to support these concerns. In **Australia**, action has been taken (and further action proposed) to mitigate the regulatory burden on small business. Likewise, the evidence we have collected indicates that employer compliance with new pension legislation has generally been high. There seems to be little hard information about the impact of pension reform on the labour market.

Pension industry outcomes and reactions

None of the case study countries provided a direct comparator to the planned UK reforms in terms of how pensions are provided. The range of pension providers involved in delivering reformed pension schemes varied from one state agency in **Denmark** to over 85 pension providers and over 700 funds in **Sweden**.

There does not seem to be a great deal of published literature about the impact of pension reforms on the pensions industry or national pension markets. There is some evidence of a concentration of provision among a small number of large providers, although whether this had impacted on competition was unclear. These are often the default funds and are characteristically conservative in their investment approach. Established providers with networks of offices and large sales forces have been able to increase market share, but at an increased cost to the pension saver. While some home pension markets seem to have been stimulated by an increase in private pension saving as a result of reforms (particularly in **Australia**), it seems likely the situation will have changed since the start of the global downturn in late 2007. The results of evaluations in **New Zealand** in 2008 and early 2009, suggest that it is still too early to say with confidence what the effect has been.

Attitudes to reform and the role of communications

The experience in the case study countries seems to suggest that initial attitudes towards the reforms were positive among individuals, most employers and pension providers. Communicating enough information about pension reforms, while not overloading people, is a difficult balance to achieve, not least because information needs change over time.

The experience of **Poland** indicates that the messages and channels of communications are a key factor in engaging and informing individuals. In addition, Poland was able to adopt a flexible approach in terms of responding to poor feedback from the general public. In **New Zealand**, the work of informing consumers is largely the responsibility of the Retirement Commission. With employers and providers, early and dedicated involvement from the Inland Revenue seems to work well.

Evaluation

In **New Zealand**, the KiwiSaver scheme has been subject to evaluation from its introduction in 2007. The evaluation is a joint collaboration between the Inland Revenue, Ministry of Economic Development and Housing New Zealand and has five elements: benchmarking, monitoring, communications, process studies and outcome studies. In **Australia**, the recent Cooper Review has examined the structure, operation and efficiency of the compulsory superannuation system. We were unable to find evidence of any similar evaluation in the other case study countries.

The key features of national occupational pension schemes

Seven of the eight case study countries (the exception being **Canada**) offered examples of national occupational pension schemes, in the form of private pension saving in either personal or occupational pension schemes. For the most part, members save for retirement in defined contribution pension schemes.

The fee structures attached to these schemes usually include a mix of fees on contributions and asset management fees. **Poland** also has fees for switching funds, which were not found elsewhere. In some cases, these fees are capped, in others they are unrestricted. The key issues in relation to fees are their lack of transparency and the impact they may have on eventual retirement income if unchecked.

Most of the national occupational pension schemes we looked at offered an element of investment choice to members, ranging from a choice of four funds in **Uruguay** to over 750 in **Sweden**. There is evidence to suggest, however, that active investment choice is relatively low among pension fund members. As a result, there is often a heavy reliance on default funds, the investment asset mix of which varies enormously by country.

Given the recent global economic downturn, it is not surprising to see negative returns on investment in the national occupational pension schemes we looked at, a few of which offer minimum guaranteed rates of return. Across the piece, accumulated pension assets or accrued benefits tend to be taken either as an annuity and/or a lump sum. There was very little evidence of early access to pension savings in the schemes we looked at, the exception being **New Zealand's** KiwiSaver.

1 Introduction

Since the 1990s, there has been widespread reform of pension systems throughout the world. This has mainly been prompted by two factors: first, the rapid ageing of populations due to rising life expectancies and declining fertility rates, and secondly the high costs and financial sustainability of public pension systems (Schwarz and Demirguc-Kunt, 1999).

Pension reforms are generally classified into two categories: minor adjustments and major reforms. Minor adjustments are changes made to existing public pension schemes primarily to delay fiscal problems but sometimes to correct existing inequities. These include changes to pension eligibility criteria, the contribution structure, the benefit structure or the administration of the scheme. Major reforms are those which significantly change a country's retirement income system, from defined benefit to defined contribution or vice versa, or from pay-as-you-go to fully funded or vice versa. Other major reforms might include starting up a new system or the introduction of mandatory defined contribution schemes as part of PAYG reforms (Schwarz and Demirguc-Kunt, 1999).

1.1 Workplace pension reform in the UK

The Pensions Act 2008, which achieved Royal Assent in November 2008, sets out a series of measures that will be put in place from 2012 aimed at encouraging wider participation in private pension saving. The aim of these reforms is to overcome the decision-making inertia that currently characterises many individuals' attitudes towards pension saving and to make it easier for individuals to save for their retirement. They are particularly targeted at low to median earners, amongst whom under-saving for retirement is currently widespread. It is estimated that these reforms will result in five to nine million people newly saving or saving more in all forms of workplace pensions.¹

There are three key elements of the workplace pension reforms: First, from 2012, there will be a duty on employers to automatically enrol their eligible employees

¹ *Workplace Pension Reforms Regulations: Impact Assessment.* Department for Work and Pensions (DWP), 12 January 2010.

into a qualifying workplace pension scheme. Eligible employees will be those aged between 22 and State Pension age², earning over £5,035 per annum (in 2006/07 earnings terms) who are not already members of a qualifying scheme. Employees can opt out of pension saving after automatic enrolment if they wish.

Secondly, once the reforms are fully phased in, employers must contribute a minimum of three per cent of an employee's qualifying earnings (a band between £5,035 and £33,540) to their pension pot if the employee chooses to remain in the workplace pension scheme. Overall contributions should total a minimum of eight per cent, including one per cent that the Government will contribute in the form of tax relief. This means that the minimum a participating employee will have to contribute to their pension will vary from nought to four per cent, depending on the proportion contributed by their employer. Both employers and employees can contribute more than the minimum if they wish.

Thirdly, the reforms involve the establishment of NEST (National Employment Savings Trust), which is the new name for the personal accounts scheme. This will be a trust-based, occupational pension scheme. Following the reforms employers will be able to use an existing qualifying scheme or a new scheme that could include the NEST scheme. The NEST scheme will be run at arm's length from Government by an independent body.³

1.2 Aims and scope of this review

DWP commissioned this review of international pension schemes and pension reform to draw together evidence, potential learning points and areas of distinction between the UK and key comparator countries, to inform implementation of the Government's workplace pension reforms. The main audiences for the review were intended to be DWP's Enabling Retirement Savings Programme, the Personal Accounts Delivery Authority and The Pensions Regulator.

The review focused mainly on the introduction and implementation of workplace pension reforms that aimed to encourage private pension saving among individuals of working age. DWP required the review to cover the following issues for each of the selected case study countries:

- Background details, including the key problem(s) pension reform sought to answer; the challenges that may have influenced or constrained reform at the time; how the reforms were implemented and managed; the type of pension arrangements introduced, e.g. mandatory, voluntary or semi-voluntary (such as, soft compulsion); compliance powers and enforcement policy.

² State Pension age is currently 65 for men born before 6 April 1959 and 60 for women born on or before 5 April 1950. For women born on or after 6 April 1950, the State Pension age will gradually increase to 65 between 2010 and 2020. Between 2024 and 2046, the State Pension age will increase for both men and women.

³ <http://www.padeliveryauthority.org.uk/>

- Outcomes and reactions to pension reforms among individuals, employers and the pension industry, including participation and contribution levels among individuals and employers; impacts on pensioner incomes and living standards in retirement; the costs and burdens on employers; compliance among employers; and the reaction of pension providers and intermediaries.
- Attitudes to reforms among individuals, employers, the pension industry and other stakeholders.
- Communications, including materials, channels and tools used to convey information about pension reforms and how effective these have been.
- How pension reforms have been evaluated or monitored and the extent of published information about the outcomes of pension reform.
- National occupational pension schemes, including how schemes function and their type (e.g. defined benefit or defined contribution); fee structures and levels; fund choices and default funds; investment returns; decumulation and liquidity.

1.3 Research methods

The main element of the review was a rapid evidence assessment in relation to the eight case study countries that were selected. This approach provides a framework to structure the literature search and data extraction. We conducted systematic searches for each of the case study countries between 17 April 2009 and 30 June 2009, from the following sources:

- academic bibliographic databases and libraries (International Bibliography of the Social Science, Applied Social Sciences Index and Abstracts, Social Science Research Network (US), EconLit);
- government and industry sources in each of the case study countries (government departments, pension regulators, consumer organisations, scheme-specific information produced by pension providers, industry trade associations);
- research organisation publication lists and lists of current research;
- web searches (Google, Google Scholar, Intute: Social Sciences).

Full details of the searches are given in the Appendix.

Through the searches that we conducted, we identified approximately 255 items including research reports, academic journal articles, official statistics, government consultation documents and consultation responses. These were assessed for their relevance to be included in the review based on the issues that DWP required to be covered (outlined above). The quality of research and any limitations (e.g. sample size or sample design) were also taken into account.

Information was subsequently extracted from around 100 items that were used to provide information for this report. We aimed to include only information that we assessed to be of a reasonable standard. In a few instances, we refer to information that we considered to have limitations (e.g. relatively small sample sizes), but which nonetheless provided useful information (or the only information) on a relevant issue. Where this occurs in the report, we have sought to highlight the fact. Additional information (e.g. about how schemes operated) was obtained from government and other websites.

The rapid evidence assessment was supplemented by telephone interviews with pension experts in the case study countries, which took place between December 2009 and February 2010. The aim of these interviews was to obtain additional (oral) information and published materials. A total of 14 interviews were conducted with representatives from seven of the eight case study countries (the exception being **Canada**), who were interviewed in a personal capacity. They included academics, government policy advisers and analysts and autonomous organisations with a pensions remit. Consent was obtained from the pension experts to use the oral information they provided (i.e. information that was not available in any published document) and verbatim quotations in the report. Further details are provided in the Appendix.

1.4 Report structure

Chapter 2 starts by outlining the process by which the eight case study countries were selected for inclusion in this review. It continues with descriptions of each of the eight countries, in terms of the background to pension reforms and the main features of the pension schemes we looked at.

Chapter 3 goes on to explore the challenges that countries faced in implementing pension reform. Chapters 4, 5 and 6 examine the outcomes and reactions to pension reform among individuals, employers and the pension industry respectively. Chapter 7 discusses the attitudes to pension reform among individuals, employers and the pension industry respectively. In Chapter 8, we explore the communications strategies that were employed to disseminate information about pension reforms. Chapter 9 gives a brief overview of the evaluation of pension reform, specifically in **New Zealand**, and explores what published information exists around the outcome of pension reforms and pension schemes. In Chapter 10 we move on to look at the key features of the national occupational pension schemes included in the review. Finally, Chapter 11 draws some preliminary conclusions based on the review so far.

2 Case study countries

Reforms to encourage individuals to save for retirement in the form of private pensions have been widespread. In around 30 countries, individual account pension schemes now form part of the mandatory pension system.⁴ These include seven OECD countries (including **Australia** and **Sweden**), nine countries in Latin America and eight in Central and Eastern Europe (Tapia and Yermo, 2007). This chapter describes the process for selecting the case study countries that were included in this review, and provides details of the eight countries that were selected.

2.1 Selection process

We began the selection process by drawing up a long list of possible case study countries. As the focus of the review was private pension reform, when assessing possible case study countries we focused on the introduction of private pension saving either as a substitute for part of the public earnings-related pension scheme or as an extension to existing pension provision.

The main sources of information we used to draw up the long-list of possible case study countries were World Bank and OECD publications.⁵ We excluded over 20 countries from the case study selection process from the outset. These were mostly European countries that had only instituted minor pension reforms. A number of

⁴ An individual account is an arrangement in which capital belonging to an individual accumulated from mandatory or voluntary contributions is recorded so that it may be withdrawn in the case of certain specified future contingencies (such as retirement) (ISSA/IOPS/OECD, 2008). Individual accounts are invariably provided on a defined contribution basis.

⁵ ISSA/IOPS/OECD (2008) *Complementary and private pensions throughout the world 2008*; OECD (2007) *Pensions at a glance: Public policies across OECD countries*; E Whitehouse (2007) *Pension panorama: Retirement-income systems in 53 countries*. World Bank; Schwarz and Demirguc-Kunt (1999) *Taking stock of pension reform around the world* (Social Protection Discussion Paper Series No. 9917). The World Bank.

countries (mainly African) were excluded because their pension reforms related to the setting up or extending of pay-as-you-go public pension systems.

We identified a total of 25 countries that seemed potentially relevant to this review. Eight of these were excluded from the long list, mainly because of a lack of information about their pension reforms or because their workforce profile (in the form of their old-age dependency ratio) was very different to that of the UK. This left 17 countries, which were all included in the long list.

2.2 Long-listed countries

The 17 long-listed countries were (in alphabetical order): **Australia, Canada, Chile, Denmark, Germany, Hungary, Iceland, Ireland, Kazakhstan, Mexico, New Zealand, Norway, Poland, Singapore, Sweden, Uruguay** and the US.

In most of the 17 countries included in the long-list, pension reform had been carried out relatively recently, typically in the last 10 years. Included in the long-list were some countries that had not experienced any recent major pension reforms: Iceland, Singapore, US and Canada. Iceland and Singapore were included because they provided examples of national occupational pension schemes. The US and Canada were included because there was particular interest in learning more about these pension systems. The criteria used to long-list these 17 countries are provided in Box 1.

Box 2.1 Criteria used to long-list countries

1. Structure of the reforms, with the aim of selecting case studies that resembled the workplace pension reforms taking place in the UK. The following four elements of the proposed UK reforms were used for comparison:
 - a. Is there an employer duty to automatically enroll eligible employees into a private pension, with employees having the option to opt out?
 - b. Is there a compulsory employer contribution?
 - c. Is there a compulsory employee contribution?
 - d. Is there a national occupational pension scheme?
2. State pension provision for individuals in retirement (with the aim of selecting case studies that had similar provision to the UK)
3. Workforce profile (with the aim of selecting case studies that had similar workforce profiles to the UK. We used the Old-Age Dependency Ratio for comparison)
4. Whether the reforms had been evaluated.

In terms of scheme membership, of the 17 long-listed countries only New Zealand requires employers to automatically enroll eligible individuals into a private pension system, with the option for employees to opt out. In most of the other countries,

eligible individuals are legally required to become members of a private pension scheme. The exceptions to this are the US, Canada, Germany and Ireland, where participation in private pension saving is voluntary.

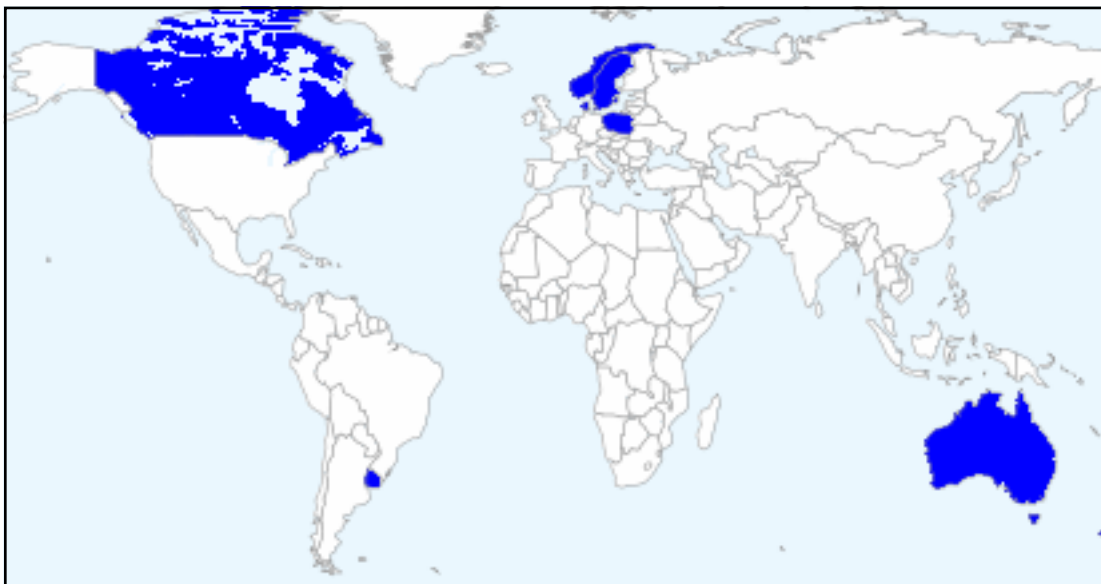
Pension reform seems only to have been evaluated in New Zealand, where the Inland Revenue has established a multi-strand programme of evaluation to assess the impact of the KiwiSaver initiative (Inland Revenue, 2006). In addition, the Australian Government and key pension industry groups issued a Communiqué of Principles in April 2009, in which it was agreed to evaluate the compulsory superannuation scheme (US Social Security Administration, May 2009).

2.3 Selected case study countries

Based on an assessment of the long-listed countries against the criteria outlined above and further discussions with DWP, the following eight countries were selected for inclusion in the review:

- Australia;
- Canada;
- Denmark;
- New Zealand;
- Norway;
- Poland;
- Sweden;
- Uruguay.

Figure 2.1 Map of the eight case study countries



With the exception of Canada, all of the pension schemes we looked at in these case study countries were national occupational pension schemes. Of the eight countries selected, New Zealand's KiwiSaver scheme seemed to be the closest comparator to the proposed UK workplace pension reforms. Canada's Registered Retirement Savings Plan scheme was the least similar to the UK's proposed reforms, being an entirely voluntary private pension scheme. The remaining six case study countries provided examples of pension systems that involved mandatory saving by individuals and/or employers in defined contribution pension plans.

Table 2.1 provides a summary of key features for the case study countries. The background and key features of pension reform in each of the case study countries is then described, with comparable information for UK given in Boxes 2.2-2.4.

It is important to note that in most of the case study countries we looked at, the specific schemes we focused on were part of a wider set of reforms. In Australia, the introduction of Superannuation Guarantee in 1992 was accompanied by changes to the preservation rules. In Norway, other reforms introduced at the same time as the Mandatory Occupational Pensions Act included a switch from minimum pension benefits into a means-tested guarantee and measures to improve work incentives among older workers. In Sweden, the reforms comprised the introduction of the Premium Pension Plan but also a switch of occupational pension schemes from a defined benefit to a defined contribution basis. Finally, in both Poland and Uruguay, the introduction of mandatory pension saving into a defined contribution scheme was part of wholesale reform of these countries' public pension systems.

Table 2.1 Overview of key features of case study country pension schemes

Case study country	Details of pension scheme/pension reform	Is there a legal requirement on employers to automatically enrol eligible employees, with option for employees to opt out?	Compulsory employer contribution to DC scheme?	Compulsory employee contribution to DC scheme?	Total contribution required to DC scheme (as at 31/01/10)
UK	A duty on employers to automatically enrol eligible workers into qualifying workplace pension scheme. Employers have to provide a minimum contribution for participating workers. Government contributes 1% in the form of tax relief. If employers only pay the minimum contribution, workers need to contribute to bring the total contribution to 8%. Workers can opt out of the scheme.	✓	✓	✓*	8% of qualifying earnings
New Zealand	KiwiSaver introduced in 2007, a voluntary employer-based DC pensions with auto-enrolment and incentives to save.	✓	✓	✓	Min 4% of gross earnings
Sweden	New public pension system introduced in 1999. Earnings-related notional account plus mandatory contribution by employees to a DC scheme (Premium Pension Plan).	✗	✓	✓	2.33% of pensionable pay
Australia	Superannuation Guarantee, introduced in 1992, makes it a legal requirement for employers to contribute to a private pension plan.	✗	✓	✗	9% of qualifying earnings
Norway	2005 Mandatory Occupational Pensions Act provided for shift from voluntary to mandatory establishment of occupational pension schemes. Can be DC or DB schemes. Mandatory employer contributions to DC schemes.	✗	✓	✗	2% of qualifying earnings

Continued

Table 2.1 Continued

Case study country	Details of pension scheme/pension reform	Is there a legal requirement on employers to automatically enrol eligible employees, with option for employees to opt out?	Compulsory employer contribution to DC scheme?	Compulsory employee contribution to DC scheme?	Total contribution required to DC scheme (as at 31/01/10)
Denmark	Review focused on Special Pension scheme (mandatory DC employee contributions) which was introduced in 1999.	x	x	✓	1% of gross earnings
Poland	New public pension system introduced in 1999, based on system of earnings-related notional accounts. New labour-market entrants and workers under 30 must also participate in a mandatory DC scheme - this means they are legally required to become members of a private open pension fund.	x	x	✓	7.3% of qualifying earnings
Uruguay	Public pension system moved from PAYG to mixed system comprising publicly managed DB scheme and mandatory DC scheme.	x	x	✓	% of qualifying earnings depending on gross monthly income
Canada	No major recent reforms. Review focused on Registered Retirement Savings Plan, which were introduced in 1957 and are increasingly offered by employers.	x	x	x	N/A

* Although there is an element of compulsion planned for the UK reforms, where employers make an eight per cent contribution the employee will not be required to make a contribution.

2.4 Australia

The pension system in Australia comprises a means-tested Age Pension; the Superannuation Guarantee, which is a compulsory employer contribution to a regulated superannuation fund introduced in 1992; and voluntary superannuation contributions and other private savings (OECD, 2009a). The focus for this review was the Superannuation Guarantee.

2.4.1 Background to the introduction of the Superannuation Guarantee

Prior to 1992, the predominantly defined benefit superannuation system was restricted to public sector employees and private sector managerial employees (Drew and Stanford, 2003). As a result, substantial parts of the workforce were not covered, in particular part-time and service sector workers (Barrett and Tseng, 2007). In addition, there were concerns that the required employer contribution (three per cent of wages by 1989) would only produce small retirement benefits (Knox, 1998). Much of the system was unfunded, and retirement benefits were met on an emerging cost basis (Drew and Stanford, 2003).

The Superannuation Guarantee was introduced in 1992 with the intention of extending existing superannuation coverage, improving employer compliance and to establish a mechanism for increasing employer contributions over time (Australian Bureau of Statistics, 2009). It was hoped that a combination of means-tested Age Pension (funded through general taxation) and a tax-assisted Superannuation Guarantee would provide lower income workers with a better standard of living in retirement (Drew and Stanford, 2003). Other aspects of the new policy around Superannuation Guarantee included strengthening preservation requirements and a phased increase in preservation age (Drew and Stanford, 2003).⁶

The Australian Government also saw the introduction of the Superannuation Guarantee as a means of addressing broader areas of macro-economic policy: to contain inflationary pressures as part of income policy, to reduce pressure on the sustainability of the Age Pension, and to help boost the historically low level of national private saving (Barrett and Tseng, 2007).

The main challenge to implementing the Superannuation Guarantee seemed to be opposition from small businesses on the basis of the cost and administrative burden involved. In addition, employee choice of Superannuation Fund was only introduced in 2005 following protracted debate. Both these issues are discussed in detail in Chapter 3.

⁶ In general, individuals can only access their superannuation savings when they retire permanently from the workforce and reach the minimum age set by law, known as the preservation age.

2.4.2 Description of the Superannuation Guarantee scheme

The Superannuation Guarantee is a mandatory employer contribution to a private pension plan, which employers have to pay quarterly either direct to a regulated superannuation fund or via a commercially operated clearing house. The plans may be operated by the employer, industry associations, financial services providers or by individuals themselves (OECD, 2009a).

Since the introduction of Superannuation Guarantee in 1992, member contributions have been increasingly directed to defined contribution funds and products (Gerrans *et al.*, 2008). In 2007, just six per cent of people accumulating superannuation had one or more defined benefit accounts (subject to a maximum of three accounts). Most had one or more defined contribution accounts (70 per cent) and/or hybrid accounts (41 per cent) (Australian Bureau of Statistics, 2009). Looked at another way, it is estimated that 80 per cent of total retirement benefits are allocated to defined contribution arrangements, and 20 per cent to defined benefit (Australian Prudential Regulatory Authority, 2008).⁷

By means of comparison, in 2008 there were nine million active (employee) members of occupational pension schemes in the UK. Of these, 5.4 million were members of public sector defined benefit schemes. A further 3.6 million were members of private sector schemes, 2.6 million in pensions with defined benefit arrangements and one million with defined contribution arrangements. Overall, this means that around 89 per cent of active members of occupational pension schemes had defined benefit arrangements (either public or private sector), the remaining 11 per cent defined contribution (all private sector) (Levy, 2009). The UK Government anticipates that once the workplace pension reforms are introduced, all new members will be enrolled into defined contribution schemes.

Scheme membership

Box 2.2 Scheme membership under the UK reforms

All eligible workers will be automatically enrolled into a qualifying workplace pension scheme. Eligible workers will be those aged between 22 and State Pension age earning over £5,035 per annum.

In Australia, the Superannuation Guarantee applies to all employees, with some exceptions. Employers do not have to contribute for employees earning less than AUD 450 per month (AUD 5,400 per year) before tax (around £230 per month

⁷ These figures relate to superannuation funds with more than four members (i.e. self-managed funds are excluded).

or £2,710 per year)⁸ but they can choose to contribute for them. In addition, employers do not have to contribute for employees' pay above a certain limit. For each quarter of the year 2005/06, this limit was AUD 33,720 (£16,940). This is equivalent to around 2.5 times average wages and is indexed to a measure of average earnings (OECD, 2009a). In the planned UK reforms, employers will similarly be required to contribute a proportion of employees' qualifying earnings, which fall within a specified band (see Box 2.3 for details).

In addition, employers in Australia are not required to contribute the Superannuation Guarantee if the employee is:

- under age 18 and works no more than 30 hours per week, or over age 70;
- paid to do work of a domestic or private nature for 30 hours or less a week;
- a non-resident paid for work done outside Australia;
- a certain type of foreign executive;
- temporarily working in Australia for an overseas employer and covered by a bilateral superannuation agreement (ISSA/IOPS/OECD, 2008).

As is the case with the planned UK reforms, membership is voluntary for self-employed individuals in Australia.

Contribution levels

Box 2.3 Contribution levels under the UK reforms

Once the reforms are fully phased in, employers must contribute a minimum of three per cent of an worker's qualifying earnings (a band between £5,035 and £33,540) to their pension pot if the worker chooses to remain in the workplace pension scheme. Overall contributions should total a minimum of eight per cent, including one per cent that the Government will contribute in the form of tax relief. This means that the minimum a participating worker will have to contribute to their pension will vary from nought to four per cent, depending on the amount contributed by their employer. Both employers and worker can contribute more than the minimum if they wish.

Continued

⁸ The exchange rates used in this report are the annual average spot exchange rates at 31 December 2009. With the exception of **Uruguay**, these rates were accessed from www.bankofengland.co.uk/mfsd/iadb/Index.asp?first=yes&SectionRequired=I&HideNums=-1&ExtraInfo=true&Travel=Nix. The equivalent rate for Uruguay was taken from www.hmrc.gov.uk/exrate/. Amounts have been rounded to the nearest £10.

Box 2.3 Continued

In the UK, individuals receive tax relief on pension contributions they pay, given at their marginal rate of taxation⁹. It is expected that the vast majority of new savers will be in the basic tax rate band (earnings of less than £43,875 in 2009/10) so will receive tax relief of 20 per cent. Individuals in the higher tax bands receive tax relief of 40 per cent. This means for lower earners, for example, an individual contribution of 12 per cent would be boosted by additional three per cent tax relief. For those in the higher tax band, tax relief would contribute a further eight per cent.

When the Superannuation Guarantee was first introduced in Australia in 1992, the mandatory contribution rate was three per cent of qualifying employee earnings (four per cent for employers with a payroll greater than AUD one million, or around £500,000), rising to six per cent from 1 July 1996 and eight per cent from 1 July 2000. Since 1 July 2002, employers have been required by law to pay nine per cent of employee earnings (Australian Bureau of Statistics, 2009), similar to the overall total contribution proposed in the UK of eight per cent of qualifying earnings.¹⁰ The Australian Senate Select Committee on Superannuation has noted, however, that leakages such as contributions tax, death and disability premiums, and fees and charges mean that fund members may receive less than the full nine per cent (Senate Select Committee on Superannuation, 2002).

When the Superannuation Guarantee was originally introduced by a Labour Government, the policy included plans to increase the contribution rate from nine per cent to 15 per cent (with the increase made up of three per cent from employees and three per cent from government co-contributions). This was abandoned in 1997 by the Coalition Government, although the trade union movement and the superannuation industry have continued to lobby for such an increase (Gallery and Gallery, 2005). A recent review of Australia's future tax system recommended (among other things) that the Superannuation Guarantee be maintained at nine per cent (Australia's Future Tax System Review Panel, 2009).

Employees are not obliged to contribute to the Superannuation Guarantee scheme¹¹, but from 2003 low to middle income workers have been encouraged to do so by means of government co-contributions (or matched savings), up to a maximum entitlement. There are no equivalent incentives in the planned UK reforms. Up to 1 July 2009, the government match rate had been 150 per cent (AUD 1.50 for every AUD 1.00 saved), up to a maximum entitlement of AUD 1,500

⁹ There are two caveats to this: Individuals who do not pay income tax can still claim basic rate pension tax relief on contributions of up to £3,600 per year. Individuals with total remuneration of over £150,000 do not receive tax relief at their marginal rate, but rather at a reduced rate.

¹⁰ This will be made up of both employers' and employees' contributions.

¹¹ There are some occupational superannuation schemes (e.g. the scheme for Australian universities) where employers contribute an amount greater than the nine per cent required by the Superannuation Guarantee, and which may be matched by a required employee contribution (Drew and Stanford, 2003).

(around £750). From 1 July 2009, however, the match rate and the maximum entitlement were temporarily reduced, as follows:

- 100 per cent (AUD 1.00 for every AUD 1.00) for the financial years 2009/10 to 2011/12, with a maximum co-contribution of AUD 1,000 (£500);
- 125 per cent (AUD 1.25 for every AUD 1.00) for the financial years 2012/13 to 2013/14, with a maximum co-contribution of AUD 1,500 (£750);
- 150 per cent (AUD 1.50 for every AUD 1.00) from 2014/15 onwards, with a maximum co-contribution of AUD 1,500 (£750).¹²

The Treasurer Wayne Swan reported in his 2009 Budget speech that these cuts were part of *'major structural savings to support the long term sustainability of our pension system and the budget more broadly'*.¹³

In addition, the Government in Australia provides tax incentives to encourage men to make provision for stay-at-home wives and for women who make contributions for their low-income spouses (Parr *et al.*, 2007). Tax concessions are also offered to self-employed individuals who choose to contribute to a fund (ISSA/IOPS/OECD, 2008).

Regulation and compliance

Box 2.4 Compliance regime for the planned UK reforms¹⁴

In the UK, the compliance regime will be supported by a number of sources. The registration process will require all employers to provide information on how they have met their auto-enrolment duties. The Pensions' Regulator (TPR) will check this information with employers' chosen pension schemes, where possible, to confirm employer engagement and follow up on any employers who have failed to register.

Trustees and managers of pension schemes and pension providers will be required to keep certain records to enable TPR to check employer compliance at a more detailed level. TPR may require these records to be produced on request. This will enable TPR to check compliance in a cost-effective way while minimising employer burden and reflecting good regulatory practice.

TPR will run a risk-based, graduated and proportionate compliance regime. This will consist of first educating and enabling employers to comply. Only if an employer ignores TPR's initial efforts or fails to take action will enforcement action be taken. A series of escalating enforcement steps will be available including formal and informal notices, penalties and finally criminal prosecution.

¹² Information accessed from: www.ato.gov.au/individuals/content.asp?doc=/Content/42616.htm

¹³ www.ato.gov.au/budget/2009-10/content/speech/html/speech.htm

¹⁴ Any references in this document to the role and impact of the Employer Compliance Regime reflect DWP's current understanding at the date of writing. Such references do not bind the Regulator to any particular course of regulatory action.

The 1992 Superannuation Guarantee Act (Administration) forms the basis for Australia's mandatory superannuation system and established the Superannuation Guarantee. The Australian Tax Office (ATO) administers the Superannuation Guarantee legislation.

Like the compliance regime for the planned UK reforms (see Box 2.4), employers that do not comply with the Superannuation Guarantee legislation are subject to a penalty in the form of the Superannuation Guarantee Charge, payable to the ATO. The penalty charge comprises the shortfall of the minimum level of superannuation contributions in addition to interest (charged at a statutory interest rate) and an administrative cost component. The penalty charge is not a tax-deductible business expense (unlike the Superannuation Guarantee contribution) (ISSA/IOPS/OECD, 2008).

The system operates on a self-assessment basis, subject to supervision by the ATO (ISSA/IOPS/OECD, 2008), which is rather different to the monitoring regime planned for the UK (Box 2.4). The ATO reviews employer compliance (in relation to the Superannuation Guarantee and other obligations) by means of data matching to detect cases that appear incomplete or inconsistent. It also receives complaints about potential cases of non-compliance. The subsequent review carried out by the ATO aims to bring the employer's reporting up-to-date and make arrangements for them to pay any outstanding amounts. Compliance monitoring continues post-review (ATO, 2008a).

2.5 Canada

The pension system in Canada comprises a universal flat-rate benefit (the old age security pension), which can be topped up with an income-tested benefit (the guaranteed income supplement) and earnings-related public schemes (provided by the Canada Pension Plan/Quebec Pension Plan). In addition, in 2006 around 57 per cent of people were covered by voluntary private pensions, including both personal and occupational plans, a similar proportion to the UK (59 per cent) (OECD, 2009a). The focus of this review was Registered Retirement Savings Plans (RRSPs), which are voluntary personal pension plans.

2.5.1 Background to the introduction of RRSPs

Unlike the other case study countries included in the review, Canada's Registered Retirement Savings Plans are not an example of recent pension reform. RRSPs were first introduced in 1957, to provide workers who were not members of a company pension fund with a comparable vehicle for saving for retirement. The main difference between RRSPs and employer-based retirement pension plans was that RRSPs offered more flexibility: there was no maximum withdrawal limit on the amount that could be taken out of the post-retirement account and funds could be withdrawn at any time, subject to the payment of deferred tax liability (Fried, 2001).

2.5.2 Description of RRSPs

Unlike the planned UK reforms, RRSPs are entirely voluntary personal pension plans, so there are no requirements for mandatory contributions by individuals or employers. Tax concessions aim to encourage individual to contribute, up to a maximum amount, as in the UK (see Box 2.3 for details).

Legislative changes in the early 1990s allowed Canadians to increase their participation in RRSPs, by permitting eligible taxpayers to contribute more money to an RRSP during a given year and to carry unused 'room' forward to subsequent years (Palameta, 2003). The maximum RRSP contribution limit for the financial year 2009 was CAD 21,000 (£12,400), rising to CAD 22,000 (£13,000) in 2010. There is a tax penalty on over-contributions that exceed a lifetime over-contribution limit of CAD 2,000 (£1,200).¹⁵

2.6 Denmark

The pension system in Denmark has a number of elements. A public old age pension (folkepension) consists of a basic amount and an income-tested pension supplement. On top of this, a means-tested supplementary pension benefit is paid to the most financially disadvantaged pensioners. In addition, there are two compulsory schemes based on individual's contribution records: the labour market supplementary pension (ATP) is a collective insurance-based defined contribution scheme; the Special Pension (SP) savings scheme is a statutory savings-based scheme where contributions are paid to individual accounts. Compulsory occupational schemes negotiated as part of collective agreement cover about 90 per cent of the full-time employed workforce. By way of comparison, in the UK around half (47 per cent) of all employees are members of an occupational pension scheme (OECD, 2009a). The focus of this review was the Special Pension (SP).

2.6.1 Background to the introduction of the Special Pension

The SP was introduced in 1998, as a temporary forced savings arrangement to dampen economic activity and increase savings (Andersen and Skjodt, 2007). It became a permanent element of the pension system in 1999.

2.6.2 Description of the Special Pension scheme

The SP is a defined contribution pension scheme that is administered centrally by ATP (Andersen and Skjodt, 2007).

Scheme membership and contribution levels

From the introduction of the SP up to 2004, all employees, self-employed individuals and recipients of unemployment and sickness benefits aged between 16 and 64 were required by law to contribute one per cent of gross earnings

¹⁵ Accessed on 20/11/09 from www.tax-services.ca/rrsp-canada.html

to the SP. In contrast to the planned UK reforms, there were no lower or upper earnings thresholds for the scheme and there was no requirement for employers to contribute to the scheme (OECD, 2009a).

Contributions to the SP were suspended between 2004 and 2008. In 2009 it was decided to allow members to take out their SP savings in order to boost the Danish economy. The total value of the Special Pension at the beginning of 2009 was approximately DKK 45 billion (about £5.4 billion). It is reported that the vast majority of SP members have withdrawn their savings, with the remaining accounts expected to be paid out in spring 2010.¹⁶ The Danish Government presented draft legislation in November 2009 regarding the closure of the SP, which as noted already was a savings-based scheme where contributions were paid in to individual accounts.

Regulation and compliance

The Danish Financial Supervisory Authority supervises pension funds and insurance companies. We were unable to identify any information about compliance monitoring in relation to the SP scheme.

2.7 New Zealand

The public pension in New Zealand is a flat-rate pension (known as New Zealand Superannuation) based on a residency test. There are relatively low levels of coverage of private pension plans, either occupational or personal (OECD, 2009a). A new national occupational pension scheme, the KiwiSaver scheme, was introduced in 2007, and was the focus of this review.

2.7.1 Background to the introduction of KiwiSaver

KiwiSaver was introduced to address concerns about inadequate saving for retirement among New Zealand's population. A study carried out by the New Zealand Treasury concluded that about 20 per cent of the population aged 45-64 needed to save more for retirement (Hosking 2007, cited in Kritzer 2007). It was felt that middle-income New Zealanders were at particular risk of a substantial drop in their living standards at retirement unless they saved more (Toder and Khitatrakun, 2006). There were also fears that younger workers may have lower standards of living in retirement than current retirees and those approaching retirement, due to high levels of debt, student loans, child-bearing at later ages and potentially fewer mortgage-free homes (IBIS 2004, cited in Kritzer 2007).

The situation was exacerbated by the fact that New Zealand had relatively low levels of private pension saving. Following the withdrawal of tax concessions for private pensions in the late 1990s, coverage of occupational pension plans

¹⁶ Information accessed on 20 November 2009 from www.atp.dk/X5/wps/wcm/connect/53669380400b1f76a9ecbd5bc0466006/What+is+SP.pdf?MOD=AJPERES&CACHEID=53669380400b1f76a9ecbd5bc0466006

declined over time, from 22.6 per cent of the employed workforce in 1990 to 14.7 per cent in 2006. And, in 2006, only around five per cent of working age people contributed to a personal pension (OECD, 2009a). KiwiSaver was therefore introduced '*...to fill the gap in the retirement security system by creating a new employment-based saving plan in which most employees will participate*' (Toder and Khitatrakun, 2006: i).

Pension coverage in the UK is considerably higher by comparison. In 2006, around 47 per cent of UK employees were members of an occupational pension scheme and around 19 per cent had personal pension plans (with some having both) (OECD, 2009a).

The rationale for the introduction of KiwiSaver has been questioned by a number of academics, who used survey data to contest the idea that New Zealanders do not save enough for retirement (see, for example, Gibson and Le, 2008). The robustness of these findings has been challenged, however (Rashbrooke, 2009).

2.7.2 Description of KiwiSaver¹⁷

KiwiSaver is a system of subsidised defined contribution pension saving (Kritzer, 2007). From 1 July 2007, employers are legally required to automatically enrol eligible new employees into a KiwiSaver scheme. This is significantly different to the planned UK reforms, in which all eligible employees (not just new ones) will be automatically enrolled into a qualifying workplace pensions scheme (see Box 2.2).

KiwiSaver schemes are provided by banks, insurance companies and fund management companies, who administer and manage members' savings. In addition, employers can convert their existing employer-sponsored superannuation scheme to a KiwiSaver. They may also request an exemption from providing employees with access to a KiwiSaver scheme if their registered superannuation scheme meets certain criteria. These are set out in the KiwiSaver scheme rules, and all schemes have to meet these criteria, which include:

- the fees must not be unreasonable
- employee members must make a minimum contribution for each pay period (unless they are taking a contributions holiday);
- funds are locked in to the KiwiSaver end payment date (subject to other permitted withdrawals);
- members may, at any time, take a contributions holiday.¹⁸

¹⁷ Unless otherwise stated, the information on KiwiSaver reported in this section is drawn from www.kiwisaver.govt.nz

¹⁸ The full scheme rules are contained in Schedule 1 of the KiwiSaver Act 2006, which can be accessed from www.legislation.govt.nz

Scheme membership

All new permanent employees aged between 18 and 65 years have to be automatically enrolled into KiwiSaver by their employer. They have from the second to the eighth week of their employment to opt out of the KiwiSaver scheme but can opt back in through their employer or direct through a provider. Anyone under the age of 65, including self-employed individuals and those not in the workforce, may choose to set up a KiwiSaver account. In addition, parents can open a KiwiSaver account for their children. New Zealand government employees working outside the country may also opt into KiwiSaver.

While individuals are permitted only one KiwiSaver account, employees with multiple jobs can contribute to their account from each of their current jobs.

Contribution levels

It is mandatory for both employers and eligible employees to contribute to KiwiSaver, which is broadly similar to the planned UK reforms (see Box 2.3). An important difference, however, is that employees in New Zealand are required to contribute a proportion of their **gross** earnings, whereas under the planned UK reforms employee contributions will be based on their eligible earnings (a band between £5,035 and £33,540). Contributions made by employees and employers are collected via the PAYE system by the New Zealand Inland Revenue, which acts as a clearing house to distribute the contributions to KiwiSaver providers.

When KiwiSaver was first introduced in 2007, employees could select a monthly contribution rate of four per cent or eight per cent of their gross earnings (as noted in Box 2.3, the equivalent in the UK will be between zero and four per cent depending on the employer contribution). Employees who did not choose were automatically assigned a minimum four per cent contribution rate but could increase their contribution rate to eight per cent at any time. The Government provided two incentives to encourage employees to contribute to their KiwiSaver account: a dollar-for-dollar tax credit of up to NZD 1,040 (£470) per year per account holder, and a one-off tax-free payment of NZD 1,000 (£450) to each account. Employees also received an annual fee subsidy (NZD 40, about £20) to pay administrative costs. There are no equivalent incentives or subsidies in the planned UK reforms.

Employer contributions to KiwiSaver have been phased in over time. Up to 1 April 2008, employers had the option of paying part or all of an employee's KiwiSaver contribution. The employer's contribution of up to four per cent of the employee's gross earnings was tax-exempt to the employer.¹⁹ From 1 April 2008, all employers were required to contribute to an employee's KiwiSaver account, starting with one per cent of an employee's gross earnings in 2008 and increasing one per

¹⁹ Employers paid a special tax (specified superannuation contribution withholding tax) on any contributions to an employee's account over four per cent.

cent each year until the mandatory employer contribution reached four per cent of gross earnings by 1 April 2011. There are no earnings thresholds in respect of employer contributions, in other words they currently have to contribute two per cent of total gross earnings, unlike in the UK where employers will contribute a proportion of employees' qualifying earnings (see Box 2.3 for details). Up until 1 April 2009, the cost to employers of these mandatory contributions was offset by a tax credit of up to NZD 20 (£10) per employee per week (see Box 2.5).

It was proposed that, between April 2008 and March 2011, an alternative arrangement would be possible. If the employer and employee agreed, they were permitted to divide the employee's contribution, so that in 2008 each would contribute two per cent of the employee's gross earnings, rising to three per cent each in 2010 and four per cent each by 2011.

Following a change in government, a number of adjustments were made to KiwiSaver with effect from 1 April 2009. According to the National government's Finance Minister Bill English, these changes were introduced to '*... make the scheme more affordable for members, employers and taxpayers, especially in the current economic climate*'.²⁰ We have described some of the main changes in Box 2.5.

Box 2.5 Changes to KiwiSaver from 1 April 2009²¹

- The employer tax credit and the annual fee subsidy to KiwiSaver account holders were eliminated due to rapidly increasing costs because of higher-than-anticipated take-up.
- The minimum employee contribution was reduced to two per cent of gross earnings (from four per cent).
- The mandatory employer contribution increased to two per cent as planned, but would not increase further in future years.

Contribution holidays

Once they have been making contributions to a KiwiSaver account for 12 months, members can take a contribution holiday for a minimum of three months, up to five years at a time. Employees with a serious illness or experiencing financial hardship can take the contribution holiday before the end of the first year. Individuals who have contributed to KiwiSaver for three years or more may also be entitled to a first home deposit subsidy or withdraw some or all of their savings to buy a first home (see Section 10.7 for details).

There are no equivalent provisions in the planned UK reforms, although members will be able to opt out and opt in again on a limited basis (once every 12 months).

²⁰ Hon. Bill English, Finance Minister. *Changes make KiwiSaver more affordable for all*. Media Statement dated 10 December 2008, <http://taxpolicy.ird.govt.nz>

²¹ US Social Security Administration, International Update Service, July 2009.

Regulation and compliance

KiwiSaver is regulated in a similar way to other registered superannuation schemes in New Zealand, by the Government Actuary. In the UK, this function is carried out by The Pensions Regulator, which will also carry out compliance monitoring in relation to the planned reforms (Box 2.4). In New Zealand, the Inland Revenue is responsible for working with employers to help them meet their KiwiSaver obligations. The Inland Revenue issues a reminder where an error occurs (e.g. not deducting KiwiSaver contributions). This is followed by a notice warning the employer that they may be charged a penalty if they do not meet their obligations in the future. There are penalties for:

- failure to provide information to employees or the Inland Revenue;
- failure to make a correct KiwiSaver deduction when required to do so;
- failure to enrol a new employee eligible for automatic enrolment; and
- failure to make compulsory employer contributions.

The penalties are NZD 50 per month (around £20) for small employers and NZD 250 per month (£110) for large employers.²²

In addition, standard tax penalties and knowledge offences (i.e. knowingly breaching a tax obligation) apply where either a KiwiSaver employee deduction or compulsory employer contribution is not paid to the Inland Revenue or is paid late. In these circumstances, the employer is subject to late payment penalties, late filing penalties and use-of-money interest.²³

2.8 Norway

The public pension system in Norway consists of a flat-rate basic pension and an earnings-related supplementary pension. Pensioners with little or no earnings-related pension are entitled to a special supplement that is income-tested against their earnings-related pension. A mandatory occupational pension was introduced in 2006, as part of a wider package of reforms, and this was the focus of our

²² Employers that **knowingly** fail to deduct KiwiSaver contributions when required, from any payments made to employees, can be fined up to NZD 25,000 (around £11,270) for a first offence and NZD 50,000 (around £22,500) for subsequent offences (www.ird.govt.nz).

²³ These are the same penalties that apply in relation to PAYE deductions. The penalty for late filing is NZD 250 (£110). Penalties for late payment are one per cent on the day after the due date. A further four per cent penalty is applied if there is still an amount unpaid (including penalties) at the end of the seventh day from the due date. Every month after the due date, a further one per cent is added to any unpaid amount (including penalties). From February 2009, the use-of-money interest underpayment rate is 9.73 per cent, and the overpayment rate is 4.23 per cent (www.ird.govt.nz).

review. Around 60 per cent of employees are covered by voluntary occupational pensions schemes (OECD, 2009a).

2.8.1 Background to the introduction of mandatory occupational pensions

The introduction of mandatory occupational pension schemes in Norway was driven by concerns about significant population ageing and the fiscal sustainability of the public pension system. It was estimated that Norway would experience one of the sharpest increases in public expenditure as a proportion of Gross Domestic Product (GDP) after 2010, and long-term projections showed that Norway faced a serious problem of fiscal sustainability as ageing boosted government expenditures after 2020 (Fredriksen *et al.*, 2005).

Added to this, coverage of occupational pensions was considered to be patchy. While occupational defined benefit pension schemes were universal in the public sector, coverage of the private sector workforce was much lower. Estimates of the proportion of private sector workers with an occupational pension plan ranged from between a third (Bellone and Bibbee, 2006) to around 40 per cent (Risku and Vidlund, 2008), which is much higher than estimated coverage in the UK.²⁴ And, while occupational pension schemes were common among large private sector organisations, they were rare among smaller employers.

2.8.2 Description of mandatory occupational pensions

The 2005 Mandatory Occupational Pensions Act legislated for a shift from voluntary to mandatory provision of occupational pension schemes in Norway. The schemes can be defined benefit or defined contribution, but have to meet certain minimum requirements. The obligation does not apply to private sector companies that have already implemented pension plans or operate schemes in accordance with legislation or with collective local or national public sector agreements (OECD, 2009b). Occupational pension schemes may be implemented through a range of providers including pension funds, life insurance companies, banks or mutual funds. These providers are responsible for the administration of the contributions and benefits (ISSA/IOPS/OECD, 2008).

Scheme membership

Unlike the planned UK reforms, membership of an occupational pension scheme is compulsory for eligible employees in Norway and they cannot opt out. All

²⁴ We estimate that 16 per cent of employees in the private sector are active members of an occupational pension scheme, based on figures produced by the Office for National Statistics. Labour market statistics published in January 2010 indicated 22.83 million people in private sector employment. According to the Occupational Pension Schemes Annual Report 2008, there are 3.6 million active members of occupational pension schemes in the private sector (Levy, 2009).

employees over the age of 20 must be covered, but newly hired employees with less than 10 years' service before reaching retirement age can be excluded if this is established as a general scheme rule. Part-time workers must be covered if they work at least 20 per cent of full time working hours, and seasonal workers must be covered if they work at least 20 per cent of full-year employment. The self-employed are not covered, and they cannot establish profession-wide schemes (ISSA/IOPS/OECD, 2008).

Contribution levels

In Norway, employers are legally required to contribute to their employees' defined contribution pension plans, whereas employees are not.

From 2006, employers must make a minimum contribution to a defined contribution plan of two per cent of their employees' earnings (compared in the UK to a minimum of three per cent for employers, and a minimum eight per cent in total). If employers offer a defined benefit scheme instead, the benefits must be at least the same level as those expected under the mandatory two per cent contribution. As in the planned UK reforms, there are lower and upper earnings thresholds in respect of employer contributions. So that in Norway, contributions are only required on earnings between the basic amount and 12 times the basic amount (OECD, 2009a).²⁵

In addition to the compulsory employer contribution, the mandatory pension schemes also have to contain an insurance element to ensure that employees continue to accrue pension entitlements in the event of an employee's disability (Risku and Vidlund, 2008). Employees are not generally required to contribute to the pension plan; in the instances where they are, this does not reduce the employer's required minimum contribution (Risku and Vidlund, 2008). In contrast, under the planned UK reforms employees may have to contribute up to four per cent of qualifying earnings, depending on their employers' contribution (Box 2.3).

Regulation and compliance

Norway operates a rather different model of ensuring compliance to that planned in the UK. Under the 2005 legislation, the Financial Supervisory Authority of Norway (FSAN) can order companies that do not have a pension scheme that complies with the Act to rectify this within a set deadline. If such an order is not complied with by the deadline, FSAN can decide that the company should pay a cumulative fine until the situation is rectified (FSAN, 2008). In addition, employers must affiliate eligible employees to a pension scheme. If they do not comply with this requirement, sanctions are applied (ISSA/IOPS/OECD, 2008).

²⁵ Many benefits under the Norwegian National Insurance Scheme are determined in relation to the basic amount (G), which was NOK 62,161 in 2006 (OECD, 2009.) or around £6,670. This amount is adjusted by parliament each year, in accordance with changes in the general income level (Risku and Vidlund, 2008).

2.9 Poland

Prior to the pension reform of 1999, Poland operated a pay-as-you-go public pension system. A new public pension system was introduced in 1999, which is based on a system of notional accounts.²⁶ Younger workers are also required to participate in the funded (or defined contribution) scheme. Older workers could choose the funded scheme option (OECD, 2009a). The mandatory defined contribution scheme in Poland was the focus of this review.

2.9.1 Background to the introduction of mandatory defined contribution pensions

Poland is an example of the introduction of mandatory defined contribution pension saving as a substitute for part of the public pension system. As such, it provides a complement to the publicly managed notional accounts scheme in the new public pension system.

The main motivations for pension reform in Poland were to deliver longer-term fiscal sustainability by reducing the public sector liabilities linked to an ageing population, and to create positive economic externalities (or side effects) by stimulating the proper functioning of Poland's capital markets (Pater, 2005 cited in Duszczuk and Wisniewski, 2006).

2.9.2 Description of mandatory defined contribution pensions

Employees who are required or choose to join the defined contribution pension scheme in Poland become members of an open pension fund. Open pension funds are independent legal entities created and managed by a pension fund society. Open pension funds may market pension funds themselves, or through domestic banks, insurance companies, brokerage houses, insurance agents or the state postal service, Poczta Polska (ISSA/IOPS/OCED, 2008).

Scheme membership

Scheme membership in the reformed Polish system is markedly different to the planned UK reforms. The new pension system in Poland covers employees and self-employed people (excluding farmers) born after 31 December 1948. Employees and self-employed people born in 1969 or after (i.e. aged 30 or less at the time of the reform) must participate in the defined contribution scheme as well as the notional accounts scheme and cannot opt out. Older workers aged between 30 and 50 at the time of the reform (i.e. born between 1949 and 1968) could choose to participate in the defined contribution scheme. This choice had to be made in 1999 and, with a few exceptions, was irrevocable (OECD, 2009a).

²⁶ Notional accounts are designed to mimic a defined contribution plan. Pension contributions are tracked in accounts which earn a rate of return. However, the return that contributions earn is a notional one, set by the government, not the product of investment returns in the markets. (Accessed from World Bank Pension Primer: <http://siteresources.worldbank.org/INTPENSIONS/Resources/395443-1121194657824/PRPNoteNotionalAccts.pdf>)

Contribution levels

In total, contributions to the reformed pension system account for 19.52 per cent of employees' taxable income, with employers and employees each paying half. Of that amount, 12.22 per cent goes into the public notional account scheme, with 9.76 per cent paid by employers and 2.46 per cent by workers. The remaining 7.3 per cent is credited to a defined contribution pension plan, which (in contrast to the proposed system in the UK) is paid entirely by the employee (OECD, 2009b).

In Poland there is an upper threshold on qualifying earnings in respect of contributions but, unlike the planned UK reforms, no lower threshold. For employees, the maximum earnings for contribution purposes are 250 per cent of national average monthly earnings. For self-employed individuals, the minimum insured income is 60 per cent of national average monthly earnings (ISSA/IOPS/OECD, 2008).

Regulation and compliance

The mandatory defined contribution pension scheme in Poland is regulated by the Ministry of Labour and Social Policy. The Social Insurance Institution (ZUS) collects and distributes employees' contributions to the public pension system. We were unable to identify any information about employee compliance, although the telephone interviews suggested that it was not a major concern. Open pension funds have to accept all applications for membership from eligible individuals (ISSA/IOPS/OECD, 2008). Again, we were unable to find any information about the monitoring or enforcement of this requirement.

2.10 Sweden

A new pension system was introduced in Sweden in 1999, which consists of an earnings-related element based on a system of notional accounts and a small mandatory contribution to the Premium Pension, a defined contribution pension scheme. The Premium Pension was the focus of our review. There is also an income-tested pension top-up (OECD, 2009a).

2.10.1 Background to the introduction of the Premium Pension

Prior to the 1999 reforms, the Swedish pension system consisted of a relatively low-value flat-rate basic pension and a comparatively generous earnings-related supplementary pension based on 60 per cent of the best 15 years' income, up to a limit (Scherman, 1999). The aim of the reform was to design a fiscally sustainable system tied to economic growth, which had a clear link between contributions and benefits (Sundén, 2006). Unlike some of the other case study countries, occupational pension plans in Sweden have traditionally had broad coverage. In the UK, we estimate that around 31 per cent of employees are active members of

occupational pension schemes, with much higher coverage in the public than the private sectors.²⁷

2.10.2 Description of the Premium Pension

The Premium Pension was one element of Sweden's pension reform in 1999, which aimed to increase pension saving. It comprises a relatively small element of Sweden's public pension system overall, in terms of contribution rates. Until recently, the Premium Pension was run by a public organisation, the Premium Pension Authority (known as the PPM in Sweden). Any pension fund registered to do business in Sweden could register with the PPM. In January 2010, Sweden's two pension regulators were combined into a single Pensions Authority, which incorporates the PPM.

Scheme membership

The rules for scheme membership in Sweden are markedly different to those planned in the UK. The reformed pension system (including the Premium Pension) applies to people born in 1954 and after (i.e. aged 45 or under in 1999), who are required to contribute to the Premium Pension and cannot opt out. People born between 1938 and 1953 receive pensions under a mix of the old and new rules.

Contribution levels

Contributions of 18.5 per cent of pensionable pay are credited to the pension system then uprated. Pensionable pay is defined as earnings less the employee contribution to the pension system of seven per cent gross earnings. This gives an effective contribution rate on gross earnings of 17.21 per cent, 14.88 per cent to the notional accounts system and 2.33 per cent to the Premium Pension system (OECD, 2009b). As such, the contribution to the Premium Pension Plan is relatively small, and considerably less than the eight per cent minimum total contribution planned in the UK. As far as we could ascertain, employers and employees contribute equally to the Premium Pension.

Unlike the planned UK reforms (which have an upper and a lower threshold), there is a lower earnings threshold on contributions to the Swedish pension scheme, but no upper threshold. Contributions are only levied when annual earnings exceed a floor (SEK 16,800 in 2006, or just over 5.2 per cent of average earnings which is around £1,460), and are due on the whole of earnings above this floor.

²⁷ This is based on figures produced by the Office for National Statistics. Labour market statistics published in January 2010 indicated 22.83 million people in private sector and 6.09 million in public sector employment. According to the Occupational Pension Schemes Annual Report 2008, there are nine million active members of occupational pension schemes in the public and private sectors (Levy, 2009).

Regulation and compliance

The Pensions Authority makes all transactions on behalf of members, keeps individual accounts, provides customer services, and has daily contact with funds in system (Palmer, undated). We were unable to identify any information regarding the compliance monitoring system.

2.11 Uruguay

Legislation in 1995 reformed Uruguay's pay-as-you-go old age pension system to create a new mixed system consisting of a publicly managed social insurance scheme and a mandatory defined contribution pension scheme that was privately managed.

The latter was the focus of this review.

2.11.1 Background to the introduction of mandatory defined contribution pensions

Uruguay is another example (like **Poland**) of the introduction of mandatory defined contribution pension saving as a substitute for part of the public pension system. The key driver for pension reform in Uruguay, as elsewhere, was an unsustainable pay-as-you-go system. Prior to pension reform, public pension payments in Uruguay were running at 15 per cent of GDP (Schmidt-Hebbel, 1999).

2.11.2 Description of mandatory defined contribution pensions

Eligible individuals in Uruguay must become members of a mandatory defined contribution pension scheme by signing an affiliation agreement with a pension fund administrator (known as an AFAP in Uruguay). Pension fund administrators or AFAPs are public limited companies that create and manage one pension fund. AFAPs can be established by certain public institutions (such as the Mortgage Bank of Uruguay) or private institutions that act as financial intermediaries (i.e. banks) under the Central Bank of Uruguay (ISSA/IOPS/OCED, 2008). There are four AFAPs in Uruguay, the largest of which is state-owned, while the other three are private entities.²⁸

Scheme membership

The scheme membership rules for the reformed Uruguayan pension system are markedly different to the planned UK reforms. Participation in the new mixed system of public pension provision (which includes contributing to a defined contribution pension plan) is mandatory for public and private sector employees and self-employed people who earn UYU 12,951 per year or more (around £360) and are new entrants to the labour force. Those earning less than this amount are only covered by the public social insurance scheme, but can join a defined contribution pension plan on a voluntary basis (ISSA/IOPS/OCED, 2008).

²⁸ Information taken from a presentation by Rodolfo Saldain, presented at the Federal Reserve Bank of Atlanta 2006 Conference.

Contribution levels

As is the case with the planned UK reforms, in Uruguay employee contributions are required on earnings within a certain band, rather than all earnings. In total, members in Uruguay contribute 15 per cent of their annual earnings between UYU 12,951 and UYU 38,854 (£360 to £1,070) to the pension system. The allocation of contributions between the publicly managed social insurance scheme and the defined contribution pension plan is based upon the individual's gross monthly earnings and whether or not they have opted to pay into a defined contribution pension plan (ISSA/IOPS/OECD, 2008). Members can also make additional voluntary contributions, as planned in the UK.

In contrast to the planned UK reforms, employers in Uruguay are generally not required to contribute to their employee's mandatory defined contribution pension plans, although they may make voluntary contributions. They must, however, make bonus contributions on part of the annual salary (between UYU 12,951 and UYU 38,854 or £360 to £1,070) for employees working in particular legally specified occupations. The contribution rate depends on the nature of the work (ISSA/IOPS/OECD, 2008).

Regulation and compliance

Uruguay's Social Insurance Bank supervises and enforces coverage among the eligible workforce. AFAPs must not refuse any application for membership from eligible individuals. We were unable to identify any information regarding the compliance monitoring system.

2.12 Conclusion

The eight case study countries selected for inclusion in this review represented a range of pension schemes to promote private pension saving, most (with the exception of **Canada**) the result of pension reform instituted in the last 20 years. The desire to increase private pension saving was generally driven by concerns about the rising cost of public pension systems in the face of ageing populations, while at the same time wanting to raise standards of living in retirement. The low coverage of private pension saving was often an issue as well.

The aim of pension reform was therefore to encourage widespread participation in private pension saving among workers, typically through mandatory participation. It was, however, common for case study countries to have eligibility floors in terms of the age or income of workers who could participate. Except in Canada, where RRSPs are entirely voluntary, there was also an element of compulsion in terms of contributions, with employees and/or employers required to make at least a minimum contribution to pension saving.

3 Implementation

This chapter describes the issues and challenges of introducing new pension schemes (or changes to pension schemes) faced by some of the case study countries. There seem to be three key challenges to overcome in order to implement a new scheme: the legislative process, stakeholder support and the practicalities of setting up a new scheme. Overall, the main lesson to emerge from the case study countries is that it is important to allow sufficient time: hasty implementation may lead to problems later on.

This chapter mainly draws on the experience of six of the eight case study countries: **Australia, New Zealand, Poland, Norway, Sweden** and **Uruguay**. In **Canada** there appeared to be few implementation issues as the Registered Retirement Savings Plan (RRSP) scheme was an entirely voluntary scheme that simply extended existing voluntary pension provision. Nor did we find any information about challenges to implementing the Special Pension (SP) in **Denmark**. In this case it seems that the marginal nature of the SP (the level of potential savings was very small relative to the fairly generous state pension arrangements) and the fact that it was originally introduced as a temporary measure, meant that the scheme was not very controversial.

3.1 Legislative process

The experience of several case study countries highlights the lengthy legislative process that may be required to introduce new pension schemes. This in turn can result in a compressed timetable to get a scheme up and running.

In **Australia**, the Superannuation Guarantee legislation was introduced in 1992 in what seemed to be a relatively straightforward process. In the 1996 election, the government promised to offer individual workers a choice of up to five types of superannuation fund (see Section 10.3 for details). It took eight years for this legislation to be passed, following protracted debate and consultation. While the concept of fund choice was generally accepted as desirable, debate centred on fund charges and a perceived lack of adequate consumer protection. To counter the criticism of high charges on accounts with low balances, the government

proposed to regulate the fees charged on small-value superannuation accounts, to ensure that the fees never exceeded the fund returns (Bateman and Piggott, 2001). The government addressed the concern for consumer protection by allocating funding for consumer education and improving disclosure information (Gallery and Gallery, 2005).

In **Norway** the new system of mandatory occupational pensions was the subject of extensive consideration and debate. A Pension Commission was established in 2000 and reported in January 2004. It did not, however, include proposals for mandatory occupational pensions, although they were discussed. Mandatory occupational schemes were subsequently introduced in a government White Paper issued in December 2004. Enabling legislation was passed in May 2005. This established a very challenging implementation timetable (Bellone and Bibbee, 2006; Andresen, 2006).

The Banking Law Commission in Norway was given the tasks of preparing a report on the proposed scheme and drafting new legislation. The report was sent out for public consultation at the beginning of July 2005 with a six-week deadline for comments. The Commission proposed that companies would have to establish a scheme meeting the minimum requirements by the end of 2006, and that scheme must have economic effect for employees from July 2006 or earlier (Ministry of Finance and Ministry of Labour and Social Inclusion, 2005).

In **Poland**, discussion about the reform of the Polish social security system began shortly after the 1989 parliamentary election. An alternative to the pay-as-you-go pension scheme was finally introduced in 1999 (Zalewska, 2006).

Two options for reform were considered in Poland: the first assumed the introduction of slight changes, which would deprive certain social groups of separate pension rights. The second assumed the introduction of a completely new system based on the privatisation of the public pension system (as occurred in Chile, for example). In the end, new rules were developed which combined existing elements of the pension system alongside the introduction of the mandatory private pension saving (Duszczuk and Wisniewski, 2006).

Following this lengthy period of discussion, the Polish reforms were approved in a short space of time, although the resolution of some details was postponed (Guardiancich, 2004). Legislation regarding the pay out of retirement savings under the open pension fund scheme was only passed in January 2009 (see Section 10.6).

In contrast, pension experts we spoke to in **New Zealand** highlighted the speed with which the KiwiSaver legislation was enacted and the policy implemented. The driving force behind the process was considered to be the Finance Minister at the time, Michael Cullen.

'It was really down to Michael Cullen being determined that this was going to happen and some fairly clear ideas as to what he thought it would look like and saying to people, you know, now go and build this for me.'

(Pension expert, New Zealand)

As a result, the whole process from policy conception to implementation was completed in around seven months.

3.2 Stakeholder support and engagement

The greatest resistance to pension reform among the case study countries appeared to be in **Uruguay**, where there has traditionally been strong public support for state intervention. Proposals to change the existing pay-as-you-go system were met with considerable public opposition. The general public forced a referendum on the issue and rejected a proposal for the privatisation of the state pension system. At a later stage, private investment accounts were permitted but not at the cost of eliminating the public pension programme (Huber and Stephens, 2000).

In **Australia**, the introduction of the Superannuation Guarantee in 1992 was mainly opposed by small businesses, arguing that it would constrain the growth in employment (Sinha and Benedict, 1993). To counter this, the government undertook a major public information campaign, which included direct communications to all businesses, as well as newspaper, radio and television advertising. This seemed to make little impact on the attitudes of those running small businesses (Sinha and Benedict, 1993). Small businesses also opposed the later introduction of choice of fund. They were particularly concerned about the additional administrative burden (Council of Small Business Organisations of Australia, 2005). As we go on to discuss in Chapter 5, the concern that administrative costs would result in job losses does not appear to have been borne out.

In **New Zealand**, early evidence indicates that the introduction of KiwiSaver was generally well supported, even though it was implemented in a short period of time. This seems due in large part to the communications and engagement strategy that was undertaken to inform the various stakeholders involved (see Chapter 8 for details), a view supported by one of the pension experts that we interviewed.

'... there was a concerted effort by the Inland Revenue to make it smooth and easy and a lot of engagement and the communication around the development of Kiwi Saver was quite intensive and that was very important.'

(Pension expert, New Zealand)

An evaluation of the first six months of the KiwiSaver scheme found that employers and their employees were positive about the way the scheme was introduced (Inland Revenue, 2008a). Among the public, two-thirds of potential contributors thought they had been given enough information to make a decision about KiwiSaver (Colmar Brunton, 2008a). Most employers (86 per cent) felt

informed about their obligations under the scheme; owner-operators of small businesses were less likely to be fully informed about their obligations (Colmar Brunton, 2008b). Employers generally found the implementation of KiwiSaver straightforward (Inland Revenue, 2007).

A qualitative study of KiwiSaver scheme providers to assess the effectiveness of government communications about the scheme prior to its introduction found a perception that implementation was considered a big challenge for them as providers and for the Inland Revenue. Timescales were short and presented the biggest problem. The Inland Revenue, however, was perceived to be listening and consulting. The Relationship Manager positions that had been established were particularly valued (Colmar Brunton, 2007).

There has, however, been criticism of the way in which KiwiSaver was implemented from academics who are generally opposed to the policy.

'The biggest failing of KiwiSaver lay in the way it was introduced – in haste, un-researched and un-debated.'

(Gibson, Hector and Le, 2008).

In Sweden, the government launched an extensive information and communications campaign around the introduction of Premium Pension. This included a detailed brochure that described the new scheme, public service announcements on radio and television and in newspaper, seminars that discussed the new pension and a website. Despite this, surveys have shown that it had a limited impact with less than 40 per cent of people indicating that they had a good understanding of the new system (Sundén, 2006).

3.3 Practical set-up issues

In **New Zealand**, the official evaluation of the implementation phase concluded that employers found implementing KiwiSaver straightforward (Inland Revenue, 2007), that individuals responded positively and that the administrative systems stood up well despite the higher than expected volumes of business (Inland Revenue, February and September 2008). A pension expert that we interviewed in New Zealand felt the policy had been well structured across the participating government departments, a key factor in implementing KiwiSaver in a short time period. The fact that an existing system could be used to collect employee and employer contributions (i.e. by Inland Revenue through the PAYE system) also seems to have been an important factor.

In **Poland**, the practical issues of implementing a new system of mandatory private pension saving were largely driven by levels of participation that exceeded all expectations. It is reported that the Social Insurance Institution (ZUS) experienced problems with the collection and distribution of contributions (Guardiancich, 2004), at least initially. These difficulties highlight the extensive bookkeeping systems required to record the contributions made on behalf of every worker on

a monthly basis. New accounts also had to be integrated with other benefits. The lessons from Poland (and Hungary, which worked to similar short deadlines during the implementation programme) indicate that it is important to plan all the features of a new system in advance and to provide genuine public education for workers. In both Poland and Hungary, heavy pressure to get new accounts up and running led governments to defer some of these issues, as mentioned above (Fultz, 2003).

In **Australia**, while the initial implementation of Superannuation Guarantee seems to have been straightforward, concerns have since been raised about the poor quality of information that employers supply with employee contributions, which can create difficulties in matching contributions to members' accounts. The Association of Superannuation Fund of Australia has made a range of recommendations to improve the operation and efficiency of the system, among them the need for a minimum data requirement or standard for superannuation contributions and rollovers (i.e. when members rollover their savings between superannuation funds) (ASFA, December 2009).

3.4 Conclusion

The key implementation challenges faced by some of the case study countries were the length of the legislative process, opposition from stakeholders and the logistics of setting up and running a new or reformed pension system.

Three main conclusions seem to flow from the experience of case study countries with regard to the implementation of pension reform. First, pension arrangements are both complex and critical for individuals and for society as a whole. Changes need to be debated thoroughly. This takes time, but the benefits of building a consensus around the proposed changes are considerable.

Secondly, unless existing systems can be used, it takes time to establish appropriate and robust administrative systems. The more complex the system and the greater the volume of business involved, the longer is the time required.

Finally, three quite different sets of stakeholders need to be managed: individuals, both potential contributors and those who will be excluded from the scheme; employers; and the providers of pensions.

4 Outcomes and reactions: Individuals

This chapter examines the outcomes and reactions to pension reform and pension schemes among individuals. We explore three issues: participation in pension schemes, contribution levels, and impact of pension saving on income and living standards in retirement.

While we have been able to identify information on levels of participation and contribution rates, there seems to be relatively little information on how participation and contributions by individuals can be encouraged. There is also fairly limited evidence about the impact on income and living standards in retirement.

4.1 Participation

In four of the eight case study countries, there is an element of choice in terms of participation in the particular pension schemes we looked at:

- **New Zealand**, where eligible employees are automatically enrolled in KiwiSaver but can opt out, and other individuals can join KiwiSaver voluntarily;
- **Uruguay and Poland**, where older workers could opt in to a defined contribution pension plan; and
- **Canada**, where participation in Registered Retirement Savings Plans (RRSPs) is entirely voluntary.

In the other four case study countries (**Australia, Denmark, Norway and Sweden**) participation is mandatory in the schemes we looked at. In these countries, therefore, we consider the extent to which pension coverage was extended.

4.1.1 Voluntary participation

In **New Zealand, Uruguay and Poland**, voluntary participation in the reformed pension schemes was much higher than anticipated.

In **New Zealand**, KiwiSaver was forecast to have 346,000 members at the end of its first year (i.e. end 2008). In fact it had more than twice that number, with a total of 716,637 (Inland Revenue, 2008b). Of these, 38 per cent had been automatically enrolled (and not opted out), 38 per cent had opted in through a provider, and 24 per cent had opted in through their employer (Inland Revenue, 2009). The higher level of membership has been attributed to the financial incentives available, favourable changes in the taxation of investment income and an effective communications strategy (Inland Revenue, 2008b). In the telephone interviews with pension experts, the incentives to join KiwiSaver were seen as the primary driver for high participation rates, with publicity also playing a role.²⁹

'I think, you know, the \$1,000 kick-start and the Tax Credit are quite attractive and why wouldn't you if you can afford it, and there was a lot of publicity and media around it, so it was quite attractive.'

(Pension expert, New Zealand)

Previous research also indicates that participation rates are much higher when employees are required to opt out (e.g. after being automatically enrolled) instead of opting in (Toder and Khitatrakun, 2006).

By the end of the second year (30 June 2009), KiwiSaver membership had grown 54 per cent to 1,100,540, or an estimated 29 per cent of the eligible population (Inland Revenue, 2009). During the second year, there was a strong rise in opt-ins direct through a provider (74 per cent increase on year one), largely driven by the ongoing enrolment of children. There was also considerable growth in automatic enrolment (56 per cent increase), with less strong growth among those opting in through an employer (16 per cent increase). This meant that, by the end of the second year, 43 per cent of members had opted in via a provider, 18 per cent opted in via their employer and 39 per cent were auto-enrolled (Inland Revenue, 2009).

In the first two years of operation, the proportion of people opting out of KiwiSaver after they were automatically enrolled stayed steady at 34 per cent (137,762 people in year one, and 221,045 in year two) (Inland Revenue, 2009). The main reason cited for opting out was the minimum contribution rate of four per cent of earnings (Inland Revenue, 2008b), which has since been reduced to two per cent. Details about the KiwiSaver membership profile are provided in Box 4.1. We were unable to find any information about the characteristics of people who were automatically enrolled but subsequently opted out.

²⁹ Pension experts in New Zealand also reported that take-up was estimated at a time when the KiwiSaver policy did not include the annual member tax credit of up to NZD 1,040 (£470), which was added subsequently.

Box 4.1 KiwiSaver membership profile³⁰

- The gender breakdown over the two years of KiwiSaver has been the same, with 52 per cent of the membership base female and 48 per cent male.
- Over time, the age profile of people joining KiwiSaver has changed, with a decreasing proportion of individuals aged 45 and over enrolling, and an increasing proportion of individuals under 25 enrolling. Around one in five KiwiSaver members (17 per cent) are children aged under 18 (Feslier, 2009).
- The KiwiSaver membership is over-represented among those aged between 19 and their mid-20s compared with the eligible population. This is attributed to the effectiveness of automatic enrolment in encouraging participation among younger people.
- The membership also comprises a higher than average proportion of people in their 50s and 60s, reflecting high take-up among this group in the first year.
- The income distributions of KiwiSaver members and the eligible population are similar.
- The income distribution of those who are automatically enrolled, however, is skewed towards the lower end compared with those who opted in through a provider or employer, due to the younger age profile of those who were automatically enrolled.
- Two-thirds (66 per cent) of those who were automatically enrolled had incomes of up to NZD 30,000 (£13,520) for 2008, compared with 27 per cent of those who opted-in through their employer.

Under the reformed pension system in **Poland**, membership of an open pension fund was mandatory for younger workers and new labour market entrants, but voluntary for older workers. According to a paper presented at the 2008 European Pensions and Investments Conference, it was projected that 50 per cent of the labour force would join an open pension fund, but 80 per cent did so, equating to almost 10 million people (Sierhej, 2008). In 2006, it was estimated that 12.4 million people (77.1 per cent of the labour force) were members of open pension funds (OECD, 2009b). The telephone interviews with pension experts indicate that high take-up was driven by the expectation of improved retirement benefits from private pension saving and the fact that these retirement benefits could be bequeathed to a family member.

In **Uruguay**, participation in the private pension element of the country's reformed pension system was mandatory for workers above a certain level of income, but voluntary for those with incomes below this level. According to Palacios and Whitehouse (1998), the government had anticipated that, at most, an additional

³⁰ This information is drawn from Inland Revenue (2009) except where indicated.

50,000 people would voluntarily switch to the mixed system of a publicly managed social insurance scheme and a mandatory defined contribution pension scheme. By the end of 1996, however, the number of voluntary switchers was six times higher than official projections. By mid-1997, over 400,000 workers had joined the new scheme. There seems to be little in the available literature to explain this higher-than-anticipated voluntary take-up. Analysis conducted by the Inter-American Development Bank, however, indicated that workers aged under 40 would benefit from participating in the mandatory defined contribution scheme (Marquez, 1997, cited in Palacios and Whitehouse, 1998).

In **Canada**, the pension scheme we looked at was the entirely voluntary RRSP. Data from Statistics Canada's Survey of Financial Security indicates that, in 2005, six in 10 families held RRSPs. Ownership of RRSPs was more common among families in the pre-retirement years than younger families. And while 90 per cent of families with higher levels of net income (CAD 85,000 or more after tax had been deducted) held RRSPs, this was true of only 35 per cent of families with lower incomes (under CAD 36,500) (Pyper, 2008).

4.1.2 Mandatory participation

In three of the four case study countries that introduced mandatory contributions to private pension schemes (**Australia, Denmark and Norway**), we identified some information about the extent to which pension coverage has been extended as a result of the reforms. To date, we have not been able to find any equivalent information for Sweden.

Since 1992, employers in **Australia** have been required to contribute to the private pension plans of employees earning above a certain threshold. As a result, the proportion of employed people with superannuation coverage increased from 62 per cent in 1988 to 91 per cent in the period April-July 2007 (Australian Bureau of Statistics, 2009). Official statistics for 2004 indicated that coverage was high among private sector employees, women and part-time workers but lower among those with the lowest earnings (Barrett and Tseng, 2007). Analysis of national survey data also highlights a lack of superannuation funding among self-employed Australians (Clare, 2008a).

Various studies highlight the issue of multiple superannuation accounts held by Australians, which occur when members leave or change jobs or hold more than one job consecutively. It is estimated that the average number of accounts for every worker is three. This gives rise to the problem of 'lost accounts', when a superannuation fund loses track of the member and the member takes no action to contract the fund. An estimated AUD 12.9 billion (£6.5 billion) of superannuation assets in around 6.4 million accounts (one-fifth of superannuation accounts in Australia) were reported as being lost at the end June 2008 (Australian Tax Office (ATO) statistics, cited in Bateman, 2009).

The 2005 Mandatory Occupational Pensions Act in **Norway** requires employers to make a minimum contribution to an occupational pension scheme for their eligible employees. It is estimated that between 550,000 and 600,000 people who previously did not have occupational pension coverage were brought into the new system.³¹ In 2007, over 90 per cent of the labour force was covered by the mandatory occupational pension system (OECD, 2009b).

Between 1998 and 2004 in **Denmark**, employees, the self-employed and certain benefit recipients were required to contribute one per cent of earnings to the Special Pension (SP). In 2004, coverage of the SP totalled 3.4 million people or 84 per cent of the Danish population aged between 16 and 64 years (Andersen and Skjodt, 2007). Between 2004 and 2008, contributions to the SP scheme were suspended by law and statistics indicate that, by 2007, the number of Special Pension account holders had fallen to around three million (ATP, 2007).

4.2 Contribution levels

In four of the eight case study countries (**Denmark, Poland, Sweden, Uruguay**), eligible individuals are required to contribute a set proportion of their earnings to a defined contribution pension plan. The telephone interviews with pension experts indicated that eligible individuals in these countries cannot contribute more than the legally set amount. If people wish to voluntarily save more for retirement, therefore, they have to make private provision, e.g. in a personal pension.

Individuals in **New Zealand** who are automatically enrolled or opt in to KiwiSaver are legally required to make a minimum contribution. In the first year, this was four per cent of gross earnings. In the second year, it was reduced to two per cent of earnings (although members can choose to contribute four per cent or eight per cent). According to the national government's Finance Minister, this was intended to make the scheme more affordable for employees, particularly those on lower incomes and, alongside a number of other changes (see Box 2.5) to make the scheme more sustainable for New Zealand.³²

At the end of June 2009, most members were contributing at four per cent of their salary or wages to their accounts (the original default rate). Twelve percent were contributing at the new default rate of two per cent (Inland Revenue, 2009). Of those who joined KiwiSaver since the changes came into force on 1 April 2009, approximately half were contributing two per cent, and just less than half had chosen to contribute four or eight per cent. Of those who joined before 1 April

³¹ To provide some context for these figures, the population of **Norway** at 1 October 2009 was 4.8 million, of which around 3.2 million were aged between 16 and 66 (Statistics Norway, www.ssb.no/folkemengde_en/tab-2009-03-12-01-en.html).

³² Hon. Bill English, Finance Minister. *Changes make KiwiSaver more affordable for all*. Media Statement dated 10 December 2008, <http://taxpolicy.ird.govt.nz>

2009, most had not changed their previous contribution rate from four per cent (Inland Revenue, 2009).

However, of the total 1.1 million KiwiSaver members at the end of June 2009, 77 per cent were contributing members, 1.5 per cent were not contributing because they were on a contribution holiday, and 21 per cent were not contributing for some other reason (Government Actuary, 2009). While these other reasons are not stated, we assume they might include job loss. The majority (94 per cent) of KiwiSaver accounts opened on behalf of children do not receive any contributions. There is also a growing number of individuals on long five-year contribution holidays (Inland Revenue, 2009).

Employers in New Zealand are also legally required to make at least a minimum contribution to eligible employees KiwiSaver accounts. The majority of employees (90 per cent) receive the minimum two per cent contribution from their employer (Inland Revenue, 2009).

In terms of the amounts contributed to KiwiSaver, of the total member contributions in 2008/09 (NZD 1.3 billion or around £0.6 billion), employee deductions represented 72 per cent (NZD 917 million, £410 million), employer contributions 28 per cent (NZD 355 million, £160 million) and voluntary contributions 0.5 per cent (NZD 6 million, £2.7 million). At the end of the second year of operation, a total of NZD 3.1 billion (£1.4 billion) had been contributed, 45 per cent from the government (NZD 1.4 billion or £0.6 billion), 42 per cent from members (NZD 1.3 billion, £0.6 billion) and 13 per cent from employers (NZD 0.4 billion, £0.2 billion) (Feslier, 2009).

The Superannuation Guarantee legislation in **Australia** does not require individuals to contribute to their superannuation savings. They are encouraged to do so, however, by means of tax incentives and, for people on low and middle incomes, by a system of government co-contributions (as described in Section 2.4.2).³³ Survey data collected by the Australian Bureau of Statistics, however, indicates that a relatively small proportion of people contribute to their superannuation. In 2007, less than a quarter (22 per cent) of Australians aged 15 or above were accumulating superannuation by salary sacrificing, contributing from their own after-tax income, or receiving contributions from their spouse's after-tax income.³⁴ Twice as many (44 per cent) relied entirely on employer contributions and a further 34 per cent were not contributing or receiving contributions at all. Among people in employment, around a quarter (27 per cent) were accumulating superannuation in one of these ways (Australian Bureau of Statistics, 2009).

³³ Note that co-contributions only apply to personal after-tax contributions made by members. Other types of contribution, such as contributions made by a spouse or other party, or salary sacrifice contributions, do not count.

³⁴ Salary sacrifice is an arrangement where an employee agrees to forego part of their future return (i.e. earnings) for their employer providing benefits (such as superannuation) of a similar value (www.ato.gov.au).

Among employed Australians, the likelihood of contributing in some way was shown in the same survey to be greater among some types of employees (owner managers of incorporated enterprises, employees with paid leave entitlement) than others (owner managers of unincorporated enterprises, employees without paid leave entitlement). As we might expect, there was also a strong association between gross income and propensity to contribute to superannuation accumulation. This is due to affordability, but also the fact that the incentives for contributing are most attractive to people paying tax at higher marginal tax rates (Australian Bureau of Statistics, 2009).

The same survey data identified a number of reasons why Australians were not making personal after-tax contributions to their superannuation account (or accounts). These are outlined in Box 4.2. In terms of the statutory employer contribution to superannuation (nine per cent), research has found that around a quarter (27 per cent) of employees received employer contributions greater than the Superannuation Guarantee required amount (Bingham 2003, cited in Bateman and Kingston, 2006).

Box 4.2 Why do Australians not make personal after-tax contributions to superannuation?³⁵

- The main reason, regardless of age, was cost (which can represent perceived value for money).
- Other reasons given by 15 to 24 year olds were lack of interest in doing so and feeling too young. Some felt that employer contributions (nine per cent) were sufficient.
- Older Australians, aged 25-34, were less likely to say they felt too young, and more likely to be making their mortgage payments a priority. Mortgage payments were also the main reason for not contributing cited by those aged between 35 and 44.

In relation to **Canada**, contributions to RRSPs are entirely voluntary but are encouraged by means of tax incentives. RRSP contributions are deductible when determining taxable income (at the highest marginal tax rate)³⁶, and investment earnings are sheltered from taxation as long as they remain in an RRSP (Tamagno, 2005). Survey data from 1998 analysed by Statistics Canada indicated that fewer than half of eligible Canadians made a contribution to an RRSP. The factors strongly associated with making a contribution were having a contributing spouse and owning investments outside registered plans, and these factors held true of men and women at all income levels (Palameta, 2003). More recent market research data, collected for Insurance Canada by means of an online panel in 2004, found that a similar proportion (47 per cent) of Canadians had made, or planned to

³⁵ Australian Bureau of Statistics, 2009.

³⁶ According to the Canada Revenue Agency, the federal income tax rates for 2009 range from 15 per cent up to 29 per cent (www.cra-arc.gc.ca)

make a contribution to an RRSP in the 2004 tax year. The average contribution made or planned was CAD 5,560 (£3,285).³⁷

Finally, in **Norway** employers must make a minimum contribution to a defined contribution plan of two per cent of their employees' earnings. Employees are not generally required to contribute, and it is unusual for them to contribute voluntarily (ISSA/IOPS/OECD, 2008).

4.3 Impact on income and living standards in retirement

To date, there seems to be fairly limited available information on the impact of pension reforms on income and living standards in retirement. We identified evidence from three of the eight case study countries (**Australia, New Zealand** and **Canada**) in relation to the impact of pension reforms (or pension saving in the case of Canada) on living standards and income in retirement. We were unable to find equivalent information for the other five case study countries, either in the literature review or from the telephone interviews.

In **Australia**, modelling conducted by the Treasury prior to the 2006 Budget indicated that a single male on median earnings with 30 years superannuation contributions (nine per cent of earnings) could expect to retire with a total replacement rate of 76 per cent (comprising Age Pension plus superannuation).³⁸ This would have increased to 85 per cent had contributions been made for 40 years (Bateman and Kingston, 2006). By way of comparison, the replacement rate of a median Australian earner in 2006 was estimated to be 59.2 per cent of net earnings, based on Age Pension plus superannuation (OECD, 2009a).

Survey data, however, suggests that at current levels of superannuation accumulation a significant proportion of Australians would not achieve even a modest retirement lifestyle. Clare (2008b) estimated that to achieve a 'comfortable' retirement lifestyle requires in the region of ASD 50,560 (£25,400) per annum for a couple and ASD 37,800 (£18,990) for a single person. To achieve this would require much higher superannuation balances than the average member currently had. In 2007 the average superannuation accumulation balance for those aged 55 to 64 was ASD 142,000 (£71,340) if defined contribution (median ASD 56,000, £28,135) or ASD 181,000 (£90,930) if defined benefit (median ASD 110,000, £55,260). To achieve a comfortable lifestyle in retirement, it is estimated that a couple would need a lump sum of AUD 500,000 (£251,190), and a single person AUD 460,000 (£231,100) (Australian Securities and Investments Commission, January 2009).³⁹ Inadequate superannuation accumulation among the self-employed has also been highlighted (Clare, 2008a).

³⁷ Information accessed from www.insurance-canada.ca/market/canada/lpsos-Reid-RRSP-501.php

³⁸ Replacement rate refers to pension benefits relative to earnings when working.

³⁹ For a **modest** lifestyle in retirement, it is estimated that couples need a lump sum of AUD 75,000 (£38,000) and a single person AUD 100,000 (£50,000).

Looked at from the perspective of Australian retirees, survey data indicates the relatively small superannuation lump-sum payments were received by most retired Australians: in 2007, 78 per cent of Australians who had received a lump sum superannuation payment within last four years had received less than ASD 60,000 (£30,140). These relatively small sums partly reflect the early stage of evolution of the superannuation system when these people were in the workforce, but also the impact of early retirement, as on average they had retired at age 57 (Australian Bureau of Statistics, 2009). Even so, in a still maturing system retirees with superannuation are found to have significantly higher gross weekly incomes than those without. Of retirees with superannuation in 2007, 60 per cent had gross total weekly incomes of at least AUD 300 (£150), compared with 18 per cent of retirees without (Allen Consulting Group, 2009).

Evidence from **Canada** indicates that RRSPs (like employer-based Registered Retirement Plans or RPPs) are an increasingly important source of retirement income. In 2001, over half (55 per cent) of Canada's elderly population received income from RRSPs or RPPs, which represented slightly more than 30 per cent of the aggregate income of the elderly. In 1991, these figures were 38 per cent and 19 per cent respectively (Tamagno 2005, based on a 2003 Statistics Canada report).

These types of retirement savings have mainly benefited middle and upper-income Canadians who are more able to save for retirement (Kent Weaver, 2004). In contrast, lower-income Canadians who save modest amounts in RRSPs but remain eligible for the means-tested pension top-up (known as Guaranteed Income Supplement or GIS) are likely to lose most of their savings due to the benefit reduction rate in GIS for those with incomes, which includes RRSP withdrawals. The effective marginal tax rate for those who also receive income-tested benefits such as home care can be over 100 per cent (Kent Weaver, 2004).

Due to the recent introduction of KiwiSaver in **New Zealand**, there is not yet any data on the impact of the scheme on retirement income and living standards. It has been estimated, however, that the effect of saving in KiwiSaver for someone retiring at age 65 on average earnings (NZD 40,000 or £18,030) would be to improve the net replacement rate, bringing it up to around 55 per cent, compared to 41 per cent in 2006 (and to an OECD average of around 70 per cent). For a KiwiSaver member on half average earnings, it is reported that the replacement rate could be in excess of 90 per cent (Rashbrooke, 2009).⁴⁰

⁴⁰ The model on which these estimates are based assumes, among other things, member contributions of two per cent, four per cent and eight per cent of gross wages up to retirement for those on incomes respectively of NZD 20,000 (£9,000), NZD 40,000 (£18,000) and NZD 80,000 (£36,000), which correspond broadly to half average, average and twice average annual earnings.

It has been argued, however, that the tax concessions present in KiwiSaver have a regressive effect, benefiting high earners most and low incomes families least (St John *et al.*, 2008). Statistical analysis indicated that KiwiSaver tax incentives not only acted to increase inequality in the early stages of the scheme, but would also increase future inequality in lifetime incomes (relative to the flat rate pension, New Zealand Superannuation). While such inequalities may be an inherent part of any saving scheme, the authors questioned whether KiwiSaver proponents and the public were fully aware of these likely impacts (Gibson *et al.*, 2008).⁴¹

4.4 Macro-economic impacts

To date, we have been able to find very limited evidence on the impact of pension reform on macro-economic measures such as aggregate levels of saving or whether incentivised pension saving encourages people to divert savings from other vehicles rather than save more.

Analysis of national survey data for **Australia** for the period 2002/03⁴² indicates that the introduction of compulsory superannuation saving (in the form of the Superannuation Guarantee) resulted in increased household wealth, with an extra Australian dollar in compulsory pension accounts adding between 70 and 90 cents to household wealth. Voluntary saving for retirement also appeared to have increased slightly. The author speculates that this may be due to Superannuation Guarantee making households more aware of the need to save for retirement, or possibly the convenience of being able to make contributions directly into accounts set up by their employer (Connolly, 2007).

Recent research, commissioned by the Association of Superannuation Funds of Australia, used macro-economic growth modelling to provide an overwhelmingly positive picture of the impact of compulsory superannuation. In particular, it found that the Superannuation Guarantee lifted the household saving rate in Australia in the range of 1.5 to two per cent of Gross Domestic Product (GDP). It also reported that superannuation drives investment through increased shareholding in Australian companies, infrastructure and venture capital, and increasingly supports consumption expenditure by retiree households (Allen Consulting Group, 2009).

Survey data from **New Zealand** indicates that only between nine and 19 per cent of KiwiSaver balances are 'new' saving. The authors argue that this confirms US findings that tax incentives encourage people to shift their existing savings to tax-preferred vehicles such as KiwiSaver, which results in little change in overall saving

⁴¹ It should be noted that the data used for this analysis was derived from a postal survey that achieved a low response rate (38 per cent), with total responses numbering 604. Sampling weights were derived to account for non-response and over-sampling of the Maori electorate.

⁴² Wave 2 of the Household, Income and Labour Dynamics in Australia Survey (HILDA).

but large costs to the taxpayer (Gibson and Le, 2008).⁴³ While substitution versus new saving is certainly regarded as a key issue in New Zealand, recent evaluations of KiwiSaver consider that it is too early to come to firm conclusions on this point (Ministry for Economic Development, 2008; Inland Revenue, 2009).

4.5 Conclusion

The evidence from several of the case study countries indicated much higher-than-anticipated voluntary participation in reformed pension schemes among individuals who were not required to join. In **New Zealand**, this is attributed primarily to government incentives, with good communications and changes to the tax system that favoured such saving also playing a role. In **Poland** and **Uruguay** high voluntary take-up of defined contribution pension saving seems to have been driven by the expectation of better retirement benefits.

In most of the case study countries included in this review, there was an element of compulsion for members to save a minimum amount into their pension. In New Zealand, there was evidence that some people saved more than the minimum required, although the majority saved at the original default contribution rate (four per cent). Where there was no requirement for individuals to save (as in **Australia**, **Canada** and **Norway**), only a relatively small proportion of members appeared to make voluntary contributions, even when there were financial incentives available to do so. Evidence from Australia indicates that cost, feeling too young, or having other financial priorities such as a mortgage may prevent voluntary pension saving.

To date, there seems to be fairly limited available information on the impact of pension reforms on income and living standards in retirement, partly because in countries such as Australia and New Zealand the pension systems we examined have yet to mature. There is very little information about the wider macro-economic impacts of pension reform.

⁴³ It should be noted that the same data was used for this analysis as mentioned in footnote 38. It was derived from a postal survey that achieved a low response rate (38 per cent), with total responses numbering 604. Sampling weights were derived to account for non-response and over-sampling of the Maori electorate.

5 Outcomes and reactions: Employers

This chapter examines the outcomes and reactions to pension reform from the perspective of employers. We explore three issues: employer costs and burdens, employer compliance and the wider labour market implications of pension reform.

5.1 Employer costs and burdens

One of the costs that employers may have to bear in relation to pensions is the cost of contributing to employees' pension plans, although this is often offset by tax concessions. As outlined in Chapter 2, employers in several of the case study countries we examined were required to make compulsory contributions. There may also be a burden on employers in terms of administering an employee's pension scheme in compliance with the relevant legislation.

We identified information about these financial costs and administrative burdens in relation to three of these countries: **New Zealand, Australia and Norway.**

5.1.1 Meeting the cost of contributions

From 1 April 2008, all employers in **New Zealand** were required to contribute to an employee's KiwiSaver account, starting with one per cent of an employee's gross earnings in 2008. It was originally intended that this amount would increase one per cent each year until the mandatory employer contribution reached four per cent of gross earnings by 1 April 2011. From 1 April 2009, the mandatory employee contribution increased to two per cent as planned. Changes to KiwiSaver introduced at the same time mean that it will not increase further, however. The employer tax credit was also abolished from 1 April 2009 due to rapidly increasing costs because of higher-than-anticipated take-up (US Social Security Administration, July 2009). By the end of June 2009, KiwiSaver had 1.1 million members, or approximately 29 per cent of those eligible to join (Inland Revenue, 2009).

Over the first two years of KiwiSaver (to 30 June 2009), the total cost to employers of contributions was NZD 175 million (£79 million), i.e. employer contributions minus employer tax credit. The employer tax credit paid by government covered 58 per cent of employers' contribution costs (Inland Revenue, 2009). Evaluation carried out in the first year of KiwiSaver indicated that the costs were not a particular issue for employers, because of the tax credit (Inland Revenue, 2007 and 2008c; Colmar Brunton, 2008b).

A small number of New Zealand employers were reported to have given all staff a one per cent wage increase in the first year. For those in KiwiSaver, this constituted the compulsory minimum employers contribution; those not in KiwiSaver received it in their wage packet (Inland Revenue, 2007). There was also a tendency among some employers to incorporate compulsory contributions into wage settlements. This introduced tax complications, as KiwiSaver members paid less income tax on their reduced salary, but also received lower take-home pay than non-members.

In **Norway**, employers are required to make a minimum contribution to their eligible employees' pension plans of two per cent of earnings. They receive tax relief on pension premiums to offset the total cost. Employers also have to bear the cost of administering pension plans and must offer compulsory insurance policies that provide exemption from contributions during periods of disability. There was no evidence to indicate that these costs were a particular issue for Norwegian employers.

Compared to New Zealand and Norway, in **Australia** the mandatory employer contribution required as a result of the Superannuation Guarantee is much higher, at nine per cent of qualifying employee earnings. These contributions are a tax-deductible business expense. The cost to business of the Superannuation Guarantee has been raised as a particular concern for Australian small businesses. In its submission to the Senate Select Committee on Superannuation and Financial Services in 2000, the Council of Small Business Organisations of Australia highlighted the disproportionate impact of the cost of superannuation on small businesses, which it argued do not have the capital to downsize and outsource their labour requirements, unlike larger private and public sector structures. Small businesses also employ larger numbers of casual and part-time workers who carry higher management costs (Bastian, 2000). While research evidence to support these concerns may exist, it was not cited in the submission. The pension experts we interviewed in Australia were also unaware of any research evidence to indicate that small businesses bear disproportionate costs in relation to the Superannuation Guarantee.

In 2009, Malcolm Turnbull, the Leader of the Opposition in Australia, announced a Small Business Action Plan, which included proposals for a Superannuation Guarantee Relief. The aim of this initiative was to reduce on-costs for firms with 20 or fewer staff. It was proposed that the State should pay for a proportion of the superannuation obligations of small businesses for a period of two years (Turnbull, 2009).

5.1.2 Administrative and compliance costs

Early evaluation research conducted by the **New Zealand** Inland Revenue indicates that the costs of complying with KiwiSaver legislation were not a particular burden for New Zealand employers, at least in the initial stages of the scheme. Employers considered there to have been minimal impact on workloads. Small businesses, with relatively simply personnel and payroll systems, seem to have just got on with it, while larger businesses incurred the cost of amending their more complex personnel and payroll systems. Neither group appeared to feel that the task was onerous or that it resulted in undue cost. The main compliance cost was the time spent learning about KiwiSaver and communicating it to staff. There was some indication that the compliance burden was greatest on larger employers because their human resources and payroll systems were more complex and they had more staff to deal with (Inland Revenue, 2007, 2008b). As part of the KiwiSaver evaluation, work is planned to determine the full costs of KiwiSaver for employers, including the ongoing costs of administration and compliance, the impact of KiwiSaver on remuneration approaches, and the impacts on existing workplace-based superannuation schemes (Inland Revenue, 2009).

In **Norway**, the 2006 legislation on mandatory occupational pensions compelled existing plans to meet minimum requirements. This is thought to have had little impact on pension plan sponsors (generally larger employers) as the majority of plans already exceeded the minimum requirements (OECD, 2009b). As in New Zealand, concerns were expressed about the potential impact on (smaller) employers that were compelled to provide occupational pension coverage for their workers for the first time. It was feared that the reforms would *'lead to a myriad of scattered occupational schemes, with maybe high fixed management fees and operating costs for small-sized firms and possible regulatory problems'* (Bellone and Bibbee, 2006, p38). As in New Zealand, however, the authors do not cite any particular research evidence to support these concerns. Nor have we been able to find any information on the actual impact of the pension reforms on Norwegian small businesses.

In **Australia** the Government committed, in 2008, to reduce the regulatory burden of the Superannuation Guarantee on small businesses by offering an optional superannuation clearing house facility free of charge to small businesses with fewer than 20 employees.

The initiative aims to help business owners manage their obligations under Super Choice (i.e. the ability of employees to choose their superannuation fund, introduced in 2005), including checking details entered on the Super Choice form and the distribution of contributions to nominated funds (Sherry, 2008). In addition, many small employers in Australia manually generate cheques to send contributions to separate funds (US Social Security Administration, December 2009). The clearing house measure allows an employer to pay their contributions to a single entity, which will distribute them to the relevant superannuation funds selected by their employees (Sherry, 2008).

The clearing house is scheduled to begin operation in July 2010, run by Medicare (a government delivery agency) and initially financed by AUD 16.1 million (£8 million) from government budget for a three-year period. It is hoped that the initiative will save small employers time and money and improve processing time and data quality (US Social Security Administration, December 2009).⁴⁴

5.2 Employer compliance

Employer compliance may be an issue where employers are required by law to contribute to their employees' pension plans. This applies to employers in five of the eight case study countries included in this review (**New Zealand, Uruguay, Norway, Australia, Sweden**). We were unable to identify any research evidence about employer compliance in Uruguay and Sweden. There is, however, some evidence about the scale and nature of compliance issues in Australia, New Zealand and Norway.

In **Australia**, according to its 2008 report on compliance, the Australian Tax Office (ATO) receives around 20,000 complaints per year from employees about employers not paying the correct Superannuation Guarantee or not offering choice of superannuation fund. Analysis conducted by the ATO suggests that employers in particular sectors were at a higher risk of not meeting their superannuation obligations.⁴⁵ Small and medium-sized firms generally maintained a high level of compliance with Superannuation Guarantee obligations. Any issues tended to relate to partial non-compliance (e.g. incorrect calculations and late payments) rather than not providing any superannuation support for employees at all. In 2007/08, the ATO acted on 3,200 employee complaints about employers' Superannuation Guarantee obligations and raised ASD 131 million (around £66 million) in Superannuation Guarantee liabilities (ATO, 2008a).

In 2007, the ATO piloted new approaches to encourage payment of tax debts, including arrears on Superannuation Guarantee payments. Of the methods tested, the use of dialer technology proved most effective, by allowing the ATO to engage with greater number of taxpayers more efficiently (ATO, 2007). As part of the Small Business Assistance Program, since 2008 the ATO has also visited small business owners to try and help them better understand their tax and superannuation obligations (ATO, 2008b). To date, the effectiveness of this initiative does not seem to have been evaluated.

More recently, concerns have been raised by stakeholders about the general level of compliance and particularly about the ATO's timeliness and responsiveness to employee complaints regarding non-payment of the Superannuation Guarantee.

⁴⁴ There are also privately run clearing houses which charge fees for processing contributions, which tend to be used by larger employers.

⁴⁵ These sectors are hairdressing and beauty, engineering design and consulting, and building and industrial cleaning.

Other concerns include the adequacy of the ATO's enforcement action and the monitoring and level of outstanding contributions collected (Australian Government, Inspector-General of Taxation, 2009).

In **New Zealand**, employer compliance has been examined as part of the KiwiSaver evaluation programme. In the first year of the scheme, the number of automatic enrolments was unexpectedly low. Investigation by the Inland Revenue found that this was attributable to a number of causes but not to deliberate non-compliance (Inland Revenue, 2008b). Employers that had failed to comply had done so mainly as a result of lack of awareness, rather than an intention to deceive. Earlier research had also found that *'the non-compliance of employers is related to either confusion about the process for automatic enrolment, or results from interactions between themselves and workers'* (Inland Revenue, 2008a). While some pension experts in New Zealand that we interviewed expressed scepticism about these findings, they did not have any evidence to the contrary.

In **Norway**, the Financial Supervisory Authority of Norway (FSAN) is responsible for ensuring employer compliance with the 2005 Mandatory Occupational Pensions Act. According to the latest data, in 2007 FSAN sent nine advance warnings and four orders to companies with a statutory duty to establish an occupational pension scheme for their employees. All of the concluded cases have resulted in the company establishing compliant pension schemes. So far, FSAN has not imposed a cumulative fine on any company for failing to establish such a scheme (FSAN, 2008).

5.3 Wider labour market implications

It is estimated that, as a result of the pension reforms planned in the UK, private sector employment could be reduced by 0.1 to 0.3 per cent.⁴⁶ We were unable to identify very much evidence from the case study countries about the actual impact of pension schemes and pension reforms on the wider labour market, such as pay freezes, redundancy or industrial competitiveness. We were also unable to find any research evidence about employers' ability to absorb pension costs in light of the economic downturn, which started in late 2007.

Based on a survey of small businesses in one region of **Australia** in 1993, it was estimated that small employers could potentially reduce their staff numbers by as many as 192,000 people because of the cost of the Superannuation Guarantee (Sinha and Benedict, 1993). From the literature we reviewed and the telephone interviews we conducted, this fear does not appear to have been realised.

Writing in 1997, Australian academics reported that the Superannuation Guarantee was generally not thought to have major labour market consequences in Australia (Bateman and Piggott, 1997). This was because the accumulation of superannuation and the mandatory nature of policy were not regarded as having

⁴⁶ DWP (24 September 2009). Impact Assessment of Workplace Pension Reform (Completing the Picture) Regulations 2010.

major impacts on overall employee compensation. While the authors regarded this as an over-simplification, and foresaw the possibility of increased labour costs in the longer term, they acknowledged that at that time there was little evidence to support or refute this contention (Bateman and Piggott, 1997).

More recently, research has highlighted the significant contribution that the superannuation industry as a whole makes in Australia, accounting as it does for 45 per cent of the finance and industry sector and around 60,000 jobs (Allen Consulting Group, 2009).

In **New Zealand**, there were some early concerns among employers about the additional costs of KiwiSaver in the long-run and a suggestion that they might affect wages and the ability to offer pay rises (Inland Revenue 2007). There is no evidence as yet to support or refute these concerns.

5.4 Conclusion

For the most part, there is little evidence to indicate that the costs and burdens of pension reform are a significant issue for employers. There have been some concerns, however, about the disproportionate cost and burden of pension reform for small businesses, although research evidence in this respect appears lacking. In **Australia**, action has been taken (and further action proposed) to mitigate the regulatory burden on small business.

Likewise, the evidence we have collected indicates that employer compliance with new pension legislation has generally been high. There seems to be little hard information about the impact of pension reform on the labour market and internal markets more generally.

6 Outcomes and reactions: The pension industry

This chapter examines the outcomes and reactions to pension reform of pension providers and intermediaries and the impact on pension markets. Macro-economic impacts of pension reform, such as changes to aggregate savings levels, were explored in Chapter 4, and we go in Chapter 10 to discuss in detail pension fund choices and default funds in the case study countries.

Among the material we reviewed, we were unable to identify a great deal of research evidence in relation to pension providers, intermediaries and the pension market. The information we identified relates to six of the case study countries: **New Zealand, Australia, Poland, Canada, Uruguay and Norway.**

6.1 Pension providers and intermediaries

Box 6.1 Pension provision under the UK reforms

The UK workplace-based pension reforms involve the establishment of NEST (National Employment Savings Trust), which will be a trust-based, occupational pension scheme for employers that do not have an existing scheme or fund an alternative qualifying scheme. This scheme will be run at arm's length from Government by an independent body. It is also anticipated that existing pension providers will increase their supply of pension provision in line with their profit maximising objectives.⁴⁷

Expectations about pension provision in the planned UK workplace-based system are outlined in Box 6.1. There is not direct equivalent to this system in any of the case study countries included in this review. As we go on to discuss in Section 10.3, the number of pension providers involved in delivering pension plans under reformed systems varies widely:

⁴⁷ DWP, Workplace Pension Reforms Regulations – Impact Assessment. 12 January 2010.

- In **Denmark**, the Special Pension system was centrally administered by ATP (the Danish Labour Market Supplementary Pension Scheme).
- The defined contribution pension scheme that now forms part of **Uruguay's** national pension system is provided by four pension fund administrators (or AFAPs), one of which is state-owned, the rest being private entities.
- In **Poland**, there were 15 licensed open pension funds in operation in 2004, reduced from 21 originally due to mergers and acquisitions.
- In 2009, there were 52 KiwiSaver schemes on offer from 30 providers in **New Zealand**, reduced from 54 due to some exits from the market (Inland Revenue, 2009).
- In **Australia**, at the end of September 2009 there were 457 superannuation funds for people to choose from in the four main fund categories (corporate, industry, retail and public sector), down from 475 in March 2009. There were another 421,671 small funds with fewer than five members, most of which are self-managed (APRA, 2009).
- Finally, in **Sweden**, there are approximately 85 companies involved in the Premium Pension market, providing over 700 separate funds.

We were unable to identify equivalent information for **Canada** and **Norway**.

The reduction over time in the number of providers in **Poland**, **New Zealand** and **Australia** was generally considered by the pension experts we interviewed to be part of a natural process of market consolidation rather than an indication of decreasing competition in the market. That said, in several case study countries a high proportion of pension assets were held by a relatively small number of providers or a particular sector of the financial services industry.

In **New Zealand**, for example, 77 per cent of KiwiSaver membership and 78 per cent of KiwiSaver funds are held by nine schemes. Six of these are the default funds to which people are allocated if they are automatically enrolled and do not make an active choice or their employer has not nominated a scheme for them to join (see Chapter 10 for details). Most KiwiSaver schemes remain small, with 30 out of the 52 managing assets of less than NZD 10 million or £4.5 million (Inland Revenue, 2009; Ministry of Economic Development, 2008). There is also a conservative investment bias apparent in the KiwiSaver schemes: 49 per cent of assets were invested in conservative options, compared with only 18 per cent in growth funds. Interestingly, conservative funds generated the best returns for members during the year to March 2009 (Inland Revenue, 2009).

In **Poland**, the open pension fund market is dominated by three of the 15 funds (Zalewska, 2006), which between them are reported to have over half (56 per cent) the total number of members between them (Wiktorow, 2007). These larger providers are excluded from taking part in the twice-yearly lotteries that allocate people to default funds, on the basis of their asset share (see Chapter 10 for details).

Finally, in **Norway**, the occupational pension market appears to be dominated by large insurance companies, not least because the legislation states that mandatory occupational pensions should contain an insurance element (Paech, 2005, writing in the trade journal *Global Pensions*).

In contrast to New Zealand, **Poland** and **Norway**, it is estimated that the market shares of the top four funds in the superannuation industry in **Australia** total only 15 per cent, indicating a low level of industry concentration (Allen Consulting Group, 2009).

A number of other issues were identified in relation to pension providers in a few of the case study countries. In **Uruguay**, competition between pension fund providers appears to have encouraged them to build up large sales forces to encourage employees to transfer between schemes. The impact was to increase the cost of the overall schemes (Devesa-Carpio and Vidal-Meliá, 2002). Similarly, in Poland analysis of pension fund membership indicates that the size of a pension fund's sales force is a key factor in determining their success. Having an established brand name was the other important determinant of initial market share (Chlon, 2000).

In **New Zealand**, because funds are legally required to be locked in to KiwiSaver schemes, the scheme has created a guaranteed pool of funds that are available to be invested long-term. Members' ability to switch between schemes, however, means that individual KiwiSaver providers have no guarantee that their assets can remain invested over the long term (Ministry of Economic Development, 2008).

Concerns have also been raised by the New Zealand pension industry about the impact of numerous KiwiSaver rule changes. The Association of Superannuation Funds of New Zealand (ASFONZ) considers that constant rule changes are costly for providers, impacting on direct costs and the extent of resources that providers have to commit to accommodating the changes. In addition such changes have, ASFONZ argues, undermined the ability of the industry to develop savings awareness and financial literacy among consumers (ASFONZ, 2009).

Finally, in **Norway** at the time of the introduction of mandatory occupational pensions it was argued that financial institutions might not be ready to face such a major development of occupational funds. This was due to potential regulatory constraints (e.g. a guaranteed three per cent return each year) but also to the very small scale of the Norwegian bond market at that time, when the availability of long-term risk-free bonds was a prerequisite to the long-term management of assets and liability (Bellone and Bibbee, 2006). There is no indication of whether these concerns were borne out over time, however.

6.2 Impact on the pension and financial markets

There seems to be fairly limited evidence on the impact of pension reforms on a country's pension market, most of it in relation to **Australia**, **New Zealand** and **Poland**.

With aggregate assets of over AUD 1.03 trillion (£0.5 trillion) at March 2009, the impact of the superannuation industry in **Australia** is estimated to be significant. In particular, superannuation funds hold a considerable proportion of Australian shares by market capitalisation.⁴⁸ In 2007, superannuation funds held 16.5 per cent of Australian equities, up from 8.5 per cent in 1998. Superannuation funds are also the largest contributor to managed funds (Allen Consulting Group, 2009).

In **New Zealand**, the Executive Director of the Retirement Commission has argued that KiwiSaver has attracted new entrants into the pensions market and enabled existing providers to turn around a declining membership. The main beneficiaries in terms of customer acquisition are those providers with a large retail base of customers and a bricks and mortar presence (Feslier, 2009). He considers, however, that it is too soon to say whether or not KiwiSaver has simply resulted in savings substitution or whether it has attracted new savings. The Ministry of Economic Development's evaluation of the supply-side impacts (2008) arrived at the same conclusion. Pension providers themselves consider that the introduction of KiwiSaver has stimulated the managed funds industry (Inland Revenue, 2008b).

To place this in wider context, a recent report into New Zealand's capital markets highlighted a lack of transparency in managed funds (which include superannuation and KiwiSaver products) and poor long-term returns in many cases. Among other things, the report recommends improvements to product disclosure and managed funds (Capital Market Development Taskforce, 2009).

The introduction of mandatory private pension saving in **Poland** meant that the equity investment of pension funds quickly became significant relative to the overall size of Poland's financial market (Zalewska, 2006). Analysis of the performance of the Warsaw Stock Exchange (WSE) indicated that this had some benefits relative to a number of benchmark markets (the seven entrants to the EU in 2004). These benefits appeared to be shortlived however, which seemed to validate the concerns of some academics about the negative impact of the appearance of large institutional investors on underdeveloped financial markets (Zalewska, 2006).

Finally, in **Uruguay** the pension reforms are claimed to have developed and deepened the country's capital markets (Schmidt-Hebbel, 1999).

6.3 Conclusion

None of the case study countries provided a direct comparator to the planned UK reforms in terms of how pensions are provided. The range of pension providers involved in delivering reformed pension schemes varied from one state agency in **Denmark** to over 85 pension providers and over 700 funds in **Sweden**.

⁴⁸ Market capitalisation represents the aggregate value of a company or stock. It is obtained by multiplying the number of shares outstanding by their current price per share.

There does not seem to be a great deal of published literature about the impact of pension reforms on the pensions industry or national pension markets. There is some evidence of a concentration of provision among a small number of large providers, although whether this had impacted on competition was unclear. These are often the default funds and are characteristically conservative in their investment approach. Established providers with networks of offices and large sales forces have been able to increase market share, but at an increased cost to the pension saver. While some home pension markets seem to have been stimulated by an increase in private pension saving as a result of reforms (particularly in **Australia**), it seems likely the situation will have changed since the start of the global downturn in late 2007. The results of evaluations in **New Zealand** in 2008 and early 2009, suggest that it is still too early to say with confidence what the effect has been (Feslier, 2009; Ministry of Economic Development, 2008).

7 Attitudes

This chapter explores the attitudes to pension reform among individuals, employers and pension providers. The information we were able to identify relates to **Australia, New Zealand, Poland and Uruguay**. Individuals' membership and participation in pension schemes was covered in Chapter 4 and so is not repeated here. Much of the information for employers and pension providers has also already been touched upon in earlier chapters, and so is summarised here.

7.1 Attitudes among individuals

Most of the research into attitudes has focused on individuals, as distinct from employers and pension providers. As the primary beneficiaries of the reforms, it is perhaps not surprising that, on the whole, individuals' attitudes were positive.

In **Australia** attitudes towards superannuation were particularly supportive. One possible explanation for this is the fact that the returns made by Australian superannuation funds had (up to 2007) been very good. Over the 35 years to June 2007, Australian superannuation delivered real returns of about five per cent over and above inflation (Sherry, 2008).

Surveys commissioned by the Association of Superannuation Funds of Australia have also shown high levels of satisfaction with superannuation funds, with 80 per cent and above of individuals expressing satisfaction with their (main) superannuation fund (Cameron and Gibbs, 2005; Balogh, 2008). The most significant factor determining the level of satisfaction was the rate of return. This was placed highest by 42 per cent of respondents, followed by the size and security of the fund, which was placed highest by only 13 per cent of respondents. Unhappiness with funds was driven by poor returns, high fees and charges. Members were generally satisfied with communication with their fund (Balogh, 2008).

Satisfaction rates vary between superannuation fund sector, however. The highest levels of satisfaction are found among people with funds in the corporate and public sectors, and lowest among those with retail funds (74 per cent). Likewise, while most superannuation members (75 per cent) considered the fees charged in relation to their fund to be reasonable, there were marked differences by type

of fund, with retail funds again performing comparatively poorly (Cameron and Gibbs, 2005).

Similarly positive attitudes towards KiwiSaver were found among individuals in **New Zealand**. The evaluation of the first six months' operation of KiwiSaver found that individuals who expressed mixed feelings about the scheme were concerned about whether it would remain intact over the long term and the perception that investing with private providers was inherently insecure and risky. Despite this, enrolment levels were higher than expected, so that more people enrolled in the first six months than were expected in the whole of the first year (Inland Revenue, 2008a). The rate of enrolments has slowed, however: the number enrolling in year two was 54 per cent of that in year one (Feslier, 2009), with the opt-out rate from auto-enrolment remaining steady at 34 per cent (Inland Revenue, 2009). It seems that, as the scheme has become more established, attitudes have become more positive, although this is something that will need to be further tested in the long-term evaluation.

In **Poland** the popularity of the compulsory saving scheme surprised even its creators. 85 per cent of entitled workers (those aged 50 or younger) chose to transfer their contributions to newly established pension funds (Zalewska, 2006). Opinion polls indicated a lack of public confidence in the old system and an acceptance among the public that pensions should accumulate in individual accounts, that their value should depend on the amount of contributions and that they should be financed, in part, on a funded basis. However, it is reported that the questions used in the poll were often vague and people were not fully informed of consequences of particular reforms. Focus groups provided policy makers with information on the design of the reforms as well as early warning signals of particularly unpopular proposals (Chlon, 2000).

As noted previously, in **Uruguay** the government faced strong resistance to its initial proposals. When the new scheme was introduced, however, many more people than expected switched to it, suggesting that attitudes among individuals had become more positive (Palacios and Whitehouse, 1998).

7.2 Attitudes among employers

In **Australia** an early study, based on the views of people running small businesses, found that small businesses failed to see any benefits from the Superannuation Guarantee and felt that the cost of superannuation in terms of future jobs lost would be high (Sinha and Benedict, 1993).

The small business lobby continued to oppose the reform, arguing in 2000 that it was inevitable that small employers would never be able to achieve the economies of scale available to large employers and that this placed a disproportionate burden on them (Bastian, 2000). Five years later, the lobby perceived that regulations regarding the choice of superannuation fund acted as *'another threat, an added burden and red tape.'* They were also concerned that the liability associated with

the provision of advice over the choice of funds would rest with the employer, when they felt it should lie with the employee (Council of Small Business Organisations of Australia, 2005).

As noted in Chapter 3, employers in **New Zealand** were generally positive about the way the scheme was introduced. They found it easy to administer KiwiSaver and were more certain about their obligations and less concerned about operational issues (Inland Revenue, 2008a).

7.3 Attitudes among pension providers

As noted in Chapter 3, there was a perception among the providers in **New Zealand** that the implementation of KiwiSaver was a significant challenge for them and for Inland Revenue, particularly given the tight timescales involved. The approach taken by the Inland Revenue was, however, viewed positively (Colmar Brunton, 2007).

These initially positive attitudes among providers about the way the scheme was introduced were confirmed by the evaluation of the scheme's first six months of operation (Inland Revenue, 2008a). Repeated changes to KiwiSaver rules over the first two years of operation were not looked on favourably by providers, however. As we saw in Chapter 6, they were particularly concerned about the costs (Association of Superannuation Funds of New Zealand, 2009).

7.4 Conclusion

The introduction of major social change is seldom regarded favourably. In the case of pension reforms, however, the experience in the case study countries seems to suggest that initial attitudes towards the reforms were positive among individuals, most employers and pension providers.

8 Communications

Communication is a key issue in relation to engaging stakeholders and gaining support for changes or reforms to pension schemes, as we noted earlier. This chapter examines the communications strategies employed by four of the case study countries: **Australia, New Zealand, Poland and Sweden**.

The focus of communications campaigns in Australia, New Zealand and Poland extended to individuals, employers and (in the case of Poland) wider stakeholders such as trades unions. The focus in Sweden has very much been on communicating with individuals. Australia and New Zealand also worked to promote financial capability in order to strengthen people's ability to make informed choices.

8.1 Communicating with individuals

There is evidence related to communicating with individuals about pension reforms from **Australia, New Zealand, Poland and Sweden**.

8.1.1 Australia

When choice of fund (known as Super Choice) was introduced in 2005, the government launched an extensive public education campaign to improve understanding of saving for retirement. It allocated almost AUD 20 million (£10 million) over two years to fund education initiatives. The work was directed by the Financial Literacy Foundation, a division of the Department of the Treasury. There were also four main activities which aimed to raise awareness: a call centre to reply to questions regarding fund choice; a Super Choice internet site; written publications, and an advertising initiative targeted at employees and employers informing them of their obligations and rights (OECD/IOPS, 2008).

In addition to the financial education programme and to facilitate fund choice, the government focused mainly on improving disclosure by superannuation funds. The government considered the superannuation industry and employers to be largely responsible for consumer education in the longer term. Some superannuation funds had actively pursued strategies to educate members, but there was increasing concern about the fiduciary and legal liabilities associated with giving information

and advice. In general, it was conceded that firms were unlikely to pursue education and advice provision unless they had legislative protection against liability for losses associated with inadequate investment advice given to members (as in the US). Also, leaving education to financial intermediaries in the superannuation industry could lead to commission-driven marketing campaigns being presented as 'education' in attempts to lure members into switching to what in the longer term may prove to be unsuitable funds (Gallery and Gallery, 2005).

Despite these constraints, people appeared to be aware of the issues associated with superannuation. In 2005, unprompted awareness of superannuation issues had risen compared with earlier years. Prompted awareness of the introduction of the right to choose superannuation funds was very high – 90 per cent, almost double the figure for the previous year. The information campaign promoting choice came from all sectors of industry and regulators, and messages were pitched in various ways (Cameron and Gibbs, 2005).

8.1.2 New Zealand

In New Zealand, the government implemented an extensive communications and financial literacy campaign to support the introduction of KiwiSaver in 2007. This included advertising on television, radio, on-line and in print; the establishment of a specific KiwiSaver website; and an information pack for employees distributed through the workplace (Inland Revenue, 2008a).

To complement the government's campaign, the New Zealand Retirement Commission (an autonomous Crown entity) was charged with providing financial education programmes to help workers make informed decisions about establishing a KiwiSaver account, predominantly through its 'Sorted' website (www.sorted.org.nz). Among some of the pension experts we interviewed, the provision of information by a trusted third party like the Commission was considered an important element of the overall communications campaign. The Commission's communications campaign began around six to eight weeks prior to the launch of KiwiSaver and intensified once the scheme was launched.

'... you certainly want to pick your time so that people are aware that it's being launched beforehand and are ready when they do have to make a decision... I don't think a year before... would have been particularly helpful, particularly if details are going to change, there is always that risk.'

(Pension expert, New Zealand)

The Commission ran television adverts to encourage people to visit its website for information, including a downloadable brochure *KiwiSaver: Is it right for you?*. The website also provided a KiwiSaver decision guide calculator (since removed).

An OECD study praised the financial literacy campaign, which was designed to provide workers with the basic tools they required to make simple financial decisions. The campaign built on and complemented financial education work already being conducted by government and non-government departments and

agencies. The OECD concluded that it would provide workers with the information they needed to decide if KiwiSaver was appropriate for them, if it would help them achieve their saving goals, and if they could afford to participate (OECD/IOPS, 2008).

As a result of the campaign, levels of public awareness in the first year of KiwiSaver were very high. Good communications were found to have helped to stimulate the higher-than-expected levels of enrolment. The effectiveness of the campaign was evidenced by the fact that two-thirds of individuals thought they had been given enough information to make a decision (Colmar Brunton, 2008b).

8.1.3 Poland

Following the first phase of its information campaign around the impending pension reforms, described in Section 8.3, Poland launched a second phase in March 1999. This targeted the individuals who were going to be affected, presented the reforms and provided information to help them make decisions. The need for this shift in the strategy's focus was identified by survey findings: people felt (and were) ill-informed. The campaign was built around information brochures for employees, which were sent to employers and trades unions; brochures in newspapers; a road show that toured workplaces; and information packs that were distributed to members of parliament, political parties and non-government organisations (NGOs). The government also set up call centres, promoted by a press and television campaign. They dealt with over 200,000 enquiries (Chlon, 2000; OECD/IOPS, 2008).

The initial results from this second stage were disappointing. As a result, the Office for Pension Reform changed the media plan and altered the design of the campaign. They developed new television spots, added radio advertisements, inserts into daily papers, and created full-colour advertisements of frequently asked questions. Performance of the campaign improved, as judged by increased use of the call centres and data from focus groups, which indicated that people began to recognise their need for government information that was seen as objective and reliable. The most disappointing part was the relatively poor perception of call centres, which were seen as the last resort for information (Chlon, 2000).

Responsibility for the continuing information provision was given to the Pension Supervision Office, which has a legal obligation to further public awareness. Their activities focused on making the public aware of the investment results that were achieved and charges that were being levied under second pillar pensions as well as promoting voluntary savings in the third pillar scheme (OECD/IOPS, 2008). One pension expert we interviewed, however, considered that Poland really needed to have an ongoing public information campaign to cover a wider range of pension issues such as extending working life and the impact of the economic downturn on pensions.

8.1.4 Sweden

Initially in Sweden there was an extensive information and communications campaign aimed in particular at promoting awareness and encourage active investment choice in the new Premium Pension scheme. Surveys showed, however, that it made a limited impact. Fewer than 40 per cent of individuals said they had a good understanding of the new system and felt they needed more information (Sundén, 2006).

Knowledge about the scheme has now reverted to its original low level and only a small proportion of members choose their investment fund (OECD/IOPS, 2008; see also Section 10.4.1). The main ongoing means of communication about the pension system is the annual statement, showing the value of an individual's fund and an estimate of the level of pension that they will get, known as the Orange Envelope. Most people look at the statement but the majority do not feel well enough informed to make investment decisions (Premium Pension Authority, 2007). The Swedish National Audit Office considered that too much information was provided and this discouraged choice (OECD/IOPS, 2008). The difficulty that people have in exercising their choice is almost certainly compounded by the plethora of funds that they can choose from.

8.2 Communicating with employers

The experiences of **Australia** and **New Zealand** around communicating with employers about pension reform have been very different.

In contrast to their work with individuals around Super Choice, it is reported that government agencies in **Australia** failed to communicate adequate levels of information to small business employers about the Superannuation Guarantee, which was introduced in 1992. Advertisements were placed in newspapers and on radio and television for over a year. The Commonwealth Government (through the Australian Tax Office (ATO) and the Insurance and Superannuation Commission) undertook a major campaign over the course of 1992/93 to inform businesses about their obligations to meet the Superannuation Guarantee. Despite this, in a survey of small businesses in one region of Australia 69 per cent of employers said they did not receive any information about the Superannuation Guarantee from any government agency (Sinha and Benedict, 1993). According to the authors:

'Even though most of these respondents actually received material from the Australian Tax Office and or the Insurance and Superannuation Commission about the Superannuation Guarantee Charge, they did not remember anything about it.'

(page 22)

In contrast, 70 per cent said that they had received information about superannuation from insurance companies, and another 40 per cent received information from banks. Government information did, however, have a positive

impact on whether the business knew about superannuation increases, as did most other sources of information. In terms of the television advertisements, 35 per cent did not recall seeing any television advertisements about superannuation, another 33 per cent could name the company they saw in the advertisements, but only 25 per cent could remember that there was an emphasis on employer responsibility (Sinha and Benedict, 1993).

In **New Zealand**, the government's strategy to communicate with employers about KiwiSaver was considered central to the successful implementation of the scheme (Colmar Brunton, 2008b). The initial phase of the communications strategy (between May and November 2007) comprised of:

- information for employers on the Inland Revenue website;
- a guide for employers;
- briefings, seminars and roadshow presentations for employers and other professionals.

A survey of employers found that 80 per cent (79 per cent among small employers) were aware of at least one aspect of the Inland Revenue's communications campaign targeted at employers (Inland Revenue, 2008a). Most employers (81 per cent) thought that the Inland Revenue communications were easy to understand and 91 per cent thought that the employer guide was helpful. As noted in Section 3.2, the majority of employers felt informed about their KiwiSaver obligations, although awareness was lower among owner-operators of small businesses (Colmar Brunton, 2008b).

8.3 Communicating with other stakeholders

In **Poland** the first stage of the government's information campaign around the 1999 pension reforms ran from March 1997 until December 1999, with a budget of USD six million (£3.7 million). Managed by the Office for Pension Reform, this stage introduced the idea of reform and targeted policy makers and opinion leaders such as trades union leaders, members of parliament and educated journalists, to help build consensus. The main messages concerned the overwhelming need for change and the inevitability of the direction of the proposed reform. It included a range of activities including opinion polls and media relations (Chlon, 2000 and OECD/IOPS, 2008). This, it was felt, left little room for opponents to question the basic elements of the new system. The second stage, launched in March 1999, consisted of a broader public relations campaign, aimed at the general public, as described in Section 8.1.3.

In **New Zealand**, the Inland Revenue implemented a strategy specifically to engage with KiwiSaver scheme providers, of which relationship managers and industry forums were the main elements. Relationship managers were introduced to provide a point of contact for scheme providers within the Inland Revenue. They were viewed very positively by providers as being responsive, customer-

focused and helpful. The fact that relationship managers had experience of the superannuation industry also helped reassure scheme providers that the Inland Revenue was 'speaking their language'. The industry forums set up by the Inland Revenue were felt by providers to be informative, timely and a good opportunity to discuss KiwiSaver with others in the industry (Inland Revenue, 2008a).

8.4 Conclusion

The evidence from the case study countries indicates that communicating enough information about pension reforms while not overloading people, is a difficult balance to achieve, not least because information needs change over time. Any pre-reform communications have to be modified once the scheme is in operation. And there is a continuing need for information and communication to inform new members and to keep existing contributors aware, a point stressed by some of the pension experts we interviewed.

The experience of **Poland** indicates that the messages and channels of communications are a key factor in engaging and informing individuals. In addition, it adopted a flexible approach in terms of responding to poor feedback from the general public. In **New Zealand**, the work of informing consumers is largely the responsibility of the Retirement Commission. With employers and scheme providers, early and dedicated involvement from the Inland Revenue seems to have worked well.

9 Evaluation

Only one of the case study countries we reviewed (**New Zealand**) appears to have implemented an evaluation of its pension reforms, which is described below. We have drawn heavily on existing KiwiSaver evaluation findings in the earlier chapters of this review.

In **Australia**, the government and key pension industry groups issued a Communiqué of Principles in April 2009, in which they proposed a review of compulsory superannuation. The review (known as the Cooper Review) aims to evaluate the structure, operation and efficiency of the superannuation system. One goal of the review is to reduce the cost of superannuation to individuals and to raise retirement income. Other topics to be studied are default investment funds and fund governance (US Social Security Administration, May 2009).

In addition, a review of Australia's Future Tax System (known as the Henry Review) took place in 2008/09. A report on the retirement income system produced by the Review Panel and published in May 2009 made a number of recommendations about the future of superannuation, including maintaining the Superannuation Guarantee at nine per cent and not extending the Superannuation Guarantee to the self-employed.⁴⁹

This chapter starts by discussing the various elements of the KiwiSaver evaluation programme. It then goes on to consider what other published information exists in relation to the outcomes of pension reform across the eight case study countries.

9.1 KiwiSaver evaluation

The KiwiSaver evaluation is intended to run from 2007/08 until 2012/13. It is a joint collaboration between the Inland Revenue, Ministry of Economic Development and Housing **New Zealand**. The primary objectives of the evaluation are to assess:

- the early implementation and delivery of KiwiSaver as a whole and the various components to inform the early and ongoing development and service delivery of KiwiSaver;

⁴⁹ Information accessed from <http://taxreview.treasury.gov.au>

- which of the key features of KiwiSaver are generating the expected outcomes;
- the response to KiwiSaver in order to understand the scale and pattern of the take-up;
- the impact KiwiSaver is having on the saving habits and asset accumulation of individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement;
- the impact of KiwiSaver on competitive superannuation markets and financial sector.⁵⁰

One of the main approaches of the evaluation is the set up that enables collecting of the information and data needed for the evaluation within the design of the KiwiSaver itself, to minimise the costs and efforts of KiwiSaver staff and researchers. This should also have the benefit of enabling ongoing analysis after the period of the evaluation.

There are five elements to the evaluation. The first is **benchmarking** which is likely to be conducted using the Survey of Family Income and Employment (SoFIE). This is undertaken biennially by Statistics New Zealand. The Ministry of Economic Development will also be conducting a benchmarking exercise of the financial sector to understand the effect on providers.

The second element is **monitoring**. This will consist of data on saver profiles and recruitment and money transfer from the Inland Revenue, provider management through the Ministry of Economic Development and take-up of the home ownership subsidy through Housing New Zealand.

The third aspect is evaluation of **communications**. This consists of qualitative research with both employers and individuals with a quantitative survey of employers.

The fourth element consists of **process studies** to understand and evaluate the experience of the implementation and initial running of KiwiSaver. It will comprise a mixture of quantitative and qualitative research with staff, key stakeholders and employers.

The final element comprises **outcomes studies**. An immediate outcome study is to be conducted in 2009/10, with a mid-term study in 2012/13. The studies will consist of: modelling potential future trends based on current participation; qualitative research with agency staff, stakeholders, providers, employers and individuals; quantitative telephone interviews with providers and individuals with a range of situations regarding saving with KiwiSaver.

⁵⁰ Unless otherwise stated, the information in this section comes from *KiwiSaver Joint Evaluation Strategy*, Inland Revenue, Ministry of Economic Development, Housing New Zealand, 2006.

Some stages of the evaluation have already been conducted and reported on. A three stage 'Communications and Awareness Evaluation' was carried out to assess awareness and understanding of the KiwiSaver and how the Inland Revenue's communications activities have helped inform participation in KiwiSaver.

- Stage one, conducted in July 2007, consisted of 18 in-depth interviews with providers (Colmar Brunton, 2007).
- Stage two, conducted in September 2007, was 500 telephone interviews with employers (Colmar Brunton, 2008a).
- Stage three, conducted October 2007 to January 2008, was 612 face-to-face interviews with the general public and a booster sample of 103 people who had changed jobs or started a new job since the launch of KiwiSaver. The sample was representative of 18-65 year olds living in New Zealand (Colmar Brunton, 2008b).

An 'Evaluation of Implementation in the Workplace' involves two elements: The first involved two phases of research with an Employer Panel, consisting of semi-structured interviews conducted with 34 employers and up to 63 employees of these companies, using the same companies in each phase. The purpose of this research is essentially to understand how KiwiSaver is working in practice; what experience they have had, and what factors are influencing decisions about KiwiSaver. Each phase will review the ongoing experience and also assess aspects of the design of the KiwiSaver that have been introduced since the prior phase. The first wave was conducted in autumn 2007 (Inland Revenue, 2007) and the second during summer 2008 (Inland Revenue, 2008c). The third wave was planned for June 2009.

The second element of the evaluation of implementation in the workplace involved qualitative research to understand the automatic enrolment process (Inland Revenue, 2008d). This consisted of 20 in-depth interviews with payroll managers/employers of 'non KiwiSaver compliant' companies defined as those who have hired new employees but have not auto-enrolled them onto KiwiSaver. This was followed by 50 short telephone interviews with employees who had started a new job since KiwiSaver came into force on 1 July 2007.

In addition, an initial six-month report (Inland Revenue, 2008a) and two annual reports (Inland Revenue, 2008b, 2009) have been published. These focus on the administrative data provided by the Inland Revenue, along with the results from the research reports already produced to evaluate the effectiveness of the scheme, and the value of certain design features of the scheme in encouraging participation. The annual report is a further update of this information, and also includes data about funds from providers. The reports reflect on the evaluation results so far, and also review how it needs to move forward.

9.2 Conclusion

The UK workplace pension reforms will be subject to a programme of evaluation to understand the outcomes of the changes. Of the eight case study countries we looked at for this review, only **New Zealand** seemed to have a formal research programme to evaluate the KiwiSaver scheme introduced in July 2007. We found published information about the outcome of pension reforms in a number of other countries, with most of the available information relating to **Australia**.

10 National occupational pension schemes

Once implemented, the UK workplace pension reforms will result in the formation of a national occupation pension scheme. With the exception of **Canada**, where we focused on the entirely voluntary Registered Retirement Savings Plan (RRSP), all the pension reforms that we examined in the case study countries were examples of national occupational pension schemes.⁵¹ In this chapter, we look at some of the key features of these schemes, including charging structures, fund choices and default funds, investment returns, decumulation strategies and liquidity (i.e. access to funds pre-retirement). We start by describing the types of national occupation pension schemes and their position in the market.

10.1 Type of scheme

The seven case study countries included in this chapter offer examples of rather different types of national occupation pension schemes.

In **Australia** and **New Zealand** pension reform (in the form of Superannuation Guarantee and KiwiSaver respectively) was introduced to provide a second tier of pension provision, to supplement existing first tier pension provision (Age Pension in Australia and New Zealand Superannuation).⁵² The compulsory contribution rates to Superannuation Guarantee and KiwiSaver are relatively high compared

⁵¹ As noted in Chapter 2, Canada has earnings-related public schemes (provided by the Canada Pension Plan/Quebec Pension Plan). These were not the focus of our review.

⁵² We refer here to the OECD's taxonomy of pension provision. The first tier consists of a mandatory redistributive component, to ensure that pensioners achieve some absolute, minimum standard of living. The second tier consists of a mandatory savings element that can be publicly or privately provided, and is designed to achieve some target standard of living in retirement compared with that when working. The third tier comprises voluntary provision (OECD, 2009a).

with other case study countries, at nine per cent of qualifying earnings in Australia (contributed by the employer) and a minimum of four per cent of gross earnings currently in New Zealand (two per cent employee, two per cent employer). By way of comparison, the minimum total contribution under the planned UK reforms is eight per cent of qualifying earnings.

The introduction of mandatory private pension saving in both **Poland** and **Uruguay** was an integral part of wholesale reform of the public pension system, which previously had been a pay-as-you-go system. The new public pension systems in these countries therefore comprised an element of mandatory private pension saving and either a social insurance scheme (in the case of Uruguay) or a notional accounts scheme (in the case of Poland). In this respect, mandatory private pension was a substitute for part of the public pension system, rather than an addition to it. The mandatory contributions to private pension saving in Poland and Uruguay are the highest among the case study countries included in this chapter (7.3 per cent in the case of Poland, and 7.5 per cent in the case of Uruguay, rising to 15 per cent of earnings above a certain level for higher earners).

In both **Denmark** and **Sweden**, pension reform involved the introduction of mandatory private pension saving on top of existing (and relatively generous) second tier public pension provision. In Sweden, this took the form of the Premium Pension; in Denmark the short-lived Special Pension (SP). Both schemes are administered centrally by a public body. The compulsory contributions are among the lowest of the case study countries (one per cent in Denmark, contributed by the employer, and 2.5 per cent in Sweden, shared equally between employer and employee).

Finally, in **Norway** mandatory occupational pensions were introduced in 2006 to extend private pension coverage in the workforce, particularly to employees working in small and medium sized private sector companies. Rather like Denmark and Sweden, this provision was seen as additional to, rather than replacing, existing second tier public pension provision. And, like Denmark and Sweden the mandatory contribution rate is relatively low, at two per cent.

Of these seven countries, only **New Zealand** offers an element of choice in terms of participation, as employees who are automatically enrolled can opt out. This will be the same under the planned UK reforms. In the other six countries, participation is compulsory for eligible individuals.

In the UK, it is anticipated that once the workplace pension reforms are introduced, the majority (if not all) new members will be enrolled into defined contribution schemes. In five of these seven countries (**Denmark, New Zealand, Poland, Sweden, Uruguay**), the national occupation pension schemes that we reviewed are provided on a defined contribution basis. In **Australia**, superannuation schemes can be defined contribution, defined benefit or a hybrid of the two. As we saw in Section 2.4.2, however, most people have a defined contribution pension plan (Australian Bureau of Statistics, 2009). Similarly, in Norway mandatory

occupational pension schemes are either defined benefit or defined contribution. Most of the schemes introduced as a result of the 2005 Mandatory Occupational Pensions Act in Norway have been defined contribution schemes implemented by small and medium sized businesses, however (OECD, 2009b).

10.2 Fee structures

The pension schemes we looked at in the seven countries that have national occupational pensions vary in terms of their charging structures. **Poland** seems to have one of the more complex fee structures, with fees on contributions and an asset management fee (which are both capped) and a fund switching fee (Tapia and Yermo, 2008). Further details about the fee structure of open pension funds in Poland are provided in Box 10.1. In **Uruguay**, the mandatory private pension scheme has fixed commission fees plus fees on contributions, with no limits on either (Tapia and Yermo, 2008).

Superannuation accounts in **Australia** have fixed commission fees, fees on contributions and an asset management fee. While these are not capped, the regulatory rules prohibit any administrative fees that exceed investment returns being charged on accounts with a balance less than AUD 1,000 (£500), except in periods of bad investment returns (i.e. a period where investment returns are less than administration costs). In such a period, member balances may be reduced if costs are apportioned in a fair and equitable manner (ISSA/IOPS/OECD, 2008).

Box 10.1 Fee structure of Poland's open pension funds⁵³

There are three types of fees for open pension funds:

- Distribution fees calculated as a predetermined percentage of the contributions paid. These are capped at seven per cent, with government proposals to reduce this to 3.5 per cent by 2010.
- Asset management fees cover administration costs. These comprise a fixed element calculated on the basis of a regressive ratio and an annual cap of 0.54 per cent. There is also a variable element which depends on investment returns, but which must not exceed 0.005 per cent per month.
- Transfer fees are charged if a member changes fund within 24 months.

In **Sweden**, Premium Pension plans attract an asset management fee, which is not capped. Sweden is considered to have relatively low fee levels, at less than 0.5 per cent of assets under management.⁵⁴ This is largely due to the clearing house system operated by the Premium Pension Authority (which became as the

⁵³ OECD, 2009b.

⁵⁴ This is based on a comparison of the ratio of annual fees to assets under management. By way of comparison, equivalent figures for the Australian superannuation scheme are in the region of 1.2-1.4 per cent (Investment Management Association, 2005).

beginning of 2009 part of the Pensions Authority), which negotiates management fees directly with the provider. Premium Pension providers have no information on individual accounts (all records are all kept by the Premium Pension Authority) which reduces the incentive for providers to run expensive sales and marketing campaigns (Tapia and Yermo 2008). The Premium Pension Authority also operates a discount schedule, based on the principle that the marginal cost of investing additional funds decreases the greater the volume of Premium Pension assets invested. As the scale of business increased over time, therefore, the required fund discounts increased as well. As a result, the total costs are estimated to fall from 0.45 per cent of assets under management in 2007 to 0.23-0.27 per cent by 2020 (Palmer, undated).

There is no prescribed fee structure or level of fees for KiwiSaver pension plans in **New Zealand**, although the KiwiSaver legislation prevents providers charging 'unreasonable' fees. The fees charged by default fund providers were negotiated by the Government and prescribed for each provider in their Instrument of Appointment.⁵⁵

Finally, we were unable to identify details of fee structures for **Norway's** mandatory occupational pension scheme or **Denmark's** SP, but neither appears to be subject to any particular legal rules in relation to fees (ISSA/IOPS/OECD, 2008).

10.2.1 Issues related to fees

We identified evidence from **Australia**, **New Zealand** and **Poland** related to issues around fees, in particular the lack of transparency of some fee structures and concerns about the impact of fees on retirement incomes.

In **Australia**, there is evidence to indicate that investment choice in superannuation accounts has led to a higher cost structure for the pension industry, without necessarily maximising savings for most workers (Sy, 2008). The fees also vary markedly by fund type. The highest fees are charged by retail funds, which are generally distributed through financial planners (the equivalent to independent financial advisers in the UK). Regulatory attempts to improve product disclosure in Australia highlighted the complex cost structure that has evolved in the pension industry, which is difficult for many investors to understand (Chant 2008, cited in Sy, 2008). In Poland, the Superintendency of Pension Funds raised similar concerns about the lack of transparency in the structure of fees for open pension fund members (Superintendency of Pension Funds, 2000). In New Zealand, competition in the KiwiSaver market is felt to be hampered by the complexity of fee structures which makes comparison difficult (Rashbrooke, 2009). This was highlighted in the telephone interviews with pension experts in New Zealand.

'... it's an industry that has had very complex products and complex fee structures that are difficult for the actuaries to understand sometimes let alone someone on the street. Yes I think there's a lot more to be done in making fees transparent.'

(Pension expert, New Zealand)

⁵⁵ Information accessed from www.superannuation.co.nz

In relation to the impact of fees on retirement income, the Senate Select Committee on Superannuation in Australia noted that in some cases, a one per cent difference in fees and charges (all other considerations remaining the same) could produce a 25 per cent reduction in retirement income over 40 years (Senate Select Committee on Superannuation, 2002). One of the goals of the current Cooper Review into superannuation, as noted previously, is to reduce the cost of superannuation to individuals and raise retirement income. A major focus will be the administration fees and commissions that generate about ASD 14 billion (£7 billion) per year (US Social Security Administration, May 2009).

In Poland, the penalty transfer fees mean that the capital held in a fund by a person making frequent changes may remain very low, which in turn may undermine public confidence in the system and expose the State Treasury to extra expenses (Superintendency of Pension Funds, 2000).

10.3 Fund choices

All the national occupational pension schemes included in this review may contain an element of fund choice for members. The extent of choice varies significantly, however, from four pension funds in **Uruguay** to over 700 in **Sweden**. This section looks at what fund choices people have, the extent to which individuals make active choices about the funds they invest in and the extent of switching between funds that occurs.

In **Sweden**, Premium Pension members can choose where to invest their contributions and have a wide range of options. In 2007, there were around 785 registered privately managed funds, provided by approximately 85 companies, from which members could choose up to five funds (Sjunde AP-fonden, 2007). The average number of funds that people invest in is 3.5 (Palmer, undated). Guidance about investment choices is provided through the Premium Pension Authority's website or telephone helpline

In **Australia**, there are five basic types of funds that superannuation contributions can be paid into, which are detailed in Box 10.2. Corporate, public sector and industry funds are run on a not-for-profit basis. Retail funds are run for profit.

Box 10.2 Superannuation fund choices in Australia⁵⁶

- Corporate funds. Generally only open to people working for a particular employer or corporation.
- Public sector funds. Generally open to Commonwealth and State government employees.
- Industry funds. Sometimes open to everyone, otherwise they are open to employees in a particular industry or under a particular industrial award if their employer has signed up to the fund.
- Retail funds. Run by financial institutions and open to everyone.
- Self-managed funds. Open to an employee and up to three other people.

Since 1 July 2005, many employees have been able to choose the fund that will receive their employer's Superannuation Guarantee contributions (known as choice of fund).⁵⁷ Employees who are eligible to choose their superannuation fund are provided with a 'standard choice form' by their employer when they start work. Employees can also get their own standard choice form and choose at a later stage (Australian Securities and Investment Commission, January 2009).

Most employees in Australia can also exercise investment choice within their chosen superannuation fund. According to data published in 2008, 62 per cent of superannuation funds offered investment choice to members, and the average number of investment options across all fund types was 38.⁵⁸ The amount of choice varies widely by type of fund, however. Retail funds offered the greatest number of investment choices, with an average of 112 options per fund. Industry funds averaged nine options per fund, and public sector and corporate funds averaged eight and seven choices per fund respectively (Australian Prudential and Regulatory Authority, 2008).

Although employers in **New Zealand** must provide access to a KiwiSaver plan, employees can choose to join any registered KiwiSaver plan, by applying directly to the KiwiSaver provider of their choice. In other words, employees are not limited to the KiwiSaver plan sponsored by their employer. The total number of active registered KiwiSaver schemes at 30 June 2009 was 52, including six default providers. This total number had reduced from 54 in 2008 as two schemes had exited the market.⁵⁹ Of the 52 schemes active at the end of June 2009, 27 were

⁵⁶ Australian Securities and Investment Commission, January 2009.

⁵⁷ The exceptions are certain employees covered by industrial agreement and members of defined benefit funds.

⁵⁸ These figures relate to superannuation funds with more than four members (i.e. self-managed funds are excluded).

⁵⁹ Where providers have left the market, members are reallocated to the six default products where they can choose to remain or transfer to another scheme of their choice (Inland Revenue, 2009).

described as having 'bolted on' a KiwiSaver scheme to an existing registered superannuation scheme, and three were schemes that had converted from the regime established under the 1989 Superannuation Schemes Act (Government Actuary, 2009). We assume that the remaining 22 schemes were established by providers who had not previously been in the superannuation market.

Individuals in **Poland** who participate in the mandatory defined contribution pension scheme can choose to join any open pension fund and the pension savings they accumulate are completely portable (ISSA/IOPS/OECD, 2008). When the reformed pension system was introduced, there were 21 licensed open pension funds in operation.⁶⁰ By December 2004, only 15 were in operation due to takeovers and mergers (Zalewska, 2006). It is reported that the three largest open pension funds account for 64 per cent of all open pension fund assets (Sierhej, 2008).

Eligible individuals in Uruguay can choose to become a member of one of any of the four pension fund administrators (AFAPs) that operate. The largest AFAP is state-owned and controls 56 per cent of the assets invested in the mandatory private saving scheme, and has 38 per cent of total members. The other three AFAPs are private entities.⁶¹

The type of fund choice open to pension savers in **Denmark** and **Norway** is rather different to the other countries described above. In Denmark since 2005, SP members have had a choice of three options:

1. To continue to have ATP manage their savings deposits.
2. To invest their savings deposits individually through mutual funds on Folkebørsen (an electronic marketplace set up by ATP).
3. To transfer their savings deposits to a different pension provider.

In **Norway**, employers are responsible for selecting the occupational pension scheme that their employees will belong to and that the employer will contribute to. Depending on the type of scheme and the employer's preference, the employer can also be involved in the choice of investment portfolio. Individual investment choice is only available, therefore, if an employer selects a defined contribution pension scheme as their mandatory pension provision. If this is the case, the investment portfolio is determined by each individual member (ISSA/IOPS/OECD, 2008). We were unable to ascertain whether default fund options are offered to employees in this situation, but it seems reasonable to assume they are.

⁶⁰ Note that each pension fund society can only create and manage one open pension fund (ISSA/IOPS/OECD, 2008)

⁶¹ Information taken from a presentation by Rodolfo Saldain, presented at the Federal Reserve Bank of Atlanta 2006 Conference.

10.3.1 Switching funds

We identified information about the process of switching funds in relation to **Australia, New Zealand, Sweden, Uruguay** and **Poland**. There was less information on switching behaviour among fund members.

In **Australia**, while employees can choose a superannuation fund at any time, they cannot make their employer change funds more than once a year. In addition, the employee must provide written confirmation from their chosen fund that it will accept the employer's contribution (Australian Securities and Investment Commission, January 2009). There does not appear to be any charge for switching funds. Research found that older superannuation fund members with large balances were less likely to follow the default option and also had a higher probability of making at least one investment switch in a particular year, and conditional on at least one switch, to make more choices (Evans and Tan, 2007).

There are also conditions on fund switching in **Uruguay** and **Poland**. In **Uruguay**, members can change to a different fund provider (or AFAP) provided that they have been a member of their current AFAP for at least six months. In **Poland**, open pension fund members have to pay a fee if they change funds within 24 months of joining a fund. We were unable to identify any evidence about levels of fund switching in either country.

In contrast, KiwiSaver members in **New Zealand** can change scheme at any time, although they can only belong to one scheme at a time (unlike Australia, where individuals can have more than one superannuation account). To switch, members have to contact the scheme provider they want to join directly. A transfer fee may be levied by the old KiwiSaver scheme as well. In the year ended 31 March 2009, the number of KiwiSaver members who had switched was relatively small (18,879 in total), equivalent to less than two per cent of total members. The great majority had only made one switch (Government Actuary, 2009).

In **Sweden**, Premium Pension members can switch between funds on a daily basis. In 2007, 14 per cent of plan members switched funds on at least one occasion, almost all via the Premium Pension Authority website (Premium Pension Authority, 2007). The Premium Pension Authority proposed in 2007 that savers who switched funds more than once every three months should pay a fee (SEK 20 or around £2) per fund switch. It is unclear whether or not this was introduced.

10.4 Default funds

If pension fund members do not want to make an active investment choice, their contributions are generally directed to a designated default fund. This was the case in **Australia, New Zealand, Sweden, Poland** and **Uruguay**. In **Denmark**, investment choice was only introduced after the SP had been in place for some time, effectively making the SP offered by ATP the default fund. As we mention

above, it seems likely that default funds are offered in **Norway** to employees who have defined contribution pension schemes, but we were unable to find further details.

There is only one default fund in **Sweden**, the Premiesparfonden. It is managed by the Seventh AP Fund (or Sjunde AP-fonden in Swedish), a state authority like the Premium Pension Authority (since the beginning of 2009, the Pensions Authority), which functions in the same way as a fund management company. At the end of 2007, 29 per cent of total Premium Pension Authority capital was held in the default fund; 80 per cent of assets in the default fund were invested in equities (Sjunde AP-fonden, 2007) (see Table 10.1 for details). Following poor investment returns on the default fund, there have reportedly been calls by the Minister for Social Security to provide different default funds for different age groups, which would mean people having different risk profiles at different stages in their lives.⁶² Once a Premium Pension member has opted out of the default fund, they cannot opt back in.

In **New Zealand**, employees who are automatically enrolled into KiwiSaver are allocated to their employer's chosen KiwiSaver scheme, at least initially. Employees can subsequently choose to switch to a different scheme if they wish to. If an employee does not choose a scheme into which contributions are to be paid, and their employer does not have a nominated scheme, after three months the Inland Revenue allocates employees to one of six government-sponsored default providers. The intention is that each default KiwiSaver provider is allocated an equal number of members. Some of the pension experts we interviewed questioned the need to have as many as six default KiwiSaver providers, which were selected through a competitive tendering process. Default status was estimated by one telephone respondent to be worth approximately 60,000 members.

Contributions are then invested in the default providers' conservative investment fund option. This may vary from provider to provider in relation to the exact investment portfolio but must contain growth (or equity) assets limited within the range of 15 per cent to 25 per cent of total assets.⁶³ The average benchmark investment allocation for the default funds in 2009 is shown in Table 10.1, and is notable for the relatively high proportion of assets held in cash (Government Actuary, 2009). By the end of March 2009, 34 per cent of all KiwiSaver members had been allocated to a default scheme via the automatic enrolment process, with one-third (33 per cent) of all KiwiSaver contributions invested in this way (Inland Revenue, 2009).

In **Poland** the Social Insurance Institution (ZUS), which administers the mandatory private pension scheme, is responsible for assigning members who have not made a choice of open pension fund (despite being required to do so) to a default fund

⁶² *Premium pensions consider more default fund variety*. Published 16 July 2009 by Nordic Region Pensions and Investment News (www.nrpn-online.com).

⁶³ Information accessed from www.kiwisaver.gov.nz and www.med.gov.nz

option. This is conducted randomly by means of twice yearly 'lotteries'. Only funds that meet certain criteria may participate in the lotteries (in particular funds with a relatively large share of total assets being excluded) and they receive an equal share of the pool of members to be allocated.⁶⁴ In 2006, four pension funds participated in the lotteries and acquired a total of 160,000 new members. This was up over one-fourth relative to 2005 (Polish Financial Supervisory Authority, 2007).

Table 10.1 Default fund asset allocation

	Sweden	Australia	New Zealand
Equities	82%	52%	16%
Private equity funds	2%	—	—
Hedge funds	2%	—	—
Bonds/fixed interest	8%	16%	40%
Property	—	10%	3%
Cash	—	9%	42%

Sources: Sjunde AP-fonden, 2007 (Sweden); Australian Prudential Regulatory Authority, 2008 (Australia); Government Actuary, 2009 (New Zealand), and note that these figures are the average benchmark investment allocation to default funds.

The situation in **Australia** is different again. The default fund into which superannuation is paid is determined by the relevant industrial award which applies to the individual's workplace, where such an award exists.⁶⁵ In absence of an award, the employer chooses a default superannuation fund for their employees from the wide range of funds available. For a fund to be eligible as a default option, it has to satisfy certain rules, such as minimum levels of death cover. The default fund investment portfolio is selected by the fund trustees and there do not seem to be any legally defined criteria for default funds in this respect. According to official figures, the majority of default assets are held in equities (Australian Prudential Regulatory Authority, 2008).

Concerns have been expressed in Australia about the performance of superannuation default funds. Gallery *et al.* (2006) (cited in Gerrans *et al.*, 2008) highlighted the significant variation in raw returns of a sample of default fund options, which implied differing risk characteristics for similarly labelled options. Work commissioned by the Australian Prudential Regulatory Authority proposed

⁶⁴ To be eligible for the lotteries, open pension funds must have a rate of return for the last two accounting periods higher than the relevant weighted rate of return of all funds. In addition, their assets must not exceed 10 per cent of total assets held by all funds (Polish Financial Supervisory Authority, 2007).

⁶⁵ Awards are made by a government agency, Fair Work Australia, which is the national workplace relations tribunal.

an approach to developing a low-cost and easy to understand national default option (Sy, 2008). A more recent paper by the Australia Institute also sets out the argument for a government-sponsored universal default superannuation fund, which would include features such as a lifecycle approach to asset allocation and low fees (Ingles and Fear, 2009). The issue of default funds is also being considered as part of the Cooper Review of superannuation.

Finally, in **Uruguay** if eligible individuals do not choose a pension fund, the Social Insurance Bank (which administers the publicly managed social security system) allocates them to an AFAP according to their market share (ISSA/IOPS/OECD, 2008).

10.4.1 Exercising investment choice compared to staying in a default fund

The evidence from a number of countries (**Australia, New Zealand, Sweden and Denmark**) indicates that, given the opportunity, a comparatively small proportion of people actually exercise active investment choice. We were not able to obtain equivalent information about levels of active investment choice in Uruguay, Poland or Norway.

While we were unable to ascertain how many individuals with superannuation exercised investment choice, official statistics indicate that around half (46 per cent) of total superannuation assets in **Australia** were held in the default investment strategy.⁶⁶ This proportion varied by sector, from 74 per cent of assets in industry funds, to 23 per cent in retail funds (Australian Prudential Regulation Authority, 2009). It has been argued that inertia or lack of interest in making superannuation investment choices is rational, given the low account balances of most employees and the costs of making a better decision (Sy, 2008). In terms of choice of superannuation fund (as opposed to investment choice), four per cent of respondents had chosen a new fund as a conscious act of choice (rather than moving because of a change of job or similar) during the first three months of new legislation on the choice of fund in 2005. A similar proportion (four or five per cent) said they were likely to change funds in the next 12 months (Clare, 2006).

In **New Zealand** at the end of the second year of KiwiSaver, more than half of members (55 per cent) had made an active choice of KiwiSaver scheme (an increase from 49 per cent in the first year), 34 per cent had been allocated to a default provider by the Inland Revenue (down from 38 per cent in the first year) and the remaining 12 per cent (about the same as the first year) had been allocated to their employer's nominated scheme (Inland Revenue, 2009, Table 3.9).

There were important differences, however, by enrolment method. As a result, of those who were **automatically enrolled** into KiwiSaver, 66 per cent were default allocated to a scheme by Inland Revenue, 23 per cent were allocated to

⁶⁶ This relates to superannuation funds with more than four members (i.e. self-managed funds are excluded).

their employer's nominated scheme and only 11 per cent actively chose a scheme. In contrast, almost all members who had opted in through a provider made an active choice of scheme, as did 38 per cent of those who opted in through their employer (Inland Revenue, 2009).

Where members did exercise choice, there was evidence of a preference for conservative or balanced funds (as opposed to higher risk growth funds), at least at that point in time (Government Actuary, 2009).

The picture in relation to active choice in **Sweden's** Premium Pension plan is rather more complex. By the end of 2007, almost six in ten (58 per cent) pension savers in the Premium Pension Scheme overall had made an active choice and their share of total pension assets amounted to 72 per cent (Premium Pension Authority, 2007). This trend masks a sharp decline over time in the percentage of pension savers making an active choice in the scheme, however. In 2000, when the scheme was first launched, 67 per cent of savers made an active choice. In 2007, this was 1.6 per cent, down from 7.4 per cent in 2006, largely attributed to a change in the scheme's communication strategy. This change meant that new savers were no longer automatically sent a 'selection package' with detailed information about the scheme (including a fund selection form, a guide to fund selection and a fund directory) but instead directed to where they could obtain this information. The change in strategy was based on the low percentage of members making an active choice.

The high level of active investment choice in Sweden in 2000 is attributed mainly to the fact that large numbers of the adult population were involved, and the assets invested consisted of accumulated pension entitlements for 1995-99. There was also a major publicity campaign run by the scheme and mass media interest was high. In contrast, between 2002 and 2007 most new pension savers were young people with small sums to invest (Premium Pension Authority, 2007). It is notable that during the period 2001-2005, the Swedish default fund performed better than an average of all funds that could be actively chosen, and was considerably cheaper (Tapia and Yermo, 2007).

Finally, in **Denmark**, three years after the introduction of choice, nearly 93 per cent of all Special Pension accounts continued to be managed by ATP, the state body that administers the scheme. Less than 0.3 per cent of the Special Pension's three million account holders (around 8,000 people) had chosen to invest their deposits individually on Folkebørsen. Approximately 214,000 had transferred their SP deposits to a different pension provider (ATP, 2007).

10.5 Investment returns

Most of the new pension saving stimulated by the pension reforms in the seven case study countries that have national occupational pension schemes has been in defined contribution pension arrangements. This means that the benefits are solely based on the amount contributed to the plan plus the investment return earned, and the investment risk is borne by plan members (ISSA/IOPS/OECD, 2008).

Among the case study countries we looked at that have national occupational pension schemes, it was not unusual for them to have investment restrictions. In addition, **Poland**, **Uruguay** (and **Norway** in certain circumstances) have a legally stipulated minimum level of investment return for the particular pension schemes we looked at in this review.

At the time of writing (November 2009), much of the global economy was still in, or just emerging from, recession. While the OECD reports that pension funds have staged a partial recovery in the first half of 2009, as of 30 June 2009 total pension funds assets still remained 14 per cent below their December 2007.⁶⁷ This is reflected in the information we were able to identify in relation to **Australia** and **Poland**.

In **Australia** official superannuation statistics indicate that the return on assets was negative 7.8 per cent for the year to June 2008.⁶⁸ Different funds varied in relation to investment returns, for example corporate funds had a return of negative 5.3 per cent, while for retail funds the figure was negative 10.3 per cent. Prior to 2007/2008, the return on assets in superannuation funds had been between 10 and 15 per cent per annum since 2003/2004 (Australian Prudential Regulatory Authority, 2008). It is estimated that total superannuation assets under management in Australia declined by an average 20 per cent in 2008 (US Social Security Administration, May 2009). Even prior to the recession, there were concerns in Australia about the variation in investment returns for different types of funds, particularly the relatively poor performance of retail funds, which are the most common superannuation funds (Drew and Stanford, 2003).

In **Poland**, there is a legal minimum rate of return of 50 per cent (or 400 basis points)⁶⁹ below the weighted average for all open pension funds in the last three years (Sierhej, 2008). From 30 Sept 2005 to 29 Sept 2008, it is reported that the weighted mean investment return rate of all open pension funds was only 12.576 per cent. By way of comparison, from 31 March 2005 to 31 March 2008, the equivalent investment return rate was 31.481 per cent (Zieleniecki, undated).⁷⁰ The Polish Financial Supervisory Authority reported in 2007 that, overall, the results of individual open pension funds have been relatively similar over time, with the best results reported by smaller funds.

⁶⁷ 'Pension funds recovering in 29, says OECD' www.oecd.org/document/39/0,3343,en_2649_34853_43944615_1_1_1_37411,00.html

⁶⁸ This relates to superannuation funds with more than four members (i.e. self-managed funds are excluded).

⁶⁹ A basis point is one one-hundredth of a percentage point.

⁷⁰ Note that this reference refers to a paper produced by the Polish trade union Solidarity, and is published on www.fesprag.cz, a Czech charity working on issues around justice and democracy. The information should be treated with caution as there were no references for the figures cited and we have not been able to validate them.

The latest investment return data we have in relation to the Premium Pension in **Sweden** relates to 2007. The average annual return for 2007 was 5.8 per cent. Comparing the investment returns of pension savers choosing a global equity fund (including the default fund) with a random sample of global equities, it was found that the funds chosen by savers performed better in 2002, 2003, 2004 and 2006. In the years 2001, 2005 and 2007 a random sample would have performed better. Among pension savers who had made an active investment choice, the performance of the funds selected was lower than a random selection over almost the entire period 2001-2007 (Premium Pension Authority, 2007).

Finally, in **New Zealand**, data for KiwiSaver indicates that for the year to 31 March 2009, conservative funds generated the best returns for members, given the relative performance of the range of asset classes, although the report cautions against relying on short-term performance results for long-term investments such as pension schemes (Inland Revenue, 2009).

10.6 Decumulation

Decumulation refers to the ways in which people use their accumulated assets (in this case pension savings) to finance their retirement, which can include buying an annuity and/or taking a lump sum.

In **Norway** and **Uruguay**, pension benefits accumulated in the schemes we looked at must be used to purchase an annuity (Pugh and Yermo, 2008; ISSA/IOPS/OECD, 2008).⁷¹ In **Poland**, the decumulation rules for pension saving in open pension funds were only recently decided. New legislation (with effect from 1 January 2009) proposes that pension savings are converted into an annuity at retirement age, but not before age 65 (OECD 2009 pension at a glance). Workers who retire before 65 make programmed withdrawals from their pension savings that are managed by the open pension funds.⁷² On reaching 65, the balance of their pension saving is used to purchase a annuity. The Government estimates that the law will affect approximately 2,000 women in 2009. Men begin to retire under the new system in 2014 (US Social Security Administration, January 2009).

At retirement, Premium Pension members in **Sweden** have two choices. They can convert their accumulated pension savings into an annuity, which provides a guaranteed monthly amount. Alternatively, they can choose what is described as a variable annuity, where their funds continue to be invested by their chosen fund manager. A variable annuity does not have a guaranteed value (OECD 2009a). In 2007, 86 per cent of pension savers took their pension as a variable annuity (in

⁷¹ An annuity is a financial services product purchased by means of a single premium or periodic payments to provide a regular income for a specified number of years or for a remaining lifetime (ISSA/IOPS/OECD, 2008).

⁷² Legislation was introduced at the same time to significantly reduce the number of people eligible to retire before 65.

the form of unit-linked insurance), while 14 per cent took an annuity (down from 16 per cent in 2006) (Premium Pension Authority, 2007).

Members who accumulate pension saving in **Australia** (in the form of superannuation) and **New Zealand** (in KiwiSaver) can take out their pension savings as a lump sum⁷³ or some sort of income stream. There is no compulsory annuitisation in either country, which was raised as a concern by some of the pension experts we interviewed, and both countries have very small annuities markets compared with the UK.

In **Australia**, most benefits are taken as a lump sum (OECD 2009a). Recent survey data indicates that 43 per cent of retired Australians had benefited from superannuation at some time: 11 per cent had received a pension or annuity and a lump sum; a further 11 per cent a pension or annuity but not a lump sum; and a further 20 per cent received only a lump sum. Only 31 per cent of retirees who had recently received a lump sum had mainly invested the money, with most people using it to pay off debt, buy goods and services or to help their family (Australian Bureau of Statistics, 2009). We were unable to find further details about KiwiSaver, because it is a relatively new scheme.

Finally, as mentioned previously, in **Denmark** the government decided in 2009 to allow SP members to take out their pension savings to boost the Danish economy, and most did so. The remaining accounts are expected to be paid out in Spring 2010 (from www.atp.dk).

10.7 Access to pension saving prior to retirement

Access to pension saving prior to retirement age is not permitted in the schemes we looked at in **Australia, Sweden, Norway, Uruguay** and **Poland**.⁷⁴ In **Denmark**, as noted above, Special Pension members have been able to access their savings since 2009, with the likelihood that the scheme will be closed.

Early access to pension saving is permitted for KiwiSaver members in **New Zealand**. There are three circumstances when this is allowed. The first of these is First Home Withdrawal, which permits KiwiSaver members who have been contributing to their scheme for three years to withdraw pension savings to buy a first home to live in (rather than as an investment).⁷⁵ Withdrawals are limited to current value of the contributions that they and their employer have made; they cannot withdraw any government incentive payments.

⁷³ A lump sum is a one-off cash payment that represents part or all of the cash value of the beneficiary's accrued benefits or accumulated capital (ISSA/IOPS/OECD, 2008).

⁷⁴ In Australia, there are some exceptional circumstances where people can access their savings early, including medical conditions or severe financial hardship (www.apra.gov.au).

⁷⁵ Existing homeowners can apply if they are assessed to be in the same financial position as a first time buyer.

The second circumstance in which savings can be withdrawn from KiwiSaver is proven significant financial hardship. The criteria for assessing eligibility are outlined in Box 10.3. Like First Home Withdrawal, members can only withdraw the current value of contributions that they and their employee have made. In the year ended 30 June 2009, the Inland Revenue received 139 applications for reasons of serious financial hardship. Only 10 of these applications were deemed to meet the definition and approved (Government Actuary, 2009).

The third circumstance is serious illness or permanent disability that affects a member's ability to work. In this case, all the funds in the KiwiSaver scheme (including government incentive payments) can be withdrawn. There were 15 requests to Inland Revenue for payments on these grounds for the year ended 30 June 2009, of which only one met the legal definition of serious illness (Government Actuary, 2009).

Box 10.3 Criteria for determining significant financial hardship in KiwiSaver

Significant financial hardship includes if members are:

- unable to meet minimum living expenses;
- unable to meet mortgage repayments on the home they live in;
- modifying the home to meet special needs because of their own disability or that of a dependent family member;
- paying for medical treatment if they or a dependent family member becomes ill, has an injury, or requires palliative care;
- suffering from a serious illness;
- incurring funeral costs if a dependent family member dies (www.kiwisaver.govt.nz)

In addition, at the outset of the KiwiSaver initiative some scheme providers allowed members to divert up to half of their contributions to pay for a mortgage after they had contributed to KiwiSaver for 12 months, known as mortgage diversion. From 1 June 2009, the government abolished mortgage diversion for new scheme applicants. The reasons for this were:

- the goals of mortgage diversion were counter to the basic purpose of KiwiSaver, i.e. saving for retirement;
- the rules were complex and only some KiwiSaver providers offered mortgage diversion. As a result, take-up was very low. By the end of May 2009, only 600 out of more than one million KiwiSaver members had chosen this option;
- the additional compliance costs to KiwiSaver providers were considered unnecessary and were passed on directly to scheme members, the vast majority of whom did not use the feature (US Social Security Administration, July 2009).

Finally, while early access to superannuation funds is not generally permitted in Australia, there have been concerns about promoters acting individually or through a business front to encourage people to illegally obtain early access to super funds. These schemes usually involve promoters offering to transfer superannuation savings from an existing fund into another type of fund (mainly a self-managed fund), and claiming that the money can be used for whatever purpose the member wants.⁷⁶ The Australian Tax Office (ATO) reports that it is developing appropriate responses to this illegal activity, including prosecution (ATO, 2008a).

10.8 Conclusion

The seven case study countries included in this chapter offer examples of national occupational pension schemes, in the form of private pension saving in either personal or occupational pension schemes. For the most part, members save for retirement in defined contribution pension schemes.

The fee structures attached to these schemes usually include a mix of fees on contributions and asset management fees. **Poland** also has fees for switching funds, which were not found elsewhere. In some cases these fees are capped, in others they are unrestricted. The key issues in relation to fees are their lack of transparency and the impact they may have on eventual retirement income if unchecked.

Most of the national occupational pension schemes we looked at offered an element of investment choice to members, ranging from a choice of four funds in **Uruguay** to over 750 in **Sweden**. There is evidence to suggest, however, that active investment choice is relatively low among pension fund members. As a result, there is often a heavy reliance on default funds, the investment asset mix of which varies enormously by country.

Given the recent global economic downturn, it is not surprising to see negative returns on investment in the national occupational pension schemes we looked at, a few of which offer minimum guaranteed rates of return. Across the piece, accumulated pension assets or accrued benefits tend to be taken either as an annuity and/or a lump sum. There was very little evidence of early access to pension savings in the schemes we looked at, the exception being **New Zealand's** KiwiSaver.

⁷⁶ Information from ATO leaflet *Illegal super schemes: Beware of offers to withdraw your super early*, accessed from www.ato.gov.au

11 Conclusions

The Department for Work and Pensions (DWP) commissioned this review of international pension schemes and pension reform to draw together evidence, potential learning points and areas of distinction between the UK and key comparator countries, to inform implementation of the Government's workplace pension reforms. The review focused mainly on the introduction and implementation of workplace pension reforms, which aimed to encourage private pension saving among individuals of working age. This final chapter presents our conclusions based on the evidence from the rapid evidence assessment and the telephone interviews with pension experts. We begin by considering what seem to be the main gaps in the evidence base.

11.1 Gaps in the evidence base

The main gaps in evidence seem to be:

- attitudes to pension reform, pre and post-implementation;
- the effectiveness of incentives to encourage voluntary employee contributions above and beyond any minimum requirement;
- the outcome of pension reforms and pension schemes on incomes and living standards in retirement (although this may improve over time);
- the wider macro-economic impacts of pension reform, such as the effect on aggregate savings levels, labour market impacts and the impact on small businesses.

With the exception of **New Zealand**, there was a dearth of robust evaluation of pension reform in the case study countries we looked at.

11.2 The case study countries

The eight case study countries selected for inclusion in this review represented a range of pension schemes to promote private pension saving, most (with the exception of **Canada**) the result of pension reform instituted in the last 20 years.

The desire to increase private pension saving was generally driven by concerns about the rising cost of public pension systems in the face of ageing populations, while at the same time wanting to raise standards of living in retirement. The low coverage of private pension saving was often an issue as well.

The aim of pension reform was therefore to encourage widespread participation in private pension saving among workers, typically through mandatory participation. It was common, however, for case study countries to have eligibility floors in terms of the age or income of workers who could participate. Except in Canada, where Registered Retirement Savings Plans (RRSPs) are entirely voluntary, there was also an element of compulsion in terms of contributions, with employees and/or employers required to make at least a minimum contribution to pension saving.

The pension schemes that we examined in this review developed according to the particular political, economic and cultural environments in the case study countries. This needs to be taken into account when drawing comparisons between the UK and the case study countries. Three other factors should also be borne in mind: First, in several of the case study countries the pension schemes we focused on for the purpose of the review formed part of a wider set of pension reforms. For example, mandatory defined contribution pension saving was introduced in **Poland** and **Uruguay** as part of wholesale reform of these countries' public pension systems. It could be argued that the workplace-based pension reforms planned in the UK are incremental by comparison.

Secondly, while the drivers for reform tended to be the challenges of an ageing population and concerns about the costs of public pension systems, in some case study countries the promotion of private pension saving was seen as a way of addressing broader macro-economic policy, in particular to contain inflationary pressures (for example, in **Australia** and **Denmark**).

Thirdly, the private pension provision on which reforms aimed to build varied markedly across the case study countries and in comparison with the UK. Compared with **New Zealand**, for example, the UK already has relatively good private pension coverage in the form of occupational and personal pension ownership (Section 2.7.1). Compared with Denmark, however, the UK has a relatively low level of occupational pension coverage (Section 2.6).

Of the eight case study countries we looked at, New Zealand provides the closest comparator to the planned UK reforms, in terms of basic scheme design (i.e. automatic enrolment with employees being able to opt out, minimum contributions legally required from employers and employees). There are, however, some important differences in terms of the detail of the schemes:

- In New Zealand, employers are required to automatically enrol eligible new employees into KiwiSaver. In the UK, all eligible employees will have to be enrolled.

- In both New Zealand and the UK employers are required to contribute a minimum amount to pension saving. In the UK, this will be based on qualifying earnings (a band between £5,035 and £33,540), whereas in New Zealand contributions are based on total gross earnings.
- In New Zealand employees are required to contribute a minimum amount to pension saving. In the UK, employees will be required to make contributions up to four per cent, depending on the amount contributed by the employer.
- The total minimum contribution required under the KiwiSaver scheme is currently four per cent of gross earnings. In the UK, this will be eight per cent of qualifying earnings.
- KiwiSaver provides a one-off tax-free payment and a dollar-for-dollar annual tax credit up to NZD 1,040 (£470) to members. There are no equivalent incentives planned in the UK.
- Under the rules of the scheme, KiwiSaver members can apply for contribution holidays and withdrawals from their account. This will not be the case in the UK.

11.3 Implementing pension reform

The review highlighted that the legislative process for implementing pension reform can often be protracted. One of the key challenges in terms of implementing pension reforms once they were on the statute books related to communication and engagement with three key groups of stakeholders: employees, employers and pension providers (both individually and through representative organisations such as trades unions and trade associations). The other key challenge related to the set up of processes and procedures to administer a new or reformed system.

11.3.1 Communication

Communication and information campaigns to raise awareness and garner support appeared to work better in some case study countries than others. The reasons for this were not always entirely clear, even though the campaigns were often similar in design (e.g. comprising TV and radio adverts, newspaper advertising, and websites). We look first at communicating with individuals and then go on to consider employers.

In **New Zealand**, information campaigns to raise public awareness and understanding of KiwiSaver were carried out by government and the New Zealand Retirement Commission. Provision of information by the Retirement Commission as a trusted third party seems to have been an important element of the campaign, and focused on providing people with information and guidance to make an informed decision about whether or not to participate in the scheme (Section 8.1.2). Research indicated generally positive views among the public about KiwiSaver and around two-thirds of potential contributors thought they had received sufficient information to make a decision (Section 3.2). At the end

of the second year of KiwiSaver, more than half of members had made an active choice of KiwiSaver scheme, although this proportion varied widely by method of enrolment (Section 10.4.1).

In **Australia**, the introduction in 2005 of Super Choice (a member's right to choose a different fund to that nominated by their employer or industry) was accompanied by an extensive public education campaign run by government to improve public understanding and awareness (Section 8.1.1). While research indicates that public awareness increased considerably, the proportion of people exercising choice of fund has remained low (Section 10.4.1).

As we saw in Section 3.2, the government in **Sweden** similarly launched an extensive information and communications campaign around the introduction of Premium Pension in 1999. It was shown to have limited impact on public knowledge, however, with less than 40 per cent of people indicating that they had a good understanding of the new system. In terms of ongoing communication, too much information is felt to have hampered active investment choice by Premium Pension members (Section 8.1.4).

In **Poland**, initial disappointing results from the government's public information campaign around the 1999 pension reforms were attributed to the fact that the campaign was not identified in the public's mind with the government. The campaign was re-focused to ensure that the public were aware that this was objective and reliable information provided by government (rather than financial services providers), and take-up of information improved as a result (Section 8.1.3). Voluntary participation in Poland's reformed system was much higher than anticipated (Section 4.1.1).

Turning to employers, in **New Zealand** the government's strategy with employers was to engage with them fairly intensively around the introduction of KiwiSaver. As a result, the majority of employers felt informed about their obligations under KiwiSaver, although this was lower among small employers (Section 3.2).

Research in **Australia** suggests that government agencies failed to communicate adequate levels of information to small businesses in Australia about the Superannuation Guarantee when it was introduced in 1992, although employers did report receiving information from other sources such as insurance companies and banks.⁷⁷ It is worth noting that small businesses and their representatives were strongly opposed to the 1992 changes because they could not see any benefits to the introduction of compulsory superannuation and fears about future job losses among small employers because of the cost. They also opposed the introduction of Super Choice in 2005.

⁷⁷ Note that this research was based on a survey of small businesses carried out in just one region of Australia (the Gold Coast).

11.3.2 Practical set-up issues

The smooth implementation of pension reforms is an important element in fostering confidence and support among employers. This includes ensuring robust systems for the collection and distribution of contributions, particularly where high volumes of business are anticipated.

In **New Zealand**, the use of the existing PAYE system to collect employer and employee contributions, which are then distributed to KiwiSaver providers by the Inland Revenue, seems to have worked well, with employers expressing positive views (Sections 3.2 and 3.3). In contrast, the Social Insurance Institution in Poland was unprepared for the higher-than-anticipated volume of contributions it received, resulting in difficulties with collection and distribution, at least initially (Section 3.3).

Good record-keeping in relation to employee contributions is another important factor. In Australia, for example, poor quality information provided by employers can make it difficult to match contributions to employee's superannuation accounts. This has led to calls for a minimum data requirement (Section 3.3).

11.4 Employee outcomes and reactions

The evidence from several of the case study countries indicated much higher-than-anticipated voluntary participation in reformed pension schemes among individuals who were not required to join. This seems to have been driven primarily by financial incentives (in the case of **New Zealand**) or the expectation of improved benefits in retirement (in the case of **Poland** and **Uruguay**).

In **New Zealand**, the closest comparator country to the UK in terms of scheme design, membership of KiwiSaver grew by 54 per cent by the end of the second year (2008), to 1.1 million members or 29 per cent of the eligible population. Around four in ten (39 per cent) of members had been automatically enrolled, and these members tended to be younger and on lower incomes than those who had opted in either through a provider or employer, indicating that automatic enrolment has been effective in increasing participation among younger people. Employees who are automatically enrolled to KiwiSaver can opt out, and the proportion choosing to do so has remained steady at 34 per cent (Section 4.1.1).

Individuals in New Zealand who are automatically enrolled or opt in to KiwiSaver are legally required to make a minimum contribution, which was reduced from four per cent of gross earnings in the first year to two per cent in the second year. At the end of June 2009, most members were contributing at four per cent of their salary or wages to their accounts (the original default rate). Twelve percent were contributing at the new default rate of two per cent. Of those who joined before 1 April 2009, most had not changed their previous contribution rate from four per cent, possibly indicating inertia or the fact that people had got used to contributing this amount and found it affordable. The majority of employees (90

per cent) receive the minimum two per cent contribution from their employer (Section 4.2).

Where there was no requirement for individuals to save (as in **Australia, Canada and Norway**), only a relatively small proportion of members appeared to make voluntary contributions, even when there are financial incentives available to do so. Evidence from Australia indicates that cost, feeling too young, or having other financial priorities such as a mortgage may prevent voluntary pension saving (Section 4.2).

To date, there is limited information about the effect of pension reforms on individual's income and living standards in retirement. The expectation in both Australia and New Zealand is that, once matured, the reforms will deliver higher replacement rates for individuals in retirement (Section 4.3). There is some indication from Australia that compulsory superannuation has led to increased household wealth and increased the household saving rate as a proportion of Gross Domestic Product (GDP) (Section 4.4).

11.5 Employer outcomes and reactions

There is little evidence from our review to indicate that the financial costs of pension reform are a significant issue for employers, even small businesses. This may have changed as a result of the global financial situation, although it was considered too early to tell.

In the first year of KiwiSaver in **New Zealand**, 58 per cent of the financial costs of employer contributions was offset by an employer tax credit which has since been abolished (Section 5.1.1). While employer views about affordability could change as a result of this, the government announced at the same time that it was fixing the minimum contribution of employers at two per cent (rather than an increase to a minimum four per cent by 2011, as planned).

The administrative burden of complying with new pension legislation does not appear to have been a big issue for employers either. In **Australia**, however, a free clearing house for small employers will come into effect in July 2010, with the aim of reducing the costs and burden on them while at the same time improving processing time and data quality (Section 5.1.2). Employer compliance with the requirements of reformed pension systems appears to have been high across the seven countries we looked at, with any non-compliance largely attributed to error or misunderstanding (Section 5.2).

11.6 Pension industry outcomes and reactions

In the UK, the planned reforms involve the provision of an occupational pension scheme by the newly-formed National Employment Savings Trust (NEST), for employers that do not have, or do not wish to use, a qualifying scheme of their own. It is expected that existing pension providers will also play a role. There was

no direct equivalent to this arrangement among the eight case study countries, which ranged in **Denmark** from the centrally administered Special Pension (SP) to nearly 500 superannuation funds in **Australia** (Section 6.1). The impact of pension reforms on financial markets was generally regarded as positive, although there were some issues where reforms were implemented in countries with less-developed financial markets (Section 6.2).

11.7 National occupational pension schemes

Seven of the eight case study countries (the exception being **Canada**) offer examples of national occupational pension schemes, in the form of private pension saving. For the most part, members save for retirement in defined contribution pension schemes. We looked in detail at the pension schemes for each of these seven countries and discuss some of the key findings below.

11.7.1 Fees

Fee structures usually include a mix of fees on contributions and asset management fees. **Poland** also has fees for switching funds, which were not found elsewhere. In some cases fees were capped, in others they were unrestricted. **New Zealand** was unusual in having no prescribed fee structure or level of fees, the legal requirement for KiwiSaver being that fees are 'not unreasonable', which is monitored by the Government Actuary. The fees for default KiwiSaver providers are prescribed for each provider.

The complexity of fee structures can make them difficult for consumers to understand and compare and may inhibit open competition as a result. This has been a challenge for the New Zealand Retirement Commission in developing a fee calculator for consumers on its 'Sorted' website (www.sorted.org.nz) and may present difficulties when trying to improve product disclosure, as in **Australia** (Section 10.2.1).

11.7.2 Exercising investment choice

Among the national occupational pension schemes we studied, the extent of investment choice varied widely, from four pension funds in **Uruguay** to over 700 funds offered by around 85 different providers in **Sweden**. The evidence on the levels of investment choice is mixed, but suggests that without a concerted publicity effort a comparatively small proportion of members exercise active investment choice, in the absence of which they are allocated to a default fund of some kind.

In **Sweden**, a high level of active investment choice when the Premium Pension was launched is attributed to the large proportion of the adult population that was involved and the publicity around the scheme. After this, the numbers making an active choice declined steeply, from 67 per cent in 2000 to 1.6 per cent in 2007. In the first two years of KiwiSaver in **New Zealand**, a growing number of

members have made an active choice of scheme (49 per cent in year one, rising to 55 per cent in year two). This masks considerable difference by method of enrolment however, with only one in ten of those automatically enrolled making an active choice, compared with those opting in via an employer or provider. In **Australia**, around half of superannuation assets are held in a default investment fund and the proportion of members who exercise choice of fund (as opposed to investment choice) is also low (Section 10.4.1).

11.7.3 Default funds

If members do not make an active choice in terms of where their pension savings should be invested, their contributions are generally directed to a designated default fund. This can involve a significant number of members and large sums of pension assets. The default fund arrangements and investment strategies varied widely across the case study countries we looked at.

In **Sweden**, there is only one default fund, managed by the state authority, and around 80 per cent of assets held in this fund are invested in equities.

In **Poland** and **Uruguay**, members who do not make an investment choice are allocated to providers based on criteria including market share and, in the case of **Poland**, rate of investment returns. There do not seem to be any restrictions that we could find on how money in default funds is invested in these two countries.

In **New Zealand**, six default providers were selected by the government through a competitive tendering process. KiwiSaver members who are automatically enrolled and do not make an active choice and whose employer does not have a nominated scheme are allocated to one of these six providers by the Inland Revenue (a system similar to revenue-allocated Child Trust Fund accounts in the UK). The money is invested in the default providers' conservative fund, which may vary by provider but which cannot by law have more than a certain proportion invested in equities.

In **Australia**, in the absence of an industrial award that determines a default superannuation fund, the employer chooses a fund to pay contributions into. To be eligible as a default fund, it has to satisfy certain criteria. The investment portfolio is selected by the fund trustees, however, and it is unclear whether there are any rules in relation to this. Concerns have been raised in Australia about the variation in performance of different default funds, with calls for a universal government-sponsored default superannuation fund (Section 10.4).

11.7.4 Investment returns

Most of the new pension saving stimulated by the reforms in these seven countries is in defined contribution arrangements. It was not unusual for the schemes we looked at to have investment restrictions and in some cases minimum requirements for investment returns. The global economic downturn has clearly impacted on investment returns in the short term, and it is not clear how this will be handled by

those countries that have legally set minimum investment returns. There is some indication from **New Zealand** that members who invested in conservative funds have achieved the best (short-term) returns in this economic climate (Section 10.5).

11.7.5 Decumulation

Among the case study countries we looked at, **Norway, Uruguay and Poland** all required pension benefits to be taken as an annuity. This was not the case in **Australia or New Zealand**, where the method of decumulation is not mandated and many people take their pension benefits as a lump sum. The lack of some form of compulsory annuitisation was raised as a matter of concern by pension experts who we spoke to in both of these countries (Section 10.6). In addition, New Zealand was the only country that seemed to allow early access to pension savings as a matter of course (Section 10.7).

Appendix

Search terms and parameters

Rapid evidence assessment

We conducted systematic searches for each of the eight case study countries between 17 April 2009 and 30 June 2009, from the following sources:

- Academic bibliographic databases and libraries (International Bibliography of the Social Science, Applied Social Sciences Index and Abstracts, Social Science Research Network (US), EconLit).
- Web searches (Google, Google Scholar, Intute: Social Sciences).

The search terms and parameters we used are provided in Table A.1.

Table A.1 Search terms and parameters used in the review

Case study country	Database	Search terms used	Parameters
New Zealand	ASSIA	KiwiSaver	English language; 2004 to present
New Zealand	ASSIA	New zealand + pension + reform	English language; 2004 to present
New Zealand	IBSS	KiwiSaver	English language; Jan 2000-present
New Zealand	IBSS	Kiwi Saver (keyword search on kiwi and saver)	English language; Jan 2000-present
New Zealand	IBSS	New Zealand + pension + reform (smart text search)	English language; Jan 2000-present
New Zealand	SSRN (US)	Kiwisaver	Last 3 years
New Zealand	SSRN (US)	Kiwi Saver	Last 3 years
New Zealand	SSRN (US)	New Zealand pension reform	Last 3 years
New Zealand	Econlit	Kiwisaver	2000 to present

Continued

Table A.1 Continued

Case study country	Database	Search terms used	Parameters
New Zealand	Econlit	Kiwi Saver	2000 to present
New Zealand	Econlit	New Zealand pension reform	2000 to present
New Zealand	Google Scholar	Kiwisaver	Default
New Zealand	Google Scholar	New Zealand pension reform	2007 to 2009, limited to relevant subject areas
New Zealand	Intute: Social sciences	Pension reform	none
Uruguay	Google Scholar	Uruguay pension reform	Default
Uruguay	Intute: Social sciences	Uruguay pension reform	none
Uruguay	Econlit	Uruguay pension reform	1995 to present
Uruguay	IBSS	Uruguay + pension + reform (smart search)	Jan 1995 to present
Uruguay	ASSIA	Uruguay + pension + reform	1998 to present
Sweden	Google Scholar	Sweden pension reform	Default
Sweden	Google Scholar	Sweden "Premium Pension Plan"	Default
Sweden	Google Scholar	Sweden "Premium Pension Authority"	Default
Sweden	Intute: Social sciences	Sweden pension reform	none
Sweden	Econlit	Sweden pension reform	1999 to present
Sweden	IBSS	Sweden + pension + reform (smart search)	Jan 1999 to present, English language
Sweden	ASSIA	Sweden pension reform	1999 to present
Denmark	Google Scholar	Denmark pension reform	Default
Case study country	Database	Search terms used	Parameters
Denmark	Google Scholar	Denmark "special pensions"	Default
Denmark	Intute: Social sciences	Denmark pension reform	none
Denmark	Econlit	Denmark pension reform	1999 to present
Denmark	IBSS	Denmark + pension + reform (smart search)	Jan 1999 to present, English language
Denmark	ASSIA	Denmark pension reform	1999 to present
Canada	Google Scholar	Canada pension reform	Default
Canada	Google Scholar	"Pension reform" AND "Registered Retirement Savings Plan"	Default
Canada	Intute: Social sciences	Canada pension reform	none
Canada	Econlit	Canada pension reform	1999 to present
Canada	IBSS	Canada + pension + reform (smart search)	Jan 1999 to present, English language
Canada	ASSIA	Canada pension reform	1999 to present

Continued

Table A.1 Continued

Case study country	Database	Search terms used	Parameters
Poland	Google	Poland Open Pension Funds	2005-2009
Poland	Google Scholar	Poland Open Pension Funds	Default
Poland	Google Scholar	Poland pension reform	Default
Poland	Intute: Social sciences	Poland pension reform	none
Poland	Econlit	Poland pension reform	1999 to present
Poland	IBSS	Poland + pension + reform (smart search)	Jan 1999 to present, English language
Poland	ASSIA	Poland pension reform	1999 to present
Norway	Google Scholar	Norway pension reform	Default
Norway	Google	Norway mandatory employer pension contribution	Default
Norway	Intute: Social sciences	Norway pension reform	none
Norway	Econlit	Norway pension reform	1999 to present
Norway	IBSS	Norway + pension + reform (smart search)	Jan 1999 to present, English language
Norway	ASSIA	Norway pension reform	1999 to present
Australia	Google Scholar	Australia pension reform	Default
Case study country	Database	Search terms used	Parameters
Australia	Google Scholar	Australia superannuation guarantee	Default
Australia	Intute: Social sciences	Australia pension reform	none
Australia	Econlit	Australia pension reform	1992 to present
Australia	IBSS	Australia + pension + reform (smart search)	Jan 1992 to present, English language
Australia	ASSIA	Australia pension reform	Earliest to present

In addition, we carried out searches of the following websites for each case study country:

- OECD (www.oecd.org);
- World Bank (www.worldbank.org);
- www.pensionreforms.com;
- Pension Research Council (www.pensionresearchcouncil.org);
- US Social Security Administration International Update (www.ssa.gov/policy/docs/progdesc).

Web searches were also conducted of the following country-specific organisations:

Table A.2 Country-specific organisations used in the search

Case study country	Organisation	Website
Australia	Centre for Pensions and Superannuation, University of new South Wales	www.business.unsw.edu.au
Australia	Association of Superannuation Funds of Australia Limited	www.superannuation.asn.au
Australia	Australian Tax Office	www.ato.gov.au
Australia	Council of Small Business Organisations of Australia Limited	www.cosboa.org
Canada	Statistics Canada	www.statcan.gc.ca
Canada	Canada Revenue Agency	www.cra-arc.gc.ca
Canada	Office of the Superintendent of Financial Institutions Canada	www.osfi-bsif.gc.ca
Denmark	Danish Financial Services Authority	www.ftnet.dk
New Zealand	Inland Revenue	www.ird.govt.nz/aboutir/reports/research/report-ks
New Zealand	Retirement Commission	www.retirement.org.nz
New Zealand	Government Actuary	www.isu.govt.nz
Norway	Federation of Norwegian Commercial and Service Enterprises	www.hsh-org.no
Poland	National Bank of Poland	
Sweden	Social Insurance Agency	www.forsakringskassan.se
Sweden	Premium Pension Authority	www.ppm.se
Sweden	Seventh Swedish Pension Fund	www.ap7.se/Din-pension/
Uruguay	Central Bank of Uruguay	www.bcu.gub.uy/indexe.html

Telephone interviews with pension experts

Telephone interviews were conducted with 14 pension experts in seven of the eight case study countries (the exception being Canada). The pension experts we spoke to included academics, policymakers and pension professionals.

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This review draws together evidence, potential learning points and areas of distinction between pension reform in the UK and pension systems in comparator countries. The review focuses mainly on the introduction and implementation of workplace pension reforms that aimed to encourage private pension saving among individuals of working age. It centres on eight case study countries (Australia, Canada, Denmark, New Zealand, Norway, Poland, Sweden and Uruguay) all but one of which had instituted pension reforms that were similar in some respect to the proposed reforms in the UK. The review comprises of a rapid evidence assessment and telephone interviews with pension experts in the case study countries.

The study was commissioned as part of a programme of research and analysis carried out by the Department for Work and Pensions to inform the implementation and estimation of the likely impacts of the workplace pension reforms.

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