DWP Department for Work and Pensions

Research Summary

Review of international pension reform

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Background and research aims

The Pensions Act 2008, introduced into Parliament in 2007, contains the private pension reforms. The Act is designed to encourage more people to save towards their retirement. The reforms include: a duty on employers to automatically enrol eligible employees in to a qualifying workplace pension arrangement; a mandatory minimum employer contribution; and the establishment of NEST (National Employment Savings Trust), formerly known as the personal accounts scheme.

The Personal Finance Research Centre at the University of Bristol was commissioned by the Department for Work and Pensions (DWP) to conduct a review of international pension schemes and pension reform. The review drew 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 literature review and telephone interviews with pension experts in the case study countries.

Key findings

- Attitudes towards the reforms in the case study countries were generally positive among individuals, employers and pension providers.
- Evidence from several of the case study countries indicated higher-than-anticipated voluntary participation among individuals who were not required to join.
- To date there is little information on the impacts of pension reform on income and living standards in retirement.
- There is little indication that the costs and burdens of pension reform were a significant issue for employers.
- Among employers, levels of intentional non-compliance with new legislation have been low.
- An adequate communications strategy for individuals and employers is key to the success of reform. In particular, it is important to achieve the correct balance between providing sufficient information while not overloading people, and there is an ongoing need for information.

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 pensions 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. In New Zealand, there was evidence that some people saved more than the minimum required, although the majority saved at the 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.

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 full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 84712 781 5. Research Report 663. June 2010).

You can download the full report free from: http://research.dwp.gov.uk/asd/asd5/rrs-index.asp

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