Nudging Persons to Save for Retirement

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The 2004 and 2010 Pensions Working Groups (PWG) respectively proposed the introduction of a mandatory Second Pension. The rationale behind this recommendation was that a mandatory Second Pension would strengthen the sustainability of the pensions system through the diversification of risk away from demographics, and to ensure that persons would have accumulated sufficient personal savings that would bring their retirement income closer to that enjoyed, whilst in employment.

The respective PWGs argued that evidence from the behavioural economics and psychology literature shows that persons are bad at committing to save for retirement. Procrastination, myopia and inertia lead many persons to postpone or avoid making the commitment to save sufficiently for retirement, even when they know that this is ultimately in their best interest.

The reactions to the recommendations for the introduction of a mandatory Second Pension were mixed. Be that as it may, both the then Government and Opposition rejected the recommendations made by the respective PWGs. The positions taken were that mandatory savings through a Second Pension would result in lower competitivity and lower disposable income, and, therefore, acting as a break on economic growth. Additionally, the concern was stated that given the thinness of domestic financial markets increased savings could flow out of the Maltese economy, and be invested abroad, rather than generate further economic activity in Malta.

It was further argued that mandatory enrolment is not necessary for all individuals, depending on the design of the overall pension system. Low-income workers, for instance, may not need to contribute in a mandatory Second Pension, if they already enjoy high replacement rates from the pension system.

The Government, as pledged in its Electoral Manifesto, has opted to boost savings for retirement, through a voluntary Third Pension. A legislation titled Income Tax (Amendment) was enacted at the House of Representatives. The legislation introduces provisions relating to investment income from retirement schemes. The legislation provides for an incentive to persons who place an amount that is equal to the lower of (i) 15% of the aggregate of contributions made or premiums paid immediately preceding a year of assessment in respect to membership of personal retirement schemes or (ii) €150 or such other amount as may prescribed by the Minister is allowed a credit against income tax chargeable, in Malta, to a person who is a member of a personal retirement scheme.

The Third Pension framework in Malta, thus, is recently launched. The next few years will show whether the new Third Pension framework as legislated will be successful or otherwise. It is pertinent to underline, that there are countries that have trodden this path and which concluded that their schemes to incentivise persons to save for retirement were not leaving the desired results and as savings accrued were not enough for retirement. Two such countries are the United Kingdom and New Zealand.

This Supplementary Paper looks at what alternative could be considered vis-à-vis the traditional Third Pension instrument (as introduced in Malta). The paper concludes that an important alternative to a traditional Third Pension scheme is an Automatic Mandatory Roll-In with a Voluntary Opt-out Pension scheme.

Analyses of the level of saving in personal private pensions, (that is excluding occupational retirement pensions) in EU Member States (MS) show that there is a significant degree of under-saving for retirement on the part of individuals and households. This is not a new problem. The issue of under-saving for retirement has long been acknowledged, and potential solutions debated and introduced.

Traditional economic theory underlines that a person acts rationally, where-in throughout his or his lifecycle s/he will borrow when young, save in middle age and builds wealth and spends his or her savings in old age. In truth, a person does not act rationally when he or she comes to plan long term. Behavioural science suggests that people cannot plan over their lifetime, as they display biases and use judgements based on rules of thumb or social and cultural norms.

This conclusion is supported by many a survey and studies related to behavioural economics and retirement planning. Thus, for example:

- A research study carried out in the UK in 2011 by the Society Centre and the Institute for Social and Economic Research found that most pension saving, among employees is done through occupational schemes and not private pensions, with approximately 50% of employees saving into an occupational pension while just over 7% into a voluntary personal pension.[1]

- A National Association of Pension Funds (NAPF) 2012 Workplace Pensions Survey, showed people's confidence about their financial well-being in retirement declines markedly with age, suggesting they regret not having saved more, as they get closer to the point of retirement.[2]

- Evidence from the 2012 Attitudes to Pensions survey, also found that around a third of retired people strongly agreed that they should have started saving for their retirement sooner.[3]

Behavioural science recognises that people use heuristics, or mental short cuts and biases, to help them make behavioural choices. The Box below looks at the common types of heuristics that influence behaviour.[4]

Box 01	**Common types of heuristics that influence behavior**
Anchoring	People find it easier to judge issues that are far away or uncertain by referencing something that is familiar. When judging retirement income, people may use a rule of thumb based on their current income or wealth and not on what their future needs might be. Research suggests that the further one is from retirement, the higher is the uncertainty of what the future may hold and, hence, the least likely to have a realistic assessment of what their standard of living will be like in retirement.
Inertia	One of the most powerful heuristics is that of habit or inertia – that is the tendency for people to simply do what they have always done, without giving it a lot of conscious thought. Inertia is also one of the key barriers associated with saving privately for later life, where some people know they should save for retirement, but tend not to do anything about it or find reasons for not doing it. Research suggests the younger a person is, the less likely they are to place saving for retirement as a priority. This cohort of persons is the least likely to have a private pension, so this result might be symptomatic of a lack of engagement in pension issues.

[1] Pg 2, Bryan, M., Lloyd, J., Rabe, B., and Taylor, M., Who Saves for Retirement?, Institute for Social and Economic Research, University of Essex and The Strategic Society Centre, 2011
[2] National Association of Pension Funds, 2012 Workplace Pension Survey, March 2012
[3] Department of Work and Pensions Research Report No. 813, Attitudes to Pensions: The 2012 survey, 2012
[4] Pp 52-56MacLeod, P., Fitzpatrick, A., Jones, A., et al. Attitudes to Pensions: The 2012 survey, Research Report, No 813, Department for Work and Pensions, 2012, UK

Availability	People often display bias according to the availability or ease with which they can imagine the possibility or consequences of something happening. Research suggests that persons in the lower age groups are likely to see the pension system as something which will always be there and which will provide them with the same level of income during retirement as that received by their parents.
Loss Aversion	A natural bias people have is a tendency to be loss averse – they feel a current loss more keenly than a longer-term reward. Through observations of people's behaviour it has been suggested people display what has been described as a lack of self-control with people taking a short-term view of planning for later life and over-consuming in the short-term.

Given these types of heuristics that influence behaviours, policy designers have sought to overcome such barriers by introducing special tax arrangements or tax incentives to encourage retirement saving. Introducing a tax advantage to a saving retirement instrument is, in most cases, equivalent to a modest increase in the rate of return to that particular asset - given that many of these schemes are associated with a tax credit rather than being entirely exempt from taxes. Savings for retirement schemes can be taxed at three points:

- Income may be taxed before a person has the opportunity to allocate some of it to savings.
- Returns may be taxed when they accrue as capital gains or interest or dividends.
- Withdrawals from the asset may be taxed.

Persons, therefore, may be exempt from taxes on the income that is contributed to a given scheme (often within a certain limit), and on (some of the) returns to their asset but they are subsequently taxed when resources are drawn from the asset, typically at retirement. This would constitute an E(xempt) E(xempt) T(ax) fiscal incentive scheme. Alternatively, if interest payments, capital gains and withdrawals are untaxed then contributions to such accounts typically need to be made out of taxed income thus giving a TEE fiscal incentive scheme.

OECD and other research define voluntary private pensions to include both occupational as well as personal pension plans. Identifying empirical results of up-take as a result of personal pension plans is difficult. In order to understand coverage gaps, especially in countries where private pensions are voluntary, and their implications for retirement income adequacy, OECD provides indicators on coverage from private pensions in eight OECD countries (Australia, Germany, Ireland, Italy, the Netherlands, Spain, the United Kingdom and the United States), on the basis of socio economic characteristics which include age, income, gender, type of employment (full-time versus part-time), and type of contract (permanent versus temporary).[5]

The OECD 2012 analysis shows that, younger individuals tend to be less often enrolled in privately managed funded pensions, especially in voluntary systems. In Ireland, as in other OECD countries where voluntary private pensions are prominent, coverage increases with age. Coverage also increases with income, especially in voluntary systems. The coverage rate in voluntary private pensions generally increases with income, reaching a plateau after the 7th or 8th income deciles. In voluntary systems however, the coverage among the poorest income groups is quite low, at around 15%, except in the United States where it reaches 29%.[6]

[5] Pg 48, OECD Reviews of Pensions Systems: Ireland, OECD, 2014
[6] Pg 65, Ibid

Yet, when people are left by themselves to provide for retirement empirical evidence suggests that some of them will not save enough for retirement. Estimates in Ireland suggest that 41.3% of the individuals working in the private sectors aged 20 to 69 are covered by a voluntary private pension plan. Of these, 31% are covered by occupational private pension plans, while only 12% are covered by personal pension plans. Similar rates of coverage for occupational pension plans are reported in Canada and the United Kingdom.[7] The coverage of voluntary pension plans is very low (below 5%) in countries such as Greece, Luxembourg, Portugal, and Turkey.[8]

The low take-up of voluntary private pensions (excluding occupational retirement pensions) is a direct result of the types of heuristics that influence behaviours for generational planning as is the case with regard to saving for retirement.

It is pertinent to note, however, that Germany also experienced an important increase in coverage, thanks to the introduction of *Riester* pensions in 2001 as part of a major pension reform. *Riester* products can be purchased by anyone covered by the social insurance system, and who is subject to full tax liability. Participants qualify for subsidies or tax relief from the government, the level of which depends on the respective contribution rate and number of children. To receive full State subsidy, pension participants must invest at least 4% of their previous year's income in a *Riester* plan.[9]

Contributions could be increased through mandates or with the help of "nudge" measures. OECD in 2012 argued that the simplest, less costly and most effective way to increase coverage, given international experience, is through *compulsion* as this is ultimately the most effective policy in reaching high coverage levels. In OECD countries, the difference in coverage rates between countries with mandatory and voluntary private pension systems is as much as 30%. Both mandatory (as in Australia) and quasi-mandatory solutions (as in the Netherlands) can ensure high coverage rates.[10]

In order to reduce these barriers, to get people to save enough for an adequate retirement income, a number of governments have introduced mandatory opt-in voluntary opt-out or automatic enrolment schemes. Such schemes are directed to capture young people in the labour market automatically, and hence countering behaviour limiting issues such as myopia or inertia. By automatically capturing young people early, it is believed that they are more likely to remain within the pension scheme, given that they structure such investment as part of their long term savings profile, before they assume long term expenditures resulting from a decision to raise a family, purchase a house, etc.

Automatic enrolment is, therefore, intended to work by turning on its head the inertia that currently inhibits saving. This will overcome people having to make a proactive decision now about their future, as they are automatically saving for a private pension unless they decide to opt out. Evidence from countries which have adopted such schemes suggest that the application of automatic enrolment has a pervasive positive impact. In the United States, case studies show that changing the design of pension plans (*e.g.* 401(k) plans), by making enrolment the default option, enrolment increased membership of similar schemes among new employees from around 20-40% to around 90%.[11]

New Zealand has experienced a substantial increase in coverage, thanks to the introduction of automatic enrolment supported by government subsidies. Until the introduction of the "KiwiSaver" scheme in 2007, coverage rates had declined to less than 10% of the working-age population. Italy has been less successful in raising coverage rates after the introduction of automatic enrolment in 2007, with private pension plans only covering 13.3% of the working-age population at the end of 2010.[12]

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[7] Ibid
[8] Pg 188, Pensions at a Glance: 2013, OECD and G20 Indicators, OECD 2013
[9] Pg 119, OECD Pensions Outlook: 2012, OECD
[10] Pg 172, Ibid
[11] Pg 9, Enabling and encouraging saving: the evidence around pension reform and saving, Department for Works and Pensions, February 2013, UK
[12] Pg 48, OECD Reviews of Pensions Systems: Ireland, OECD, 2014

The United Kingdom has since 2012 rolled out the new National Employment Savings Trust (NEST). As at March 2014, the scheme already had over one million members with assets under management of £104 million, making it according to its Chair "one of the most successful pension policies in a generation."[13]

Research, however, suggests that automatic enrolment on its own may not be enough. Most such schemes already implemented have been accompanied by additional incentives. Success is not inevitable even then, as other factors, some cognitive, such as the level of financial capability; some structural and external, such as the economic climate and social norms; and some affective, such as trust in government and employers, and so on are important.[14] Evidence suggests that factors that may influence success include[15]:

- The extent and appeal (how it is framed or presented) of any matching contribution from the employer and government. This was found to be a factor in the success of individual automatic enrolment initiatives in the US.

- Any other associated incentives, such as the ability to withdraw funds early. This was a feature of the New Zealand Kiwisaver scheme introduced nationally in 2007. Kiwisaver also provided other government contributions.

- Making choices and the 'default' option as simple and straightforward as possible.

- Allowing those automatically enrolled as much freedom to procrastinate as possible. People tend to defer making a decision to opt out if they believe they can always opt out later. They may accept the default given that they have the option to opt out later, although they may never exercise that option. In economic terms, the default allows them to defer incurring the decision-making costs associated with actively making a decision; this tendency to procrastinate is consistent with 'hyperbolic discounting', whereby people tend to over-value the immediate and short-term relative to the medium- and longer-term.

- The extent of inertia or 'status quo bias', amongst those one most wishes to influence. It has been suggested that young people today are less susceptible to such bias, having more desire to control their own economic circumstances and being more questioning of 'authority'.

- Delaying the perceived impact of decisions. The longer the delay in realising the impacts of the default decision, the easier it should be to choose the default: thus, the effects of making a decision about increasing pension saving from future income are easier to accommodate mentally than making a decision now that impacts on current income.

- Presenting default options that are not only simple but also familiar concepts to people. Thus, 'saving' should be a familiar concept, one that has resonances, but 'pensions', to people who may never have had one, may not be.

- Whether, and the extent to which, there may be prior competing claims on people's incomes. The effectiveness of defaults is hypothesized through 'going with the flow' of people's existing biases and their mental status quo. If, however, people have pre-existing plans, these could serve to act as a competing status quo, undermining the power of the default option.

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[13] http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/nest-corporation-annual-report-and-accounts-2013-2014,PDF.pdf

[14] Pg 13, Hardcastle, R., How can we incentivise pension saving? A behavioural perspective, Working Paper, 109, Department for Works and Pensions

[15] Pp 13-14, Ibid

Automatic enrolment schemes are characterised by five main parameters. These are presented hereunder. This discussion is sourced from an OECD document titled 'Review of the Irish Pension System: Preliminary Version' dated April 2013.[16]

Tax Population	An automatic enrolment scheme can be designed to target only employees or both employees and self-employment. A minimum entry age could be set, though this should be premised on the principle that people should contribute for long enough periods, and therefore the system should encourage people to start contributing *early*. It may also be necessary to introduce transitional arrangements for early leavers from the system, who may only accumulate small funds at retirement. People within ten years from retirement, for example, may be exempted from entering the new system. The introduction of automatic enrolment for employees of small firms and the self-employed require careful consideration. An entry earning level could also be put in place with regard to low-income workers who do not need to contribute in private pension plans, as they already enjoy high replacement rates from the pension system. Existing private provision could sit beside automatic enrolment provided that they share the same rules. Thus, an employer who has already introduced an Occupational Retirement Pension (ORP) scheme can be exempted from an automatic enrolment scheme.
Financial Incentives	Historically, the primary fiscal incentive instrument is through the tax system which gives the greatest level of incentive to saving for retirement to those with the highest level of income, while those in most need get the lowest incentive. Keeping this tax incentive structure within an automatic enrolment scheme, would most likely make the scheme backfire, as many people would likely opt out. It would also fail to reach low to middle-income earners. According to OECD (2012), an alternative way of introducing tax incentives that changes the incentive inversely with income is the use of a tax credit. Tax credits entail that after calculating taxable income, and applying the tax rates relative to the income brackets, to determine the tax due, one can apply a deduction to the tax due. This deduction can be a fixed amount equal for all income levels, or a percentage of contributions with a cap. In either case, the incentive of tax credit is lower for higher income individuals. Replacing tax deductions with tax credits, may therefore, help increase coverage among middle-to-low income individuals. The low paid, who pay little or no income taxes, hardly benefit from tax credits. Targeting the low paid, requires a third type of incentive, in the form of a government subsidy or matching contribution into the individual's retirement savings account. For example, for every n% of one's wage that is saved in a pension plan, government or employers will pay the equivalent of a percentage point of wages. The match can be capped so it is less valuable as income increases.

[16] Pp 123 -137, Review of the Irish Pension System, Preliminary Version, OECD, April 2013

Default Contribution Rate	The rate at which contributions should be set, depends on how the system interacts with the PAYG pension system. If the PAYG system already provides generous benefits, the auto-enrolment scheme only needs to target a low replacement rate to achieve *overall* retirement income adequacy. If the target replacement rate is set for instance at 30%, for example, for the automatic enrolment scheme, the needed total contribution rate to achieve it would be around 5% of wages, assuming a contribution period of 40 years. To minimise opt-out, contribution rates could be set below the desired level initially and raised afterwards (ideally in an automatic manner according to a set calendar). This is the solution chosen in the United Kingdom, where the minimum total contribution rate will raise from 2% between 1st October 2012 and 30 September 2017, to 5% between 1st October 2017 and 30th September 2018 and 8% from 1 October 2018 onwards. Another example is New Zealand where members joining the KiwiSaver before 1 April 2009, were assigned to a default contribution rate of 4%. Since April 2009, the default contribution rate was reduced to 2%. Inland Revenue statistics show that as of 30 June 2011, 80% of people who joined the KiwiSaver, after April 2009, contribute 2%, the default, while 62% of those who joined when the default contribution rate was 4%, still contribute 4%.
Opt-out Window and Re-enrolment	Different measures can be adopted. For example, in Italy and New Zealand the opting out decision can only be made once, within a period of respectively six months and two months, following automatic enrolment. After that period, people cannot opt out anymore, and there is no automatic re-enrolment process. This system is straightforward and does not create too much burden on the employers. Alternatively, as chosen in the United Kingdom, people may opt out at any time, with an automatic re-enrolment every three years. This assumes that people may not have chosen the right decision when opting out. It also implies a heavy burden on employers, who have to keep track of each employee's status as regard membership and automatically enroll them back at regular intervals if they opted out.
Contribution Holidays	If contribution holidays are introduced, it is critical to set clear time boundaries and to 'nudge' workers to increase their contributions after the end of the holiday period; (for instance, by automatically increasing the contribution rate temporarily). Affordability is the main reason people cite for not taking out a private pension. Allowing for contribution holidays may therefore encourage employees to stay in an auto-enrolment scheme, especially the low-income earners for whom affordability may be an important concern. Contribution holidays may be appropriate in auto-enrolment schemes where there is no possibility to opt out after a certain period in order to give some flexibility to workers.

The first two OECD countries, that introduced automatic enrolment, at the national level, were Italy and New Zealand. In 2012, the United Kingdom also saw the introduction of nation-wide automatic enrolment, for all those workers who are not currently covered by a private pension arrangement. A new national, trust-based pension scheme - NEST - was established by the Government that may be used by employers looking for a relatively low-cost alternative to establishing their own plan or hiring existing private sector pension providers. This paper reviews the New Zealand and the United Kingdom respective automatic enrolment schemes.

04.1 KiwiSaver: The New Zealand Automatic Enrolment Private Pension Savings Scheme

KiwiSaver was introduced to address concerns about inadequate saving for retirement among New Zealand's population. A study carried out in 2007 by the New Zealand Treasury concluded that about 20% of the population aged 45-64 years needed to save more for retirement.[17]

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. 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.

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 declined over time, from 22.6% of the employed workforce in 1990 to 14.7% in 2006. And, in 2006, only around 5% of working age people contributed to a personal pension.[18]

KiwiSaver is primarily a work-based savings scheme designed to help people prepare for their retirement. The objective of KiwiSaver is "to encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement. The Act aims to increase individuals' well-being and financial independence, particularly in retirement, and to provide retirement benefits. To that end, this Act enables the establishment of schemes (KiwiSaver schemes), to facilitate individuals' savings, principally through the workplace."[19]

KiwiSaver is designed to lock in savings until age 65, via a voluntary approach to retirement savings, with incentives for everyone and automatic enrolment (with opt-out provisions), for new employees, as well as compulsory employer contributions. The main features of the KiwiSaver scheme, in relation to overall scheme design, coverage and obligations of employees, obligations of employers, tax and subsidies, housing and forthcoming changes are presented below.[20]

Automatic Enrolment	When a person starts a new job, if s/he is eligible and is not already a member, his / her employer is required to automatically enroll such a person in KiwiSaver.
Opt-out	After being automatically enrolled into KiwiSaver, a new employee can then choose to opt-out within an eight week period. Overall, there was a decreasing trend in the number of opt-outs from the scheme each year since it began from 166,721 in 2008 to 72,816 in 2011. An evaluation of the KiwiSaver scheme, found that people in a younger working age group (18 to 44 years), with one job on lower to middle incomes (between less than NZ$10,000 and NZ$40,000 with many earning less than NZ$10,000), were more likely to have opted-out. Further analysis found that 41% of those who re-joined KiwiSaver were 30 years of age or younger, with an average annual income of $30,000 or less.

[17] Kritzer, B. (2007). KiwiSaver: New Zealand's new subsidized retirement savings plans. Social Security Bulletin 67(4)
[18] Pg 23, Collard, S., and Moore, N., Review of international pension reform, Research Report, No 663, Department for Work and Pensions, 2010
[19] Section 3 (1), KiwiSaver Act 2006
[20] Pp 13-25, KiwiSaver Evaluation, ational Research and Evaluation Unit, Inland Revenue for the KiwiSaver Evaluation Steering Group, Annual Report: July 2011 to June 2012, Inland Revenue, 2012

Choosing a Provider and Fund	Members can choose their own KiwiSaver scheme, be nominated for one by their employer or be allocated to a default scheme, by Inland Revenue. At 30 June 2012, 65% of KiwiSaver members chose their scheme and 35%, were by default allocated by Inland Revenue or allocated to an employer-nominated scheme. Members who are automatically enrolled, can transfer schemes within the funds holding period (of three months), when they initially join KiwiSaver, and members can elect to change schemes at any point during their membership.
Choosing a Contribution Rate	Members contributing to KiwiSaver, through deductions from their salary or wages, can choose to contribute 2%, 4% or 8% of their gross salary or wage. Over half of KiwiSaver members (59%), are currently contributing 2% of their salary or wages to their accounts; 36% of members are contributing 4%, and 4% are contributing 8%.
Member Tax Credit	An annual Member Tax Credit (MTC) is paid to members 18 years or older until they are eligible to withdraw their savings. The maximum annual MTC payment was NZ$1,042.86 for periods up to and including 30 June 2011, and reduced to NZ$521.43 from 1 July 2011 onwards. In order to receive a maximum payment, a member must have been a member for a full 12-month period (July – June) and contributed at least $1,042.86 to their account. Employer contributions and government contributions, such as the kick-start, do not count towards eligibility for this credit. Any contributions made by members aged 17 or younger, are also not eligible for MTC payments.
Contribution Holidays	Members who have been making KiwiSaver, contributions for 12 months or more, can take a contributions holiday of between three months and five years. Early contributions holidays within the first 12 months of becoming a member, are considered for members experiencing, or likely to experience, financial hardship. People in a younger working age group (18 to 44 years), with one job on lower to middle incomes (between less than NZ$10,000 and NZ$40,000, with many earning between NZ$10,000 and NZ$20,000), were more likely to have taken a contributions holiday.[21]
Purchasing a Home	The home ownership features of KiwiSaver – first home withdrawal and the first home deposit subsidy – became operational in July 2010. The objective of these features is to assist members to enter home ownership by helping them overcome the barrier of not having sufficient funds to purchase a house. After three years of membership, members may withdraw their KiwiSaver savings (excluding Government contributions) to put toward buying a first home, or a second home if a member's circumstances are the same as a first home buyer. They may also be eligible, after three years of contributing, for a one-off subsidy payment towards buying a home of NZ$1,000 for each year of contribution up to a maximum NZ$5,000.
Withdrawing Savings for Retirement	Members who have been in KiwiSaver, for five years and are 65 years of age, are eligible to withdraw all or part of their savings for retirement. On 1 July 2012, the first KiwiSaver members, who were 65 years of age and had been in the scheme for five years became eligible to withdraw their savings.
Employer Contributions	As KiwiSaver is a primarily work-based savings scheme, employers play a significant role in its delivery. They are responsible for automatically enrolling new staff, facilitating opt-outs and making deductions from members' salary or wages. Employers are also required to make contributions, equivalent to 2% of each member's salary or wages. Most employers contribute the minimum 2% of the

[21] Ibid

	salary or wages of their employees. It is estimated that 72,114 would be eligible to withdraw their savings in June 2013.
State Contributions	Costs to the Crown of KiwiSaver come from the NZ$1,000, kick start to new members joining and the annual member tax credit.
Contributions Collection	Contributions are collected by the Inland Revenue, mainly through the "pay as you earn" (PAYE) tax system. The Inland Revenue then allocates these contributions to the respective pension provider, and carries out enforcement activities to ensure contributions are received from employers. Employer compliance is high.

The following is review of the state of play of the KiwiSaver scheme as at 30th June 2012.[22]

Total Membership	1.97 million
Enrolment	68% of members proactively opted-in to KiwiSaver
Members in the eligible population	49% of the eligible population are members Includes 29% of eligible children and 67% of people between 18 - 24
Individuals who opt-out and remained out of the KiwiSaver	255,935
Contribution rates	59% of members contributing at the 2% default rate
Contribution holidays	83,370
Withdrawing for retirement	72,114 eligible to withdraw in the coming year
Employer contribution	$866 million Five years to date $2.7 billion
Crown contribution	$1,045 million Five years to date $4.7 billion
Total KiwiSaver managed funds.	Five years to date $12.9 billion

The rate of growth in 2012 was slower than previous years. On a monthly basis, membership grew on average by 17,500 individuals. This compares with, on average, 25,000 individuals a month in 2011. Over half of current members (62%) have pro-actively opted-in to KiwiSaver (as opposed to being auto-enrolled), and there has been continued growth of membership within all age groups in the eligible population. Nearly 67% of eligible people aged 18 to 24 years enrolled.[23]

KiwiSaver, therefore, has a range of features and incentives designed to encourage savings and asset accumulation among members. These include: the ability to opt-out, choice between schemes, choice re level of contribution, receipt of kick-start payments and annual member tax credits, ability to take a contributions holiday and use savings to buy a home. Research shows that in 2012 there was a decreasing trend in the number of opt-outs from KiwiSaver from 2008 to 2011.[24]

04.2 NEST: The United Kingdom Automatic Enrolment Private Pension Savings Scheme

In December 2002, the then Labour Government established the Pensions Commission, in response to concerns that individuals were not saving enough for their retirement, and that measures taken to encourage private sector pension provision might not be succeeding. The Pensions' Commission published reports in 2004 and 2005, followed by a final statement in 2006.

The Pensions Commission indicated that private pension saving was in "serious and probably irreversible decline". It found that employers' willingness, voluntarily, to provide pensions, was falling and that initiatives to stimulate personal pension saving had not been successful. The Commission concluded that the current voluntary private funded system, combined with the current State system, was not fit for purpose for the future.

[22] Pg 3, Ibid
[23] Ibid
[24] Ibid

The Pensions Commission's concerns about private pension saving were supported by recent evidence from the Department of Works and Pension's (DWP) Family Resources Survey. This research highlighted a gradual decline in private pension saving, over the past 10 years, with a particular decrease among two demographic groups; men of all ages and people under 40. The survey found that in 2009–10, only 38% of working-age people—11.6 million out of 30.4 million people - were saving into a private pension, compared with 46% in 1999–2000. Over the same period, pension saving among men fell from 52% to 39%, and among individuals aged between 20 and 39, from 43% to 31%.

Having identified this serious deficit in retirement saving, the Pensions Commission concluded that people would be far more likely to enter a pension scheme, if they were automatically enrolled with a right to opt out, than if they were required to make a positive choice to join a pension scheme. They described this model as adopting the "power of inertia" in order to achieve an increase in pension saving.

The Commission, thus, recommended the automatic enrolment of employees in occupational pension schemes and a role for the State as an organiser of pension savings. The Commission envisaged the establishment of "a low cost, national funded pension saving scheme into which individuals will be automatically enrolled, but with the right to opt out, with a modest level of compulsory matching employer contributions, and delivering the opportunity to save for a pension at a low Annual Management Charge".

Based on these recommendations, the Pensions Act 2008 established a duty on employers to automatically enroll jobholders into, and to contribute to, a qualifying workplace pension scheme. The Act also made provision for the introduction of a new "personal accounts" scheme as a State-supported savings vehicle. In January 2010, the Government announced that the National Employment Savings Trust (NEST) would be the permanent name of the personal accounts scheme. This was subsequently implemented by statutory instrument, and the NEST Corporation became operational from 5 July 2010.

In 2010, the Coalition Government set up a review to look at whether the proposed scope for the auto-enrolment policy was still appropriate. The Making Automatic Enrolment Work review reported in October 2010. It recommended some adjustments to the design of the policy, including an optional waiting period of up to three months before an employee needs to be automatically enrolled and an increase in the minimum earnings threshold for auto-enrolment, but otherwise adopted the reforms. These changes were included in the Pensions Act 2011.

The following are salient features of the NEST automatic enrolment model[25].

Target Audience	Persons who are aged at least 22 and under State Pension age and earn over £7,475 a year would be automatically enrolled into a pension scheme chosen by their employer. Employees earning under £7,475 could join their employer's pension scheme if they wish, although their employer is not required to pay a contribution.
Incentive	The model for auto-enrolment provides tax relief for scheme members on contributions. Contributions and tax relief are paid on earnings between £5,035 and £33,540 a year.
Contributions	The minimum total pension contribution is 8% of relevant earnings. This includes: a minimum pension contribution from their employer equivalent to at least 3% of their earnings; and tax relief on contributions of around 1% of their earnings. The minimum levels of contributions will be phased in gradually, to help employers and employees adjust to the cost of the reforms. The minimum rate of employers' contributions, start at 1% of the worker's salary, rising to 2% in October 2017 and 3% in October 2018.

[25] Pp5-56, Automatic enrolment in workplace pensions and the National Employment Savings Trust, Eight Report of Session, Work and Pensions Committee, House of Commons, 2012

Opt-out	Employees are able to opt out of auto-enrolment pension saving at any time. Employees who opt out and continue to meet the criteria for automatic enrolment will be re-enrolled into their employers' pension scheme every three years. Individuals who leave one job to start another one will be automatically enrolled by their new employer, provided they meet the criteria. Self-employed people are not automatically enrolled but can make their own pension arrangements; for example, they can invest in a NEST scheme
Choosing a Provider	Eligible employees are enrolled into a pension scheme chosen by their employer. Employers can choose either NEST or a private provider which has met the criteria defined by the DWP and published by the Pensions Regulator (TPR). NEST has a public service obligation to be available to all employers who wish to use the scheme to meet their duties under auto-enrolment. Unlike private providers, NEST must therefore accept business that the existing market may consider loss-making or not commercially viable. If employers do not comply with their duties, under auto-enrolment, TPR will be able to issue warning notices and penalties. In the most serious cases, it can prosecute. The criteria for auto-enrolment pensions, as determined by the Government and published by the TPR, currently do not restrict the level of charge that can be applied by a pension provider. The DWP has stated that it monitors charge levels across the market and emphasised that it has reserve powers in the Pensions Act 2008, which would allow it to a charge cap should auto-enrolment charges reach inappropriately high levels.
Active Member Discounts	Individuals can face higher charges for their pension schemes when they are no longer making contributions into that scheme, for example when they have moved to another employer. These higher charges are referred to as "active member discounts" or "deferred member penalties".
Contributions Collection	Contributions will not be collected by a single Government agency, but instead will be paid by employers direct to pension providers. As a result, the onus will be on pension providers and the TPR to ensure that contributions are delivered on schedule.
Implementation	The Government's intention was for all existing employers to be enrolled by September 2016. In November 2011, the Government announced a delay to the timetable for smaller employers. Under the revised timetable, small employers (those with fewer than 50 employees) will not be required to auto-enroll employees until between May 2015 and April 2017. They were originally due to enroll between May 2014 and February 2016.

The DWP estimated that, 9–10 million people would be eligible for automatic enrolment into a qualifying workplace pension scheme. The DWP further estimated that 2–4 million individuals would opt out of automatic enrolment, leaving 5–8 million individuals newly saving or saving more as a result of automatic enrolment. The DWP research found that 65% of respondents would "definitely" or "probably" stay enrolled, whilst 20% would "definitely" or "probably" opt out.

The Government recognised that establishing and administering an auto-enrolment pension scheme, will create both immediate and ongoing financial costs for employers. As shown above, the Government introduced several mechanisms to help businesses manage the costs and complexities of auto-enrolment.

Employers will experience two types of cost—one-off upfront costs in setting up schemes and responding to the new legislation, and ongoing costs in the form of long term increases to their pension contributions.