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How have other countries dealt with small, deferred member pension pots?

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- Contribute fact-based analysis and commentary to the policy-making process
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- Be a helpful sounding board for providers, policy makers and opinion formers
- Inform the public debate on policy on pensions and retirement provision.

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- Considering the whole pension framework: state, private, and the interaction between them
- Pursuing both academically rigorous analysis and practical policy commentary
- Taking a long-term perspective on policy outcomes on pensions and retirement income
- Encouraging dialogue and debate with multiple constituencies

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This work was commissioned by the Master Trust Small Pots Expert Panel convened by the Department for Work and Pensions as part of its investigation into ways of dealing with small, deferred member pension pots. Commissioning the research does not necessarily imply agreement with, or support for, the analysis or findings from the project.

A Research Report by Daniela Silcock

Published by the Pensions Policy Institute
© January 2021
ISBN 978-1-906284-96-1
www.pensionspolicyinstitute.org.uk

How have other countries dealt with small, deferred member pension pots?

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Executive Summary

The number of deferred pension pots in the UK Defined Contribution (DC) master trust market is likely to rise from 8m in 2020 to around 27m in 2035.[1] Member charges can erode small, deferred member pots over time, even to zero, and small pots can be uneconomic for providers to manage. Extra management costs may eventually be passed on to members through increased charges and/or members with higher value pots may need to cross-subsidise those with low value pots.

Recent PPI work "Policy options for tackling the growing number of deferred members with small pots" further analyses the history and impact of small, deferred member pots.[2]

The Government is considering policy options to respond to the growing number of small, deferred member pots. As part of this process, the PPI has been commissioned by the Master Trust Expert Panel, convened by the Department for Work and Pensions (DWP), to conduct an international study, exploring whether other countries have had similar challenges related to multiple pension accounts, and how these have been dealt with. This report contains analyses of the trade-offs related to each policy model and draws out relevant lessons for the UK arising from international experience.

This report is intended to support the DWP Small Pots Working Group which has been established with the remit to provide interim recommendations on the priority option or combination of options to deal with small, deferred member pots to inform subsequent work.

This research report is informed by interviews with pensions policy experts from each of the relevant countries and high-level literature reviews. Those taking part in the interviews are thanked in the acknowledgements section at the back of the report.

This report contains three in-depth case studies on Australia, Ireland and the USA, and eight country profiles on Belgium, Chile, Denmark, Israel, Mexico, New Zealand, Norway and Sweden. The following conclusions are derived from these studies.

The three main findings below set out barriers and enablers to instituting all policy models. These are followed by policy specific findings which set out the lessons from the international research on the policy models being explored by the DWP. Results should be interpreted with the understanding that pension policies in other countries operate within varying economic, social, and policy frameworks and may therefore not provide a direct read across to how similar policies might operate in the UK.

1 Baker *et. al.* (PPI) (2020)
2 Baker *et. al.* (PPI) (2020)

Main findings

1. Without unique identification numbers, centralised transfer and consolidation systems are less effective.
2. Systems of transfer and consolidation are easier for employers to comply with when there is a large central platform, or several connected platforms.
3. Unified data standards help to ensure a less costly and speedier transfer system.

1. Without unique identification numbers, centralised transfer and consolidation systems are less effective

- All of the countries studied use a unique identification number.
- Without a unique identifier, a lot of resources are required to ensure that the correct pots are being put together.
- While the UK has some numbers which could potentially be developed to become national identity numbers, at this point, the lack of such a number is an impediment to the easy transference and consolidation of pension pots.

2. Systems of transfer and consolidation are easier for employers to comply with when there is a large central platform, or several connected platforms

- Several countries use a clearing house and/or central data platform to manage the flow of contributions (Australia, Chile, Mexico, New Zealand, Sweden, USA; Ireland has one in development).
- The benefits of a central platform are that they reduce the administrative burden on employers, while also reducing the potential impact of employer error on the member.
- However, the set-up costs and time it takes to set up a central platform are significant.
- Regardless of approach, pension providers are likely to have to make some adjustments in order to use a central platform.
- Sharing the costs of adapting technology and the ongoing running costs between pension providers and Government will reduce the costs borne by members.

3. Unified data standards help to ensure a less costly and speedier transfer system

- Many countries with a current national transfer and consolidation system, especially those with a lifetime provider model, (Australia, Chile, Mexico, New Zealand) require pension providers to submit data in a standardised format.
- Data standards allow a central system to easily collect data on individuals and pension schemes and to ensure that individual contributions are sent to the correct account.
- Data standards should also result in faster transfers.
- Data standards make regulatory enforcement and assessment of tax compliance easier.

Policy model specific findings

4. Default consolidators are a useful adjunct to a pot follows member or lifetime provider system, in order to pick up smaller pots which may not be covered.
5. Pot follows member significantly reduces the number of small, deferred pots, however, pension providers will need to cover the transfer costs.
6. Dashboards complement existing policies, increase the availability of information to members, and reduce the likelihood of lost pots.
7. Lifetime providers are an effective way of consolidating pots and reducing transfer costs and administrative fees borne by members, but also require significant infrastructure adjustments and may result in loss of business for some schemes which provide a competitive service to members.
8. Refunding small pots directly to members is likely to reduce future retirement incomes and predominantly impacts women, ethnic minorities and lower earners.

4. Default consolidators are a useful adjunct to a pot follows member or lifetime provider system, in order to pick up smaller pots which may not be covered

- While default consolidator vehicles have not been used as a sole policy in any of the countries investigated in this report (because countries tended to opt for more industry based models) Australia uses a default consolidator model for very small pots.
- Introducing a default consolidator alongside a pot follows member or lifetime provider model, is an effective way of ensuring that small pots which are not picked up by the larger system, are not unduly eroded by charges.
- There are other policy options for reducing the potential negative financial impact of small, stranded pots, such as reducing the member charges levied on these pots.

5. Pot follows member significantly reduces the number of small, deferred pots, however, pension providers will need to cover the transfer costs

- Under a pot follows member model (Israel, Norway, USA) individuals generally save with their employer's chosen scheme (though in some models, e.g., Norway, members can choose to opt out of pot follows member into a lifetime provider model).
- As most employers who are automatically enrolling new members in the UK are using master trust schemes, a pot follows member model is unlikely to result in loss of members to these schemes.
- In a pot follows member scheme, pension providers will need to cover the extra costs of transferring pensions as people change jobs.
- Introducing a central data platform, unique identity numbers and a national pension reporting data standard would lead to a significant reduction in transfer costs under this policy model.

6. Dashboards complement existing policies, increase the availability of information to members, and reduce the likelihood of lost pots

- Australia, Denmark, Israel and Sweden all operate member dashboards in conjunction with other policies, though impact varies between countries based on the wider policy context.
- Dashboards are generally associated with higher levels of consolidation, particularly when accompanied by a communications campaign.
- Dashboards can be united with comparative data on member charges and scheme returns (Australia) to support informed decision making.
- A national consolidation system will achieve more significant improvements than a dashboard on its own.
- Comprehensive dashboards are good complements to existing policies, increase the availability of information to members and reduce the likelihood of lost pots.

7. Lifetime providers are an effective way of consolidating pots and reducing transfer costs and administrative fees borne by members, but also require significant infrastructure adjustments and may result in loss of business for some schemes which provide a competitive service to members

- Australia currently operates a lifetime provider-voluntary model and is moving to a lifetime provider-automatic model, Ireland is looking to introduce both an automatic and carousel lifetime provider model, and Chile, Mexico and New Zealand are all running lifetime provider-automatic models.
- The lifetime provider model is highly effective at reducing the number of pots and saving both provider and member costs, but requires significant investment in the development of both centralised and internal provider infrastructure.
- It will be important to consider how to ease the potential cost and resource investment of schemes.
- This model could result in a loss of business to some schemes who offer a competitive, low cost service, if others advertise and attract customers away from the schemes which their employer might have chosen. Loss of business to these schemes could harm existing members.
- This model could be designed with the inclusion of master trust schemes in mind. For example, authorised master trust schemes could be used as defaults, on a carousel basis, for those who do not make an active choice of pension provider.

8. Refunding small pots directly to members is likely to reduce future retirement incomes and predominantly impacts women, ethnic minorities and lower earners

- Australia and the USA both operate small pot refund systems. However, Australia's system only refunds pots of less than AUS$200 (2020), (£111)[3] or pots held by members who are aged 65 years or older. These pots are less likely to be consolidated with larger pots over time and therefore members holding these pots are less likely to lose out on pension savings if they receive a refund.
- On moving jobs, around 30% of US employees choose to take all of their 401(k) savings as a lump sum. In 2015, around US$92.4bn (£70.6bn)[4] was lost due to full lump sum withdrawals.[5]
- The US model results in significant funds, particularly those belonging to women, ethnic minorities and lower earners, leaving the pension saving system and ultimately reduces future retirement incomes.

3 Converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
4 Converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
5 VanDerhei (2019)

Introduction

The number of deferred pension pots in the United Kingdom (UK) Defined Contribution (DC) master trust market is likely to rise from 8m in 2020 to around 27m in 2035.[6] Member charges often erode small, deferred member pots over time and small pots can be uneconomic for providers to manage. The Government is considering policy options to respond to the growing number of small, deferred member pots. As part of this process, the PPI has been sponsored by the Master Trust Expert Panel, convened by the Department for Work and Pensions (DWP), to conduct an international study, exploring whether other countries have had similar challenges related to multiple pension accounts, and how these have been dealt with. This report contains analyses of the trade-offs related to each policy model and draws out relevant lessons for the UK arising from international experience.

This research report is informed by interviews with pensions policy experts from each of the relevant countries and high-level literature reviews. Those taking part in the interviews are thanked in the acknowledgements section at the back of the report.

This report contains three in-depth case studies on Australia, Ireland and the United States of America (US), and eight country profiles on Belgium, Chile, Denmark, Israel, Mexico, New Zealand, Norway and Sweden. These countries were chosen because they either had similar problems with small pots to the UK, or because they had instituted or were instituting policies similar to those under consideration in the UK. Results should be interpreted with the understanding that pension policies in other countries operate within varying economic, social, and policy frameworks and may therefore not provide a direct read across to how similar policies might operate in the UK.

Chapter One introduces the subject of small, deferred member pots, explains the genesis of this study and sets out the main, and policy specific, findings from the investigation of other countries.

Chapter Two provides an overview of the Australian system.

Chapter Three provides an overview of the Irish system.

Chapter Four provides an overview of the system in the United States of America (US).

The **Appendix** provides overviews of the other eight countries investigated for this study.

6 Baker *et. al.* (PPI) (2020)

Chapter One: Background and main international findings

This chapter introduces the subject of small, deferred member pots, explains the genesis of this study and sets out the main, and policy specific, findings from the investigation of other countries.

The number of small, deferred member pots is increasing

The number of deferred pension pots in the United Kingdom (UK) Defined Contribution (DC) master trust market is likely to rise from 8m in 2020 to around 27m in 2035.[7] Member charges often erode small, deferred member pots over time, even to £0, depending on pot size and charging structure (Table 1.1).

Table 1.1:[8] Pot size at age 68 under different charging structures, deferral age and amount at deferral

Charging structure	Pot size at age 68					
	Deferred at age 22			Deferred at age 40		
	£100	£500	£1,000	£100	£500	£1,000
0.5% AMC only	£200	£1,200	£2,400	£200	£800	£1,700
£20 annual flat fee and 0.25% AMC	£0	£100	£1,400	£0	£200	£1,100
£24 annual flat fee only	£0	£0	£1,400	£0	£100	£1,100

Small pots can also be uneconomic for providers to manage. Extra management costs may eventually be passed on to members through increased charges. Financial instability in master trust schemes, arising from too many small pots, could, in extreme circumstances result in trustees triggering an event to wind up the scheme.[9]

Recent PPI work "Policy options for tackling the growing number of deferred members with small pots" further analyses the history and impact of small, deferred member pots.[10]

Policies aimed at consolidating pots are likely to provide a better long-term solution than tackling charging structures

Altering charging structures is unlikely to resolve the problems associated with small, deferred member pots, as charges either erode member pots or prevent schemes from breaking even on pot management, and deferred pots will not generally grow large enough to overcome these issues (unless they are re-joined by the member or transferred to consolidate with other pots).

7 Baker *et. al.* (PPI) (2020)
8 PPI modelling
9 Baker *et. al.* (PPI) (2020)
10 Baker *et. al.* (PPI) (2020)

If DC pension pots are to remain financially sustainable for both members and providers, a more strategic policy-based approach, exploring options for pot consolidation is required.

The following policy models have been discussed in the UK, as options for increasing pot consolidation:

- **Dashboards:** platforms that allow members to view all pots with different providers in one place and could facilitate more consolidation, though this is not the primary aim of dashboards.
- **Same provider consolidation:** returning members are re-enrolled into their deferred pot.
- **Pot follows member:** pots move with members to new employer's schemes.
- **Member exchange:** a form of pot follows member, in which schemes exchange pots on a regular basis in order to unite deferred accounts with active accounts.
- **Lifetime provider:** members remain with the same provider throughout their working life.
- **Default consolidator:** pots deferred for a year transfer to a consolidator provider, with members being given an opportunity to opt out.

All policies have potential benefits and drawbacks, and the relative merits will be viewed differently by different stakeholders. Consideration by policymakers will need to involve all of the potential trade-offs associated with each model and how policy levers may mitigate potential negative outcomes.

This report investigates international experiences of small, deferred member pots

The Government is considering policy options to respond to the growing number of small, deferred member pots. As part of this process, the PPI has been commissioned (by the Master Trust Expert Panel convened by the DWP) to conduct an international study, exploring whether other countries have had similar challenges related to multiple pension accounts, and how these have been dealt with. This report contains analyses of the trade-offs related to each policy model and draws out relevant lessons for the UK arising from international experience.

This report contains three in-depth case studies on Australia, Ireland and the USA, (who have similar systems to the UK) and eight country profiles on Belgium, Chile, Denmark, Israel, Mexico, New Zealand, Norway and Sweden (who have tried varying solutions to the problems associated with small, deferred member pots). The following conclusions are derived from these studies.

The three main findings below set out barriers and enablers to instituting all policy models. These are followed by policy specific findings which set out the lessons from the international research on the policy models being explored by the DWP.

Main findings

1. Without unique identification numbers, centralised transfer and consolidation systems are less effective.
2. Systems of transfer and consolidation are easier for employers to comply with when there is a large central platform, or several connected platforms.
3. Unified data standards help to ensure a less costly and speedier transfer system.

Policy model specific findings

4. Default consolidators are a useful adjunct to a pot follows member or lifetime provider system, in order to pick up smaller pots which may not be covered.
5. Pot follows member significantly reduces the number of small, deferred pots, however, pension providers will need to cover the transfer costs.
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8. Refunding small pots directly to members is likely to reduce future retirement incomes and predominantly impacts women, ethnic minorities and lower earners.

Main findings

This section sets out the overall implications for pension schemes and their members from the international study.

1. Without unique identification numbers, centralised transfer and consolidation systems are less effective

Without a unique identification number system for scheme members, national transfer or consolidation systems will be difficult to operate. This is because without a unique identifier, significant resources are required to ensure that the correct pots are consolidated.

All of the countries covered in this study (excluding New Zealand) have unique identifiers for people which are used for employment, to pay tax, claim benefits, manage pensions and for any other purpose in which identity proof is required. New Zealand uses a tax number for pensions which cannot be used by the Government for wider identity purposes.

Mexico also uses tax numbers to identify individuals. However, these numbers are not strictly controlled and as a result, some employees have more than one of these numbers. These flaws have weakened the effectiveness of Mexico's lifetime provider-automatic system, though it is estimated that there are currently only around 0.1% of duplicate accounts in Mexico, due to remedial action.[11]

11 Data from CONSAR, retrieved 23.10.20 - https://www.consar.gob.mx/gobmx/aplicativo/siset/CuadroInicial.aspx?md=5; Worldbank labour market statistics retrieved 23.10.20 - https://data.worldbank.org/indicator/SL.TLF.TOTL.IN?locations=MX

The UK has several numbers which could be developed

Within the UK, there are two numbers which serve a similar purpose, the National Insurance number (NINO) and the Unique Taxpayer Reference (UTR), however, neither of these are used as a universal identity number across all services, nor do they cover all residents. Some resident taxpayers are not issued with a NINO. On letters and cards regarding NINOs, the Government states "This is not proof of identity".[12] Crucially, these numbers are not currently used for identification purposes by pension schemes. Therefore, while the UK has some numbers which could potentially be developed to become national identity numbers, at this point, the lack of such a number is an impediment to the easy consolidation of pension pots.

Introducing a unique identification number could raise data privacy issues

Australia's unique identification number was developed five years ago. Within the design phase, there were concerns from some stakeholders that allowing organisations to hold these unique numbers for individuals could violate privacy rights, as the agency holding the number would have access to significant data on the individual.[13] Other privacy concerns, such as Government tracking of individuals, are also an issue in some countries.[14] Australia compromised by making the numbers voluntary. However, without one of these numbers, Australians pay more tax and are not able to claim benefits or open a pension account. Therefore, anyone engaged in society at even a basic level (through working or claiming benefits) will generally be covered by the number.

These numbers can take several years to develop

The development of unique identity numbers involve long, complex processes. Developing the required infrastructure for the US social security number took two years (1935-1937)[15] though it was not considered a unique identifier until later in the century. Australian identity cards and numbers have been through several iterations since 1985, and have caused political controversy.[16] The Swedish Personnummer, went through several iterations between 1947 and 1967.[17] Chile allowed ten years to digitalise its national identity number system and issue 25 million eID cards.[18] The Government will need to be prepared to invest time and resources in ensuring the number is developed properly; at times several iterations are required before the system works effectively. These programmes are found to be more successful when combined with well-developed biometric technology, which helps prevent duplication.[19]

Unique ID numbers are not always completely secure

Unique ID numbers are subject to fraud, and human error. There are cases of identity theft in the US, leading to a task force countering identity theft in 2006.[20] In 2014, 6% of Australians believed that their personal identity number had been misused.[21] Indonesia (not covered in this study) had to halt its eID programme as a result of the issuance of fake identity cards.[22] IT errors led to the issuing of around 5,000 incorrect Swedish numbers between 2004 and 2009.[23] Ensuring security for those holding the numbers will be an essential policy design element.

12 Hansard, HoC debates, 16 Jan 2008: Column 983, Caroline Flint; https://www.oecd.org/tax/automatic-exchange/crs-implementation-and-assistance/tax-identification-numbers/UK-TIN.pdf
13 https://www.alrc.gov.au/publication/for-your-information-australian-privacy-law-and-practice-alrc-report-108/30-identifiers/content-of-privacy-principle-dealing-with-identifiers/
14 International Telecommunication Union (2016)
15 https://www.ssa.gov/policy/docs/ssb/v69n2/v69n2p55.html
16 https://privacy.org.au/campaigns/id-cards/hsac/hsac_2/
17 Ludvigsson *et. al.* (2009)
18 Clark *et. al.* (2016)
19 International Telecommunication Union (2016)
20 https://www.ssa.gov/policy/docs/ssb/v69n2/v69n2p55.html
21 Smith *et. al.* (2015)
22 International Telecommunication Union (2016)
23 Ludvigsson *et. al.* (2009)

2. Systems of transfer and consolidation are easier for employers to comply with when there is a large central platform, or several connected platforms

Several of countries explored in this study who operate a national transfer and consolidation system use a clearing house and/or central data platform/s (to manage the flow of contributions (Australia, Chile, Mexico, New Zealand, Sweden, USA; Ireland has one in development). The benefits of a central platform, or a system of federated platforms, are that they reduce the administrative burden on employers, while also reducing the potential impact of employer error on the member. The benefits for employers are more significant in a lifetime provider model (in which employers contribute to many different schemes) than in a pot follows member model (in which employers contribute only to their chosen scheme). However, in a pot follows member model (USA) the central platform can also fulfil the task of gathering previous pensions and connecting them with the new employee's active pot. Without a central platform, or a system of several connected platforms, these tasks will fall to the pension provider, employer, or a combination of both.

Platforms can be set up and managed by Government or industry

Platforms which are run by, or in conjunction with, a Government agency, for example the tax office (Australia, Ireland, New Zealand and Sweden) allow for easier regulation and monitoring of tax compliance. However, managing a central platform requires significant time and resources and represents significant costs to the host.

Some countries are using an industry-based platform (Chile, Mexico, USA). While these reduce the administrative burden on the Government, they still require close working between the regulator, tax authority and the central platform.

The set-up costs and time it takes to set up a central platform are significant. Australia's SuperStream (and related clearing house and gateway platform) took about 4 years to fully develop and to iterate out all of the problems, and cost around US$1.5billion (£1.15bn)[24] between 2012 and 2018, borne by providers through levies.[25] However, without the development of a central platform, a national transfer and consolidation system is likely to be costly and complicated for employers to manage.

Centralised systems carry cost implications for Government, pension providers and members

Privately run platforms are generally funded in one of two ways: through contributions from the providers using them (Mexico) or through member charges (Chile, USA). Some Government run platforms also levy charges on providers (Australia, Ireland). Though the US model does not directly charge providers for participating, any provider who wishes to join their system must spend around US$500,000 (£382,000)[26] to set up internal technological infrastructure that works with the centralised platform. There is an argument that participating providers are likely to make back these initial costs over the long term through offering a more competitive service, being able to manage and transfer small pots in a more cost-effective way, and increases to average pot size.

The way access to a platform is designed will affect providers, employers and members

Countries have approached the question of which pension providers can use the centralised platform in different ways. Chile, Mexico, New Zealand and Sweden make the platform available to any provider already approved to operate by the regulator, Ireland intends to require providers to bid for a license, and the USA requires the provider to negotiate an individual contract with the platform manager.

Regardless of approach, pension providers are likely to have to make some adjustments in order to use a central platform, for example, all participating providers will be required to adapt their processes and technology in order to interact properly with a central platform. Introducing an additional authorisation regime will also require providers to expend more resources. If, as is proposed in Ireland, a few

24 Converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
25 Australian Tax Office (ATO) (2019a)
26 Converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency

providers only are to use the system, this may reduce competition between the selected providers and damage the businesses of those not selected, as they will end up losing customers over the long term.

However, Ireland's explicit intention in this regard is to reduce the number of schemes used for workplace pensions to a select number of master trusts as part of their overall automatic enrolment policy agenda. Within the UK, there are already a number of low cost master trusts set up to facilitate automatic enrolment, who have been through authorisation, and therefore requiring these to undergo a bidding process to reduce the number is likely to be counterproductive and could result in negative consequences for the members of schemes which are unsuccessful in the process.

Sharing the costs of adapting technology and the ongoing running costs between pension providers and Government will reduce the costs borne by members

Beyond the initial set up costs, which are likely to be significant (Australia, USA) the costs of adapting provider systems and the ongoing running costs will eventually affect member charges. Regardless of the approach, the potential effect on providers must be taken into account; particularly low-cost master trusts which were set up to provide pensions to small employers and members on low incomes.[27] In the USA, the initial cost of adapting internal processes is shared between the provider and the central platform (through a loan system). It would be worth exploring how the initial costs for participating in a UK based central platform could be reduced for pension providers. If the initial and ongoing costs are borne entirely by pension providers, some may not be able to afford to participate. For those who do participate, these costs will inevitably by passed on to scheme members, reducing overall retirement income.

3. Unified data standards help to ensure a less costly and speedier transfer system

Many countries with a current national transfer and consolidation system, especially those with a lifetime provider model, (Australia, Chile, Mexico, New Zealand) require pension providers to submit data in a standardised format. This allows a central system to easily collect data on individuals and pension schemes and to ensure that individual contributions are sent to the correct account. Speedy transfers prevent small, deferred pots from remaining in schemes of origin for long periods of time and receiving multiple charges. Transfers facilitated by a central system which uses uniform data (accompanied by a unique identification number system) will also make the process less costly for pension providers who will not have to spend significant time and resources confirming the identity of members and the correct destination scheme and pot.

Unified data standards also make regulatory enforcement and assessment of tax compliance easier, particularly when used in conjunction with a central platform, as these bodies will have access to large, single, standardised data sets on scheme activity to review.

Countries without national data standards (for example, Norway) are not able to host platforms comparing scheme attributes (such as charges) and may find it difficult to introduce a lifetime provider system.

Work being conducted for the UK pensions dashboard is helping move pension providers towards a data standard for current disclosure requirements

The UK is currently in the process of designing an ecosystem for pensions dashboards. It is envisaged that all workplace pension providers will participate in the dashboard system, and, therefore, to facilitate the collation of data from different schemes, new data standards for current scheme reporting and disclosure will be introduced. The pensions dashboards programme is currently consulting with industry on what the data standard might look like. When fully functional, the new data standard for pension schemes may ensure an easier roll out of policies designed to reduce the number of small, deferred member pots.

27 Who are less attractive options as customers to commercial providers.

Policy model specific findings

This section reviews the implications for pension schemes and for their members of specific policies designed to transfer or consolidate small pots. Policy models are listed in order of relevance to the UK system. Default consolidators and pot follows member are both under discussion as part of the review, and dashboard construction is already underway. Lifetime provider and small pot refund models are less likely to be taken forward as a result of the associated need for significant systemic change and accompanying risk (lifetime provider) and potential member detriment (small pot refunds).

4. Default consolidators are a useful adjunct to a pot follows member or lifetime provider system, in order to pick up smaller pots which may not be covered

While default consolidator vehicles have not been used as a sole policy in any of the countries investigated in this report, Australia uses a default consolidator model for small pots. Pots of under AUS$6,000, (2020) (£3,300)[28] which have been inactive for 16 months, are sent to the member's current active account. If no account can be found, the funds are then held by the Australian Tax Office, who holds the money on behalf of the individual until it is claimed.

The advantages of the Australian system for members are that small pots are no longer subject to high scheme charges and that members know where their small pots are being held. This system is particularly advantageous in relation to small, deferred pots held by those who have left the employed labour market (e.g., to become self-employed or to provide care) and do not have an active pot, or selected lifetime provider, in which to consolidate their small deferred pot. This policy also benefits pension providers who generally find it difficult to break even on the costs of managing small pots without passing the costs on to other members with larger pots.[29]

Introducing a default consolidator alongside a pot follows member or lifetime provider model, is an effective way of ensuring that small pots which are not picked up by the larger system, are not unduly eroded by charges.

Reducing member charges for small pots can be used instead of or in conjunction with a default consolidator

Alongside default consolidators, there are other policy options for reducing the potential negative financial impact of small, stranded pots which are unlikely to be picked up by a transfer and consolidation system (such as pot follows member or lifetime provider). Belgium has a particularly interesting approach to small, deferred pots. Since 2017, deferred pots below €150 (£136) cannot be transferred or taken as a lump sum. Instead, these pots are held by the pension provider on behalf of the member. To avoid the pots being eroded by charges, and to make them more financially viable for pension providers, the regulatory and administrative requirements for these pots are lifted. Providers holding these pots are no longer required to report to the regulator as thoroughly as for larger and active pots, and the provider is not required to send an annual statement to the member. In this way, annual charges can be reduced to a low level, and the provider can hold the pot in reserve for the member to access when they retire.

5. Pot follows member significantly reduces the number of small, deferred pots, however, pension providers will need to cover the transfer costs

Under a pot follows member model (Israel, Norway, USA) individuals generally save with their employer's chosen scheme (though in some models, e.g., Norway, members can choose to opt out of pot follows member into a lifetime provider model). As the majority of employers who are automatically enrolling new members

28 All currency converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
29 Baker et. al. (PPI) (2020)

in the UK are using master trust schemes,[30] a pot follows member model is unlikely to result in loss of members to these schemes.

While the US system charges members on a per-transfer basis,[31] UK schemes are not permitted to charge members for transferring. Therefore, in a pot follows member scheme, pension providers will need to cover the extra costs of transferring pensions as people change jobs. These costs could be initially high if, as in Israel and Norway, all previous pots are transferred into the existing pot when a member moves jobs. If only the most recent pot is transferred, initial costs to providers will be lower, but more small, deferred pots will remain in the system.

Introducing a central data platform, unique identity numbers and a national pensions reporting data standard (Australia, Chile, New Zealand, Sweden) would lead to a significant reduction in transfer costs, which should reduce overall management costs for schemes, and a reduction in member charges over time.

Lifetime provider and pot follows member models can be implemented on a universal basis or a pot value basis

Automatic consolidators can be universal or applied to pots below a certain size. In the USA, the pot follows member scheme will initially apply to pots of below US$5,000, (£3,800)[32] though in most other countries with an automatic system (Chile, Israel, New Zealand) all pots are transferred into a single pot.

There are potential trade-offs within the policy design. Transferring pots of only a certain value or below ensures that pots are not transferred out of beneficial arrangements, but potentially leaves pots in multiple schemes, paying multiple charges, which can erode pension income over time. Transferring all pots could protect against multiple charges and make it less likely for pots to be lost over time though could result in some members losing out on guarantees, or other beneficial arrangements.

6. Dashboards complement existing policies, increase the availability of information to members, and reduce the likelihood of lost pots

Australia, Denmark, Israel and Sweden all operate member dashboards in conjunction with other policies. Australia's dashboard is offered alongside a voluntary lifetime provider programme, soon to be an automatic programme. The dashboard allows people to compare schemes and make transfers of pots to a single scheme of choice. Within the old and new systems, the dashboard allows Australians to select an option more easily for their lifetime provider, ensuring that there is still member choice within the automatic system.

Dashboards are associated with higher levels of consolidation, particularly when accompanied by a communications campaign. After the introduction of Israel's dashboard, alongside a government campaign regarding the effect of multiple charges, transfers between schemes increased by 10%.[33] Australia intends to use its dashboard to display comparative information on charges and returns, alongside the ability to transfer, in order to support informed member decision making.

Sweden combines a low fees policy (for most pots) with a dashboard, to allow people to see all their pots in one place. This functionality is especially useful in Sweden where regulatory difficulties have made pot consolidation difficult. The dashboard provides a compromise position in which most small pots are relatively safe from erosion and easy to find by members when they reach retirement. It does not, however, protect pots from being subject to different charges and investment regimes, and some Swedish schemes do charge high flat fees. A national consolidation system will achieve more significant improvements than a dashboard on its own. However, comprehensive dashboards are good complements to existing policies, increase the availability of information to members, and reduce the likelihood of lost pots.

30 Wilkinson *et. al.* (PPI) (2020)
31 A one-time fee when a pot is transferred, of roughly between US$35 and US$47 for pots of US$500 or higher, a percentage charge for pots of less than US$500 but more than US$50, and no charge for pots under US$50.
32 Converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
33 DWP (2019)

7. Lifetime providers are an effective way of consolidating pots and reducing transfer costs and administrative fees borne by members, but also require significant infrastructure adjustments and may result in loss of business for some schemes which provide a competitive service to members

Under a lifetime provider model, members remain with the same provider throughout their working life. Several of the countries investigated have either adopted, or are adopting, a lifetime provider model. Australia currently operates a lifetime provider-voluntary model and is moving to a lifetime provider-automatic model, Ireland is looking to introduce both an automatic and carousel lifetime provider model, and Chile, Mexico and New Zealand are all running lifetime provider-automatic models. Those with existing lifetime provider models introduced these alongside their automatic enrolment/compulsory savings policies. As the UK automatic enrolment system has already developed, introducing a similar policy would involve more significant market changes.

The impact of a lifetime provider model on the number of deferred pots is significant. Countries with an active policy have fewer small, deferred pots proportionally than those without; in both New Zealand and Mexico, 14% of workplace pots are deferred compared to around 50% of master trust DC pots in the UK in 2020.[34] Lifetime provider models are also associated with a reduction in transfer costs for providers, as member pots are unlikely to move between schemes, though most models allow members to voluntarily transfer pots in order to change their lifetime provider. Within this policy, members will generally only save into one pot during their lifetime and are therefore unlikely to be paying more than one set of member charges at any given time.

It will be important to consider how the cost of adapting internal infrastructure for providers can be eased

While the lifetime provider model is highly effective at reducing the number of pots, and saving both provider costs and member charges, it will require significant investment in the development of both centralised and internal provider infrastructure, as discussed above. The construction of this infrastructure is likely to represent a cost to Government as well as pension providers. If this system is introduced, it will be important to consider how the potential cost and resource investment of schemes can be eased, in order to ensure management costs for pension providers are not made unduly high and that members are not required to bear these costs over time.

A lifetime provider model could result in some schemes losing business

The lifetime provider model could result in a loss of business to some schemes, if larger, commercial schemes, advertise and attract customers away from the schemes which their employer might have chosen. There are incidents of Australian schemes aggressively targeting potential members with offers of better value and lower member charges.[35] Schemes with targeted advertising may not actually provide better value for money than other schemes designed to offer a low cost service, for example, master trust schemes, which have charging structures, investment strategies and member communications designed to specifically advantage people in the target group for automatic enrolment.

A lifetime provider model could be designed with the inclusion of master trust schemes in mind. For example, authorised master trust schemes could be used as defaults, on a carousel basis, to host the pots of people who do not make an active choice of lifetime provider.

34 Baker *et. al.* (PPI) (2020)
35 Productivity Commission (Australia) (2018); https://www.reuters.com/article/us-westpac-regulator-court-idUSKBN1X70AK; https://fr.reuters.com/article/instant-article/idUSKCN1LR0AA;

A lifetime provider model will increase the need to ensure value for money

As a lifetime provider model involves people being defaulted into schemes, and potentially spending all their working life saving into just one scheme, it is especially important to ensure these schemes offer value for money. Chilean workplace pensions have been criticised for excessive charges that have significantly reduced returns for members, leading to many experiencing lower than expected incomes.[36] The Chilean Government now intends to enforce stricter regulation on charges in these schemes.[37] Australia has faced similar calls to ensure value for money in workplace pensions as they move towards a lifetime provider-automatic model.[38] The UK has already made significant progress in ensuring members of default funds in automatic enrolment schemes are not charged too high. However, in a lifetime provider model, work on ensuring value for money will become even more important to maintain.

8. Refunding small pots directly to members is likely to reduce future retirement incomes and predominantly impacts women, ethnic minorities and lower earners

Australia and the USA both operate small pot refund systems. However, Australia's system only refunds pots of less than AUS$200 (2020) (£110)[39] or pots held by members who are aged 65 years or older. These pots are less likely to have been consolidated with larger pots over time.

The US system results in a much larger proportion of pension savings being refunded than the Australian system. In the US, 401(k) pots of less than US$1,000 (£760) can be refunded without a tax penalty on leaving an employer, and pots of higher amounts can also be refunded if the member is willing to pay a 10% tax charge. On moving jobs, around 30% of US employees choose to take all of their 401(k) savings as a lump sum, with many paying the penalty tax.[40] Around 80% of those whose pots are worth less than US$5,000 (£3,820) choose to withdraw the total when leaving a job.[41] In 2015, around US$92.4bn (£70.6bn) was lost due to full lump sum withdrawals.[42]

It is estimated that introducing a pot follows member system in the USA, if total coverage is achieved, for all pot sizes, could result in an additional US$1,987bn (£1,520bn) in the 401(k) system over the next 40 years.[43] Some of this increase is attributable to pots staying in the 401(k) system, rather than being moved into the IRA system.

While the Australian model unites those over age 65 with small pots unlikely to contribute to retirement income, the US model results in significant funds, particularly those belonging to women, ethnic minorities and lower earners, leaving the pension saving system and ultimately reduces future retirement incomes. The US model is primarily designed to reduce the administrative burden on employers and pension providers of managing small pots. As the cost of managing these pots is also a concern for pension providers in the UK, a similar approach to the Australian model for those under age 65 could be followed, where very small pots are held by the tax office until claimed, or the Belgian approach, where regulatory requirements are lifted on behalf of these pots and providers can continue to manage them at very little cost.

36 https://uk.reuters.com/article/us-chile-protests-pensions/chiles-fiery-anger-fueled-by-fears-of-poverty-in-old-age-idUSKBN1XB3U8
37 Borzutzky (2019)
38 The Treasury (Australia) (2020)
39 All currency converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
40 Tergeson (2020)
41 Tergeson (2020)
42 Copeland (2019)
43 VanDerhei, Copeland (2019)

Chapter Two: Australia

System profile: Default consolidator for some small pots and implementing lifetime provider - automatic

Australian overview

Value of assets in workplace pensions: AUS$2.9 trillion (£1.6 trillion)[44] at the end of June 2020.[45]

DB/DC split: The pensions market is mostly Defined Contribution (DC):[46] in June 2019, there were around 25m DC accounts and 900,000 Defined Benefits (DB) accounts.[47]

Inactive accounts: As at June 2018, over 10 million (64%) of adults saving into a pension had only one account. 4.4 million savers had multiple accounts in June 2020. 23% of pension savers had two accounts, and 13% had three or more.[48] (This data predates recent reforms designed to further reduce the stock of multiple accounts. Under these changes, all funds are required to regularly send all low balance inactive accounts to the Australian Taxation Office (ATO) and the ATO is required to automatically consolidate these accounts with the member's active account. It is expected that these changes will significantly reduce the stock of duplicate inactive accounts.)

Average DC pot size: For those aged between 60 and 64 in 2019, around AUS$154,500 (£85,580) (male) and AUS$122,800 (£68,000) (female).

Member charges: vary by pot size, on average between 0.94% and 1.28%pa[49]

Annual workforce turnover: 15%[50]

Current system

Australia has operated a compulsory automatic enrolment system since 1992. Australian residents who are employed, 18 years old or over (or who are under 18 and work more than 30 hours per week), and earn AUS$450pcm (£249)[51] or more (before tax) with one employer are automatically enrolled into a workplace pension, into which their employer pays a minimum of 9.5%[52] of their earnings. Employers and employees are permitted to contribute additional amounts (within certain limits).

Currently, when a person begins their first job, their employer opens an account in a "fund" (scheme) and begin making contributions on their behalf. At this point, an employee generally has the option to choose to save into a different scheme, but if they do not, they will be defaulted into their employer's chosen scheme.

When an employee moves jobs, they will again be defaulted into their employer's chosen scheme, unless they tell their employer to pay into another scheme. At this point they have the option to either transfer their previous pots into their new pot or choose to have contributions paid into their previous pot. Individuals with many pots also have the option to consolidate all of their pots into a single pot via myGov (which allows members to transfer pots between schemes hosted by different providers).

44 All currency converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
45 https://www.superannuation.asn.au/resources/superannuation-statistics
46 Defined Contribution schemes are known as "Accumulation Funds" in Australia
47 The Association of Superannuation Funds of Australia (ASFA) (2020)
48 Australian Tax Office (ATO) (2019b); The Treasury (Australia) (2020)
49 Canstar (2020)
50 https://www.businessinsider.com.au/australian-jobs-turnover-churn-robert-half-2018-6
51 Converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
52 Rising to 12% by July 2025; https://www.ato.gov.au/rates/key-superannuation-rates-and-thresholds/?page=24

Member charges are relatively high in Australia[53]

The amount members pay in Australian DC pensions are considered too high by the Government. In 2020, Australians collectively paid AUS$30bn (£17bn)[54] per year in fees, which could rise to AUS$45bn (£25bn) by 2034.[55] In June 2020, the average member fee for a DC account of AUS$50,000 (£27,700) was AUS$507 (£280), a growth of above 13% from the average 2014 charge of AUS$447(£248).[56] Member fees as a percentage of Assets Under Management (AUM) vary between schemes from around 0.5% to 1.6%.[57] Some members retirement savings have been reduced by up to AUS$50,000 (£27,700) as a result of a combination of high fees and multiple accounts.[58]

Among other reforms, the Australian Government is bringing in new transparency requirements on schemes, increasing the regulatory burden on schemes to demonstrate that spending decisions are made in member's best interests and building the functionality for members to compare charges between different schemes through the "MySuper" platform.[59] This proposal is directed at fund expenditure for example on advertising and member acquisition channels. This expenditure impacts member fees indirectly. The Government has also announced new measures that are aimed at fees more directly: a consumer facing tool for comparing funds by fees (and performance) and a performance benchmark that considers fees (and performance). These measures focus on investment fees but exclude administration fees. These proposals are yet to be legislated.

'myGov', the Australian "Dashboard"

myGov is an online platform which allows Australians to access a variety of Government services including health and benefit services, filing tax returns, and viewing and consolidating pensions. myGov allows Australians to view all of their pensions in one place and, through a very simple online selection process, consolidate all or several pensions into one scheme.[60] In this way, the myGov website offers some of the functionality expected from the UK dashboard.

Australians are also generally able to consolidate former pots into their current pension through that pension scheme's own website and the request is sent via SuperStream.[61]

SuperStream is a data standard that Government, pension schemes and employers must use

SuperStream is an overarching data and payment standard used by the tax office (alongside other sources of information, to match data and ensure the correct contributions are being made) pension schemes (to transfer pots between themselves) and employers (to make contributions). SuperStream was designed with the intention of ensuring transfers are speedier and more efficient.[62]

53 Compared to the UK, average annual charge in master trust schemes of 0.48%pa; Hurman, N. (PPI) (2018)
54 All currency converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
55 The Treasury (Australia) (2020)
56 The Treasury (Australia) (2020)
57 The Treasury (Australia) (2020)
58 Productivity Commission (Australia) (2018)
59 The Treasury (Australia) (2020)
60 https://my.gov.au
61 https://www.australiansuper.com/superannuation/consolidate-your-super
62 The Parliament of The Commonwealth of Australia (2012)

Employers can make all contributions to multiple schemes in a single transaction using a third party Clearing House (which is responsible for transferring monies), who then transmit the data in the SuperStream data standard via a Gateway network (commercial platforms responsible for maintaining and transferring data)[63] to the funds and make the payment to the receiving fund electronically through the banking network and include a unique Payment Reference Number which can be matched to the data.[64] While scheme members can use myGov, or their own scheme's website to initiate a transfer and consolidate pensions, these are all completed via SuperStream. No consolidation occurs outside of SuperStream.

Small Australian pots are already automatically transferred

There are provisions within the Australian system for preventing small, deferred pots, under AUS$6,000, (2020) (£3,320) from remaining in schemes for too long and being subject to charges. The "inactive low-balance accounts" system considers a DC account to be inactive if it has received no contributions for 16 months and has a balance of less than AUS$6,000, (2020) (£3,320).[65] Twice per year, these "inactive low-balance accounts" are transferred automatically to the Australian Tax Office (ATO).

If these pots are worth more than AUS$200 (2020), (£110) and the holder is under age 65, the pot is transferred to an active account held by the owner.[66] If there is no active account available, the ATO retains the money until claimed by the individual. Interest is paid on the amounts held by the ATO at the rate of the increase in the Consumer Price Index. For pots held by those aged 65 or over and/or worth less than AUS$200 (2020), (£110) the money is paid directly into the individual's bank account upon application.

SuperStream policy trade-offs

- The advantages of SuperStream (and accompanying gateway and clearing house) are that it streamlines and simplifies the employer duties, leaving less room for error and ensuring that small employers are not required to expend significant resources on making contributions into multiple schemes.[67]
- It speeds up the transfer of monies between funds, with a 3-day legislated timeframe.
- By bringing together multiple accounts, and reducing the duplication of fee payments, the aggregate value of Australian workplace DC pots is expected to be around £2.8 billion higher over the next decade.[68]

The potential downsides of SuperStream are that:

- The burden of responsibility for ensuring proper functioning rests mainly on the Government, through the Australian Tax Office.
- These systems require a large time and funding contribution. SuperStream took about 4 years to fully develop and to iterate out all of the problems, and around £1.15bn[69] between 2012 and 2018.[70] This funding came from pension providers through levies.
- IT failures of gateways would have a significant impact on the nation's workplace pension savings.

63 Formerly governed by ATO, now a series of commercial entities
64 https://www.ato.gov.au/super/superstream/
65 It also requires there to be no insurance in the account and excludes some personal pensions
66 If the new balance will be over AUS$6,000, (2020) (£3,320)
67 https://www.ato.gov.au/super/superstream/
68 The Treasury (Australia) (2020)
69 All currency converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
70 ATO (2019a)

Future system:

Despite the option to consolidate, many Australians still have multiple pots

Many Australians have not taken up the option of consolidating. As at June 2020, among the 16 million people saving into a pension, there were 6 million multiple accounts held by 4.4 million people.[71] Of those saving into a DC pension (28.02m people), 36% had more than one account (Table 2.1).

Table 2.1: Proportion of Australian pension savers holding one or more pension accounts in June 2018[72]

Number of accounts	Proportion of pension savers
One account	64%
Two accounts	23%
Three accounts	8%
Four accounts	3%
Five accounts	1%
Six or more accounts	1%

The number of multiple accounts has been reduced substantially through the transfer of small inactive accounts to the ATO. However, there is still a lack of consolidation and Australia is also moving from a voluntary consolidation system to an automatic lifetime provider system from July next year.

Australia is introducing a lifetime provider (automatic) system (to be legislated)

From 1 July 2021, when an individual starts a new job:

- They will have the opportunity to nominate a pension scheme.
- If the employee does not nominate a scheme, their contributions will be deposited into their active pension.
- Those who do not have an active pension, and do not nominate a scheme, will be defaulted into an authorised scheme, as nominated by the employee's employer.

Though this policy will ensure that people do not successively create new pensions when they move jobs, it does not guarantee that all previous deferred pots that an individual holds will be consolidated into their existing pot (unless they are worth less than AUS$6,000, (2020) (£3,322)[73] and inactive for 16 months).

71 The Treasury (Australia) (2020)
72 ATO (2019b)
73 Converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency

Chapter Three: Ireland

System profile: Introducing automatic enrolment alongside a lifetime provider-automatic and carousel model

Ireland overview

Value of assets in workplace pensions: €118bn (£107bn)[74] in 2020.[75]

DB/DC split: Mainly Defined Contribution (DC) schemes with the majority of private sector Defined Benefit (DB) schemes closed to new members, and most public sector workers saving into unfunded DB schemes. In 2019, there were 701 DB schemes, comprising 500,810 active members,[76] and 74,866 DC schemes, comprising 381,430 members.[77]

Number and size of schemes: Irish DC schemes are very small on average with 66,201 containing one member, 5,767 schemes with 1 to 10 members and only 45 schemes with more than 1,000 members.[78] In 2019 there were 298,532 DC accounts (PRSA contracts)[79]

Number of workers actively saving into a workplace pension: 49% in 2019[80]

Average DC pot size: Between €60,000 (£54,300)[81] and €120,000[82] (£108,600)[83]

Member charges: Tend to be a percentage rather than a percentage and a flat fee, though these are high at around a 5% contribution charge and a 1% Annual Management Charge (AMC) on average[84]

Annual workforce turnover: 13%[85]

Current system

The Irish workplace pension system does not operate an automatic transfer or consolidation system for pension pots. Members are allowed to consolidate pots upon moving job, however the majority who do consolidate wait to do so until the end of their working life.[86]

Small pots tend not to be as small as those in the UK,[87] mainly because pension coverage is not universal, and the majority of those who work in sectors associated with higher job churn (e.g., retail and hospitality) are not enrolled into a scheme on entering a new job, unless they are in management positions.

74 Converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
75 Central Bank of Ireland (2020) Pension Fund Statistics – Q2 2020, Table P.1 Balance sheet of funds
76 And a further 216 with no active members
77 The Pensions Authority (Ireland) (2019) Appendix, table 1
78 The Pensions Authority (Ireland) (2019) Appendix, table 2
79 The Pensions Authority (Ireland) (2019) Appendix, table 2; PRSA = Personal Retirement Savings Account
80 62% DB, 15% DC, 23% both, https://www.cso.ie/en/releasesandpublications/ep/p-pens/pensioncoverage2019/; further analysis based on discussions with Irish insurers
81 Converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
82 https://www.informeddecisions.ie/blog101-why-most-pensions-are-a-total-waste-of-time/; https://moneycube.ie/how-far-does-e500k-go-in-retirement/#:~:text=With%20the%20average%20pension%20pot,people%20can%20only%20dream%20of. ; https://www.businessworld.ie/financial-news/New-survey-reveals-Irish-people-s-views-on-a-good-retirement-572802.html#:~:text=The%20average%20pension%20pot%20is,of%20almost%20%E2%82%AC17%2C800%20p.a. ;
83 Converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
84 https://www.oneview.mercer.ie/content/mercersubdomain/global/en/oneview/plan-your-pension/retirement-long-term-planning/private-pensions/personal-retirement-savings-accounts.html
85 Mercer (2016)
86 Informal interviews with members of Irish industry and research groups
87 See above, average pot size €60,000 (£54,300) or above

Because member charges are mainly levied as a percentage fee on contributions through an AMC, and because pots are larger on average, multiple pots do not present the same direct financial complications to members and pension providers as they do in the UK.

Future system

Ireland intends to include plans for direct transfers and consolidation within its overall automatic enrolment policy agenda

As a result of low levels of workplace saving, (around 50% of employed people were saving into a workplace pension in 2015)[88] and even lower levels in the private sector (around 35% of private sector employees were saving into a workplace pension in 2015),[89] the Irish Government is introducing a system of automatic enrolment, which will include lifetime provider-automatic and lifetime provider-carousel approaches.

The automatic enrolment policy includes plans to set up several multi-employer master trust schemes which would take the place of the many single-employer schemes in the current Irish pensions landscape. The intention is to enable pension members to benefit from economies of scale and for fewer schemes to lead to greater efficiency, transparency and ease of recording and accessing data.[90]

Ireland will operate a system of lifetime pension accounts on both an automatic and carousel basis

Ireland's automatic consolidation system will be facilitated by a new Central Processing Authority (CPA), which will be set up by Government and funded from member pots.[91] The CPA will source (via a tender process) a maximum of four Automatic Enrolment registered providers. Providers will be required to demonstrate that they meet a minimum set of standards.[92] The CPA will provide an online portal through which registered providers will operate account administration, investment management and member communication.[93]

On starting a new job, employers will enrol new employees through the portal. Employees will be given the option to choose a scheme. If the employee does not choose, they will be allocated to one of the registered providers on a carousel basis.

Employers will pay contributions directly to the CPA, who will pass contributions on to the relevant registered provider. If an employee moves jobs, they will continue to have their contributions made to the same pot as in their previous job, via the CPA. Each member's unique identifier (Personal Public Service Number [PPSN]), will be used to ensure that contributions are made to the correct account.

The Irish Government is concerned to ensure that neither employers nor employees are over-burdened.

Ireland is concerned to ensure that the onus for ensuring transfers are made and contributions are sent to different schemes is not on the employer. This is because the vast majority of Irish businesses are SMEs who may not have their own payroll and HR departments and may find it difficult to comply with a complicated set of new requirements:

- 99.8% of Irish business (employing 68.4% of the workforce) have fewer than 250 employees) and,
- 91.8% of businesses (employing 26.6% of the workforce) have 10 employees or fewer.[94]

The Irish pot consolidation system is designed around the understanding that not all pension savers can, or wish to, actively engage. Therefore, a key element of the system is that members are not required to make an active decision but are given the option to do so if they wish.[95]

88 Department of Employment Affairs and Social Protection (2018)
89 Department of Employment Affairs and Social Protection (2018)
90 Department of Employment Affairs and Social Protection (2018)
91 https://www.iapf.ie/News/News/?id=151#
92 For example, number of investment fund options for members, service response times etc.
93 Department of Employment Affairs and Social Protection (2018) p. 22
94 Irish Central Statistics Office, 2016 data, https://www.cso.ie/en/releasesandpublications/er/bd/businessdemography2016/
95 Department of Employment Affairs and Social Protection (2018) p. 21

There is less apparent concern regarding the time of development and cost and resource burden to Government

This is demonstrated by the period over which this policy is being developed (proposed in 2018 and expected to be implemented by 2022 at the earliest) and the Government's willingness to take on the majority of the responsibility for administering the system of enrolments, transfers and data collection through the CPA.

Under the current proposals the CPA will appoint providers, administer data and funds, and also regulate the performance of providers. There are a number of potential conflicts of interest inherent in this structure. There are also concerns in Ireland that allowing the CPA to give licences to four main pension providers to take in default members will reduce competition between these main providers and cause damage to the businesses of providers who are not successful in the tendering process.[96]

Lifetime provider policy trade offs

- The Irish Government is concerned to ensure that neither employers nor employees are over-burdened. However, pension providers who are not able to become authorised through the new scheme could suffer financially. This could affect the members of these providers' schemes.
- There is less apparent concern regarding the time of development and cost and resource burden to Government.
- As with Australia, the maintenance of a central data system has its challenges. Several iterations may be required before the system works properly, and if the IT system fails, the entire system will suffer.

96 Fianna Fáil (2018)

Chapter Four: United States of America (USA/US)

System profile: Small pot refunds, introducing pot follows member-automatic

US overview

Value of assets in workplace pensions: In 2019, private sector DB schemes held US$3.5 trillion (£2.6 trillion) and DC schemes held US$7.4 trillion (£5.7 trillion).[97] In addition, pension schemes for public sector workers held US$5 trillion (£3.8 trillion).[98]

DB/DC split: In 2019, of those workers with a retirement plan, 73% were covered by only a DC plan, 16% by only a DB and 12% by both.[99]

Size of schemes: In 2017, 51% of DB schemes had between two and nine members, 31% had between 10 and 99 members, 11% had between 100 and 999 members, and the remaining 7% had 1,000 members or more. In 2017, 35% of DC schemes had between two and nine members, 52% had between 10 and 99 members, 11% had between 100 and 999 members, and the remaining 1% had 1,000 members or more.[100]

Number saving in a pension: In 2017, 13.5 million private sector workers were participating in an employer-sponsored DB scheme and 81.2 million were active members in employer-sponsored DC schemes.[101] In addition, 60.3 million people held Individual Retirement Accounts (IRAs).[102] Much of the money in IRAs consists of rollovers from employer-sponsored DC accounts. Thus, many people have both an IRA and a workplace pension.[103]

Average DC pot size: In 2019, based on data from a major pension provider, the mean and median size for DC accounts were US$106,478 (£81,400) and US$25,775 (£19,700), respectively, with assets rising sharply by age and income.[104] The total (DC and IRA combined) holdings for working households with a DC scheme approaching retirement (55-64) was US$144,000 (£110,000).[105]

Member charges: The fees on DC plans vary sharply by plan size.[106] They also vary by investment option, from around 0.25% to 0.52%.[107]

Annual workforce turnover: 22%[108]

97 U.S. Board of Governors of the Federal Reserve System, *Financial Accounts of the United States* (2020); All currency converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
98 Board of Governors of the Federal Reserve System, *Financial Accounts of the United States* (2020), Tables L.118 and L.120; Converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
99 Alicia Munnell's calculations based on the U.S. Board of Governors of the Federal Reserve System, *Survey of Consumer Finances* (1983-2019)
100 United States Department of Labor (2019) Table B1
101 United States Department of Labor, Employee Benefits Security Administration (2019) Private Pension Plan Bulletin, Abstract of 2017 Form 5500 Annual Reports, Table A1(b).
102 Internal Revenue Service, SOI Tax stats - Accumulation and Distribution of Individual Retirement Arrangements (IRA), Table 1. https://www.irs.gov/statistics/soi-tax-stats-accumulation-and-distribution-of-individual-retirement-arrangements
103 Internal Revenue Service, SOI Tax stats - Accumulation and Distribution of Individual Retirement Arrangements (IRA), Table 1. https://www.irs.gov/statistics/soi-tax-stats-accumulation-and-distribution-of-individual-retirement-arrangements
104 Vanguard Group (2020)
105 This figure was calculated from the U.S. Board of Governors of the Federal Reserve System's *Survey of Consumer Finances* in Munnell, Chen (2020)
106 Alfred, Ryan (2015)
107 Investment Company Institute (2020)
108 https://www.imercer.com/articleinsights/North-American-Employee-Turnover-Trends-and-Effects

Current system

In 2019, 51% of workers ages 25-64 were participating in either a workplace DC or DB pension. This figure increases to 55% for full-time workers and about 80% for public sector workers.[109]

As in the UK, public sector workers tend to have access to a DB scheme, while the majority of schemes open to private sector workers are DC. The two major types of DC plans in the USA are 401(k)s, which are offered by employers and to which employers generally contribute, and IRAs, which can be opened by individuals. Most of the contributions to IRAs, however, are rollovers from workplace 401(k)s.

Pensions receive different tax treatment

Elements of 401(k) and IRA savings receive tax relief. Under the traditional 401(k) or IRA, contributions are tax deductible, returns accumulate tax free and taxes are imposed only when money is withdrawn in retirement. Beginning in 2006, however, employers also have had the option of offering a Roth 401(k), and individuals could open a Roth IRA. Under the Roth arrangement, initial contributions are put in the plan after income taxes have been paid, but investment returns accrue tax free and no taxes are paid when the money is withdrawn in retirement. Lifetime taxes are roughly equivalent under the two approaches.

There are rules governing pension income withdrawal

Withdrawals are restricted until age 59½ and are subject to a 10% tax penalty (and a further 20% is held in anticipation of a future tax bill (withholding tax)) if taken at a younger age. However, the amount of the penalty has not proved a sufficient deterrent to full withdrawals. “Leakages” probably amount to about 1.5% of DC assets each year, reducing ultimate accumulations by about 20%.[110]

In retirement, holders of 401(k)s and IRAs are required to withdraw a percentage of their account balances each year once they reach age 72 (age 70½ for those who turned 70 prior to 2020) to assure that tax-favoured saving is used to support their retirement consumption, not to build estates to be passed on to their heirs.

There are difficulties with transferring pension accounts, however, losses arise from non-transfer

Those whose 401(k) savings are rolled over into IRAs are likely to experience a loss to their potential retirement savings. These vehicles tend to be invested in low-return-seeking assets such as cash and bonds (as a result of regulatory requirements) and tend to charge members higher fees than 401(k)s, therefore limiting the potential for investment returns to boost pension saving.[111] Many take full lump sum withdrawals out of small accounts. Those who tend to experience the most negative effects from the system, as in the UK, are lower earners, women and ethnic minorities.[112] However, until recently it has been problematic for people to transfer previous 401(k) pots to active pots, due to cost barriers, the reluctance of some schemes to receive previous pots and lack of regulation and industry standards (which often requires the member to oversee and monitor the transfer personally).[113] In 2019 the US Government released guidance on how 401(k)s could be transferred between schemes, and explicitly permitted pension providers to transfer 401(k)s without express member consent.[114]

Future system

The US industry (with assistance from the US regulator) intends to introduce a policy in January 2021, “Auto-Portability”, that will use a pot follows member design. Under the policy, when a member moves to a new job, and leaves a 401(k) pot of less than US$5,000, (£3,800) this pot will either stay in the previous 401(k), automatically be transferred to a retirement

109 The overall participation rate and the rate for full-time workers is from the U.S. Board of Governors of the Federal Reserve System, *Survey of Consumer Finances* (2019). The rate for public sector workers is from earlier data from the U.S. Census Bureau’s *Current Population Survey*.
110 VanDerhei, Copeland (2019)
111 U.S. Government Accountability Office (2014)
112 Pensions Commission (2005)
113 Munnell, A., Belbase, A., Sanzenbacher, G., and Summit Consulting (2018)
114 U.S. Department of Labor, Employee Benefits Security Administration (2019)

clearing house "Retirement Clearinghouse" or to an IRA selected by the employer.[115] The exact process will be negotiated on a per pension provider basis. The clearing house will retain the pot until the employee starts a new job which offers a 401(k). At this point the previous pot will join the employee's current pot with their new employer. The individual's Social Security Number will be used to identify the correct pot.

Retirement Clearinghouse requires participation from 401(k) pension providers in order to facilitate the policy. At the time of writing (November 2020) one large provider, Alight, representing 5 million 401(k) savers (and soon to take on an additional 6.1 million),[116] has agreed to participate in the auto-portability policy. Other providers are in negotiation with the clearing house. Full coverage will require all 401(k) providers to participate. There are clear incentives for pension providers to join the scheme, as the operation of auto-portability will give providers a clear competitive advantage and save them from expending resources on managing small pension pots which are unlikely to be profitable in the long-term.

If all 401(k) providers participate, an auto-portability policy applied to pots of under US $5,000 (£3,800)[117] could save (in present value) US$1,509bn (£1,153bn) in 401(k)s over the next 40 years.[118] Full portability of pots, regardless of value, could save (in present value) US$1,987bn (£1,520bn) in the 401(k) system over the next 40 years.[119]

The ongoing running costs will be mainly borne by members through a one-time fee when a pot is transferred:[120]

- For balances above US$590 (£445), a US$59 (£45) transfer fee applies.
- For balances US$50 (£38) to US$590 (£445), the transfer fee is capped at 10% of the balance.
- For balances under US$50 (£38), the transfer is performed free of charge.
- When total, forecasted network transactions exceed 1MM per year, the maximum transfer fee will be reduced from US$59 (£45) to US$47 (£36).

However, pension providers will bear some upfront costs when joining the regime, as they will need to adapt their internal technological infrastructure in order to work with the system managed by the clearing house. The upfront cost for this is in the region of US$500,000 (£382,000), though it is expected that providers will increase their profits over time as a result of using the new system and recoup the initial set up costs. For example, if US$1.5bn (£1.15bn) could be retained in the system over the next 40 years,[121] and a pension provider has a 10% share of 401(k) AUM, they could see a lift in their revenues from the US$150m (£115m) increase in their AUM which would more than offset the initial cost.

Policy trade-offs

The US context differs from other countries in that the federal government has played a fairly hands-off role in regard to pushing forward the automatic enrolment and auto-portability policies. The Congress failed to act on Obama administration attempts to introduce a nation-wide automatic enrolment policy through IRAs.

The US continues to face a major coverage gap; only half of private sector workers are participating in an employer plan at any moment in time. Coverage tends to be related to size, with large companies offering plans and small employers not. In the absence of federal action, some states have introduced programs to expand coverage. California, Illinois, and Oregon have introduced automatic enrolment programmes through Roth IRAs.[122] The "Auto-IRA" program does not involve any employer contributions. However, employers are required to deduct contributions from the pay of employees who do not opt out and then send these to a third-party administrator who ensures the contributions go to the correct scheme, ensuring that those who move employers retain the same pension account (lifetime provider-automatic).

115 https://rch1.com/
116 https://alight.com/our-story/newsroom/alight-solutions-to-lead-nationwide-launch-of-rch
117 All currency converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
118 VanDerhei, Copeland (2019)
119 VanDerhei, Copeland (2019)
120 Figures provided by Retirement Clearinghouse: all currency converted between 05.11.20 and 10.11.20 Converted 10.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
121 VanDerhei, Copeland (2019)
122 https://www.wsj.com/articles/states-take-aim-at-people-with-no-retirement-plan-11593945474

Appendix: Country profiles

Country profile: Belgium (removing the admin charges for small pots)

Pension saving is mandatory for Belgian employees whose employer either offers an employer sponsored plan or who is affiliated to a sector-based pension scheme. Other employees, and the self-employed, are able to opt in to a pension.[123] Around 75% of Belgian workers and 57% of self-employed Belgians are members of a private workplace pension, the majority of which are DC schemes provided either through an employer or on a sector wide basis (Belgium has around 113,000 employer schemes and 70 sector schemes).[124] 76% of employer and sector pensions are DC, 18% are hybrid and 6% are DB.[125] The majority of schemes are funded through employer-only contributions, for which employers receive tax relief.

Those leaving an employer have four main options:

1. They can leave their pot with their previous employer's scheme under the same terms as the pot was treated when active.
2. Move the pot to their new employer who is required to accept the pot but is not required to apply the same terms as it applies to other active pots.
3. Move their pot into a specific pension scheme, who cannot refuse to take anyone but can alter the applied terms.
4. Purchase a new pensions saving insurance contract.

The large majority choose option one because Belgian pensions guarantee a level of historical investment returns on an annual basis.[126] As a result, around 52% of employees pots have a deferred pot.[127] Annual job churn in Belgium was around 11% in 2016.[128]

There is little publicly known about the level of fees and charges levied on members of Belgian workplace pension schemes.[129] The Government intends to review current member charge levels, explore how automation can be used to reduce future costs, and charges to members, and to remove legal obstacles to cost reduction exercises.[130]

Those with deferred pots previously experienced pot erosion due to charges, or, if pots were below a certain level had the value paid directly into their bank account upon leaving the scheme. However, since 2017, new rules apply to pots below €150 (£136).[131] These pots can no longer be moved or cashed out. Instead, the schemes are required to maintain these pots. However, the administrative and regulatory burdens are reduced: these schemes are not required to report or send annual statements for these pots (though they remain invested). Therefore, the charges for these pots are reduced to a very minimal level and pots below €150 (£136) no longer face the possibility of erosion.

123 Maczynska *et. al.* (2020)
124 Financial Services and Markets Authority (FSMA) (2019)
125 FSMA (2019)
126 Maczynska *et. al.* (2020)
127 FSMA (2019)
128 Mercer (2016)
129 https://www.belgium.be/sites/default/files/Regeerakkoord_2020.pdf, p. 22
130 https://www.belgium.be/sites/default/files/Regeerakkoord_2020.pdf, p. 22
131 All currency converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency

Country profile: Chile (lifetime provider-automatic with a central clearing house)

Since 1981, Chilean employees have been required to save into one of the main seven DC workplace pension providers.[132] Coverage is also being extended to the self-employed.[133] In 2018, there were 10.7 million people saving through the mandatory private pension system.[134] Member fees are taken from monthly income, in the form of a percentage of income. In 2018, the average weighted fee was 1.26% of monthly earnings.[135] Employers also pay fees on behalf of members to cover insurance elements attached to pension savings accounts.[136]

Since 1981, Chile has operated a lifetime provider-automatic system. The system has been designed to minimise the administrative burden on the employer and the need for the employees to take action. Therefore, all contributions are sent to a central clearing house, Caja de Compensacion de los Andes, and managed by an online platform, Previred, which is jointly owned by all pension providers and funded through member charges.[137] Previred ensures that all contributions are sent to the correct scheme and are in the correct account.

Previred was set up in 2001 by the main pension providers.[138]

132 OECD (2017)
133 IOPS (2017)
134 IOPS (2017)
135 https://www.alessandri.legal/en/new-maximum-ters-for-chilean-pension-fund-investments-further-drops-expected-next-year/
136 IOPS (2017)
137 Heinz *et. al.* (2007); https://www.bnamericas.com/en/news/PreviRed_reviews_breakeven_projections_on_higher_costs ; https://www.previred.com/web/previred/oficina-de-partes
138 https://www.relbanks.com/chile/previred

Country profile: Denmark (looking at extending functionality of dashboard)

Danish employees are required to save into workplace pension schemes. There are three kinds of workplace schemes: sector-based pensions (often provided by an insurer and including insurance services and often providing pension return guarantees), arising from collective bargaining, pensions provided through an employer, and civil service pension schemes. There are voluntary schemes available for the self-employed and employees not covered by their workplace. 90% of Danes in full time employment are saving into a workplace pension, the vast majority of which are DC with insurance elements built in.[139] Fees in Danish pensions are relatively low, compared to other OECD countries.[140] DC schemes all charge a percentage some include a flat fee charge as well. In 2017, average administration costs charged to members were around 0.19% of Assets Under Management (AUM), around DKK755 (£92)[141] per year.[142] Investment charges vary depending on fund size.[143] There is a website available for people to compare scheme charges.[144]

The Danes have had a pensions dashboard (PensionsInfo) in place since 1999.[145] The dashboard allows people to view all of their pension pots in one place and to model what the funds might provide in the future. While the dashboard does not have the functionality to allow automatic transfers using the platform at the moment, discussions are in place within Denmark on how to solve the problem with a high number of small dormant accounts.[146]

Transferring pensions within Denmark currently is relatively simple and can be done through the website of an individual's current pension scheme provider. Transfers for those with small pots are free of charge.[147] Not all of those who can transfer will benefit from doing so, as Danish workplace pensions include elements of insurance and guarantees on saving. The receiving pension scheme is responsible refusing to accept pots of members who would be disadvantaged by a transfer, and some may refuse to receive pots from schemes which provide a more beneficial offering.

As in other countries, some Danes accrue pots as they change employer. Annual job churn in 2016 was 13%.[148] However, around half of workplace pension schemes are sector based and therefore people moving between jobs of the same type are likely to retain their existing pot. In 2016 there were around 4m pots for 2.4m active workers in workplace pensions.[149] Despite the dashboard and letters sent by pension providers to Danes with small, deferred pots, many people have not consolidated their pension savings. As in the UK, this has resulted in some small pots being eroded by flat fees (though they are less likely to be lost due to the dashboard).[150]

The Danish Government and industry are considering approaches to tackling the problem. For four years, notices have been applied to accounts under £2,500, so that when people log in to the dashboard, they receive a message encouraging them to consolidate. However, it has not had great effect on the number of small dormant pots.

139 OECD (2016)
140 OECD (2016)
141 Converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
142 Sebo, Voicu. (2018)
143 OECD (2016)
144 https://faktaompension.dk/
145 https://www.pensionsinfo.dk/
146 Informal discussions with Danish experts
147 Informal discussions with Danish experts
148 Mercer (2016)
149 Sebo, Voicu. (2018)
150 Informal discussions with Danish experts

Country profile: Israel (pot follows member)

Israel has operated a system of compulsory workplace pension saving for employees since 2008, and coverage there is nearly universal.[151] Israeli workplace pensions are mainly DC schemes operated by external providers. Since 1995, all DB schemes have been closed to new members, though some allow members to continue accruing benefits (subject to their being members since 1995).[152] Israelis, as seen in other countries, are more likely to work in "non-standard" employment than previously, and have been building up small pots as they change jobs.[153] The problem is compounded by high member charges in Israeli schemes; contribution charges are capped at 6%, and most schemes charge an additional Annual Management Charge capped at 0.5%.[154]

Israel has run media and print campaigns to encourage more engagement with pension savings, including messages around the potential downsides of keeping multiple pension pots in schemes with different charging structures.[155] Campaigns in addition to the introduction of the Israeli "Wobi" dashboard led to around 10% of people transferring pots (though it is not clear whether these led to consolidation of all pots for those individuals).[156] Two default funds were introduced with lower charges.[157] Israelis have access to both a public, and some private sector, dashboards, which (generally for a fee) allow people to view all of their pots.[158]

In order to ensure that those who do not make an active choice have their pots consolidated, the Israeli Government introduced a Pot Follows? Member policy, in 2017, called the "pension tracking reform (uniting inactive accounts)."[159] This policy ensures that those who do not respond to letters or consolidate voluntarily after a certain period of time will have their previous pots automatically transferred into their current, active pot. The Government estimates that this will halve the number of Israeli pension accounts (from around 3.4 million to around 1.7 million).[160]

151 OECD (2017)
152 OECD (2011)
153 OECD (2019a)
154 Benish *et. al.* (2016)
155 Atkinson, A. *et. al.* (2012); informal conversations with Israeli pensions experts
156 DWP (2019)
157 The Capital Market, Insurance and Savings Authority (2016)
158 Lindley, D. (2019)
159 The Capital Market, Insurance and Savings Authority (2016)
160 The Capital Market, Insurance and Savings Authority (2016)

Country profile: Mexico (lifetime provider-automatic, with data problems)

Since 1992, saving for retirement in an Individual Account has been mandatory for Mexican employees. From the 1997 policy inception, the lifetime provider model has been in place. Employers pay contributions to certified banks using softwares controlled by the social security institutes; once the payment has been done, the contributions are individualized to the accounts of the employees by a privately managed central processing company (Procesar) who then sends them to one of Mexico's ten pension providers (AFORES).[161] Procesar is funded by the pension providers and the Mexican Ministry of Finance (at an annual cost of around 0.06% of Assets Under Management (AUM))[162] and is supervised by the Mexican Pension Fund Commission.[163] Charges in DC pensions are relatively high, ranging between 0.79% and 0.98% of AUM, though there are no flat fees.[164]

By law there should be no multiple accounts held by a single Mexican pension saver, however, issues with data processing have led to some multiple account accumulation (the duplicates are less than 0.1% of the total accounts). While the unique population registration key and the social security number are intended to be unique to each individual, administrative processes sometimes create duplicity for these identity numbers, and therefore, people still accrue multiple accounts within the AFORES system. Nevertheless there are procedures that unify the accounts for the workers whenever a duplicity is detected. In September 2020, there were 67.5m accounts within the workplace DC system, compared to 58m workers[165] though some of these will have arisen from people joining and leaving the labour market. While instituting a more rigorous system for personal identity numbers would help to solve the problem, the process would be very expensive.

In an attempt to reunite older people with small pots, the Mexican Government conducted a one-off exercise in which they transferred all pots of less than 10,000 pesos (£370)[166] directly to the bank accounts of those age 65 or over.[167] Mexico is working to increase financial inclusion and financial literacy within its population generally.[168]

161 https://ontheregs.com/2019/07/15/mexican-afores-take-a-big-step-closer-to-foreign-mutual-funds/
162 Azuara *et. al.* (2019)
163 Mitchell (1999)
164 Data from CONSAR, retrieved 23.10.20 - https://www.consar.gob.mx/gobmx/aplicativo/siset/ CuadroInicial.aspx?md=17
165 Data from CONSAR, retrieved 23.10.20 - https://www.consar.gob.mx/gobmx/aplicativo/siset/ CuadroInicial.aspx?md=5; Worldbank labour market statistics retrieved 23.10.20 - https://data.worldbank.org/indicator/SL.TLF.TOTL.IN?locations=MX
166 Converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
167 Interviews with Mexican experts
168 National Council for Financial Inclusion (2016)

Country profile: New Zealand (lifetime provider-automatic)

Since 2007, New Zealand has operated an automatic enrolment scheme (KiwiSaver) which both employers and employees contribute to, and which allows employees to opt out within eight weeks of being automatically enrolled. Since policy inception, New Zealand has operated a lifetime provider-automatic, policy. There are 33 registered KiwiSaver DC scheme providers.[169] On first joining work, employees can either select a scheme to save in, or are defaulted into a scheme. Employers pay contributions directly to the Inland Revenue, who then passes these on to the correct scheme. Employees in New Zealand all have a tax number used for pension identification purposes. Schemes provide the Inland Revenue data using a standard format.

While New Zealand's system precludes people from generating multiple accounts when changing employer, it does not preclude the generation of small accounts for those who dip in and out of the employed labour market. Those, for example, who are self-employed and not eligible for automatic enrolment, could generate a small pot, if they become an employee for a short period of time. Others, who save in employment for a short period and then cease contributing can also generate small, deferred pots. In 2018, annual job churn was 21%.[170] Of 3,026,064 total members 59% were contributing to their KiwiSaver accounts.[171]

As in some schemes in the UK, KiwiSaver schemes generally charge a flat fee alongside a percentage charge. There is wide variation in charges, generally depending on the investment strategy. Less aggressive funds charge less than high return-seeking funds. In 2020, the average management fee per member was NZ$150 (£78)[172] and the average administration fee per member was NZ$28 (£15).[173] However, charges also reflect various offerings, such as tailored saving strategies for members, or schemes which comply with Shariah law.[174] Members are able to freely view and compare scheme charges on New Zealand's website for helping people with financial planning and management; Sorted.[175]

As a result of flat fees, small, deferred pots in New Zealand face the dangers of erosion. New Zealand is not currently exploring ways of minimising the impact of fees on small, deferred member pots. Instead, it is focussing on improving the financial capability and engagement of New Zealanders.[176]

169 Financial Markets Authority (FMA) (New Zealand) (2020)
170 Lawson Williams Consulting Group (2019)
171 FMA (2020)
172 All currency converted 09.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
173 FMA (2020)
174 https://www.moneyhub.co.nz/koura-wealth-kiwisaver.html; https://www.moneyhub.co.nz/amanah-kiwisaver-review.html
175 https://sorted.org.nz/
176 https://www.msd.govt.nz/what-we-can-do/providers/building-financial-capability/index.html#:~:text=The%20Government%20has%20announced%20%2439.2,centred%20model%20of%20BFC%20services.

Country profile: Norway (pot follows member or lifetime provider with three month opt out)

Since 2006, Norway has operated a mandatory workplace pension savings system to which both employers and employees contribute, though there are voluntary schemes available for additional saving. 80% of private sector employees are saving into a DC scheme; the remaining 20%, and most public sector workers, save into DB schemes.[177] Around 75% of workplace pensions are insurance contracts, and 94% of Assets Under Management within workplace pensions are held by the top five insurance providers.[178]

Job churn in 2016 was 11%.[179] Currently, those who move jobs are automatically enrolled into a new scheme, unless their new employer uses the same provider as their previous employer. This has led to the generation of small pots within Norway. In 2018, there were around 1.7m deferred pots held by 1.4m pension savers.[180] As of January 2021, Norway will be introducing the "own pension account" policy (Egen Pensjonskonto). The policy involves automatic consolidation of pots after three months from policy inception into people's current accounts or a chosen account. On moving jobs, all previous pots will automatically be transferred to an employee's current pot. This will usually be their new employer's scheme, though employees can choose to leave any or all previous pots in situ or choose a new provider for their lifetime pension account. Transfers are intended to take no more than six days. The industry has led much of the debate and policy development and pushed for a flexible approach. The policy is expected to increase competition, reduce fees and foster closer working between providers.[181]

An industry owned central platform will be used by all schemes to manage transfers (Pensjonskontoregistret AS). Pension providers will pay a levy to use the system. Levies will be proportionate to client base and market share. Members will not have to pay transfer costs at the time, though eventually all costs will be passed on to members.[182]

One of the main motivations for the policy change was the worry of people paying multiple administration fees. Norwegian DC member charges are relatively high.[183] Anecdotally, passive funds levy member charges of around 0.75%pa of AUM, and active funds can charge members up to 1.5%pa (from a combination of flat fees and percentages).[184] However, it is not easy for Norwegian consumers to compare pension charges as these are not generally displayed openly on websites and there is no comparison tool, though a portal which will allow comparison between schemes is in development. It is envisioned that the policy will increase the pension savings of Norwegians, by reducing the impact of member charges and fees.[185]

177 Midtsundstad (2019)
178 https://www.pensionfundsonline.co.uk/content/country-profiles/norway; https://www.nsinsurance.com/news/insurance-companies-norway/#
179 Mercer (2016)
180 Cognizant (2019)
181 https://www.nordea.no/privat/vare-produkter/pensjon/egen-pensjonskonto.html; Informal discussions with Norwegian experts
182 https://www.nordea.no/privat/vare-produkter/pensjon/egen-pensjonskonto.html; Informal discussions with Norwegian experts
183 Cognizant (2019)
184 Informal discussions with Norwegian experts
185 Cognizant (2019)

Country profile: Sweden (voluntary same scheme consolidation, and dashboards)

Sweden operates a system of compulsory saving for those whose employer offers a workplace scheme. While not all employers offer a scheme, coverage is fairly high due to the vast majority of employers setting up schemes as a result of collective agreements with unions.[186] Around 90% of workers are covered by four main pension providers.[187] The vast majority of current Swedish pensions are DC, though older members may still be saving in DB, and many pensioners are receiving DB income.[188] While people have been allowed, in theory, to transfer new (non-collective) DC pension pots between schemes since 2007 (subject to regulatory requirements), they cannot consolidate pots within a scheme, as a result of legal difficulties arising from employers technically "owning" pension contracts and acting on behalf of their employees.[189] Transfer fees vary between schemes. The four major providers either transfer for free or charge a flat administrative fee (of between SEK200 (£18)[190] and SEK400 (£35)). Group personal DC plans may charge a percentage of fund size.[191] However, those who save in one of the four main industry pension schemes are able to actively choose to save into the same pot if they leave and re-join their scheme (same-scheme consolidation). Contributions and transfers are managed by pension providers.[192]

Job churn in Sweden is increasing, as it is in the UK. Annual workforce turnover was 13% in 2016.[193] People are accruing small deferred pots in Sweden (there were around 3.5 small pots per person in one of the four main industry "white collar" schemes for those aged 66 in 2008-2017).[194] Schemes charge a percentage (of around 0.19%) and generally a small flat fee.[195] However, some smaller private sector schemes do charge larger flat fees as well as percentages, and these can be high, up to SEK300 (Swedish Krona) per year (£26).

The current main problems with small deferred Swedish pots are that they cannot always be merged, and that some private sector schemes have high charges that will erode pot values, but also have high transfer fees. The difficulty of transferring has also led to concerns that schemes are less competitive on both member charges and investment returns.[196] In order to make transferring easier, Sweden is introducing legislation which will ensure that fees for transferring are capped at SEK600 in 2021 (£53).[197]

However, Sweden does have a dashboard (MinPension) which shows people all of their pension pots.[198] Those who have several small pots in schemes which do not charge a flat fee, and which can be viewed through a dashboard, may not lose out as much as those in the UK who are more in danger of losing pots, or having pots eroded by charges.

186 Maczynska *et. al.* (2020)
187 Hagen, J. (2018); the four main providers are sector-based schemes for: "blue-collar" private sector workers, "white-collar" private sector workers, local government workers, and state-level government workers
188 Maczynska *et. al.* (2020)
189 https://uk.practicallaw.thomsonreuters.com/1-503-3778?transitionType=Default&contextData=(sc. Default)
190 All currency converted 05.11.20, google converter -Morningstar data for currency and coinbase for cryptocurrency
191 Maczynska *et. al.* (2020); discussions with Swedish experts
192 Palmer (2000)
193 Mercer (2016)
194 Micro data analysis by Johannes Hagen, Jönköping International Business School
195 Hurman, N. (PPI) (2018), Table EX1
196 Maczynska *et. al.* (2020)
197 https://www.regeringen.se/pressmeddelanden/2020/09/atgarder-for-sankta-avgifter-vid-aterkop-och-flytt-av-fond--och-depaforsakringar/;
198 https://www.minpension.se/

Glossary:

Active member: an individual who has pension savings managed by a pension provider or employer, to which they and their employer are contributing.

Annual Management Charge (AMC): an annual charge, generally a percentage of pot size, levied on members by pension providers to cover administration and investment costs.

Automatic enrolment: under automatic enrolment in the UK, eligible employees (earning £10,000pa or above and aged between 22 and State Pension age) are enrolled into a qualifying workplace pension scheme upon entering a new job and, with their employer, will contribute a minimum of 8% of band earnings (including tax relief). Employees have one calendar month in which to "opt out", and receive back any contributions that they have made, with employer contributions returning to the employer.

Deferred member: an individual who has pension savings managed by a pension provider or employer, to which they and their employer are no longer contributing.

Flat-fee: a flat charge (not a percentage levied on members by pension providers to cover administration costs.

Pension pot: the amount of money held in a pension savings account at any given time.

Policy trade-offs: the potential benefits and drawbacks to stakeholders which must be considered and weighed during policy design.

Pot consolidation: when small pots are grouped together into a single pot.

Small pension pot: a pot which, by the nature of its size and the circumstances of its management, is unlikely to provide a financial benefit to its owner.

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Acknowledgements and Contact Details

This report was sponsored by:

Funding has been given to help fund the research, and does not necessarily imply agreement with, or support for, the analysis or findings from the project.

The Pensions Policy Institute is grateful for input from many people in support of this paper, including:

Australia:

David Atkins
Melissa Birks
Robbie Campo
Ross Clare
Diana Olsberg
Ann Smith

Belgium:

Emma Suzanne van Aggelen
Yves Stevens

Chile:

Olga M Fuentes
Manuel Garcia-Huitron

Denmark:

Michael Rasch
Ole Beier Sørensen

Ireland:

Declan Jackson
Jerry Moriarty

Israel:

Ayal Kimhi

Mexico:

Juan Gabriel García Vadillo
Rita Azahar Hamden Villalobos

New Zealand:

Susan St. John

Norway:

Kristin Bekkeseth
Colin Haines
Jennie C. Karlsen
Ståle Ingebrigtsen
Vidar Pedersen
Jason Whyte

Sweden:

Johannes Hagen
Anders Lundstrom

USA:

Tom Hawkins
David John
Tom Johnson
Alicia Munnell
Laura Quinby
Spencer Williams

Master Trust working group:

Zoe Alexander
Sharon Bellingham
Adrian Boulding
Madalena Cain
Colin Clarke
Stephen Coates
Dale Critchley
Danny Dowd
Ben Forsyth
Tim Gosling
Lizzy Holliday
Paul McBride
Darren Philp
Jessica Rigby
Kate Smith
David White

MaPS:

David Marjoribanks

PPI:

Danielle Baker
Mark Baker
Duncan Brown
Chris Curry
Andrew Evans
Janine Harrison
Maritha Lightbourne
Sarah Luheshi
Lee Massey

Editing decisions remained with the author who takes responsibility for any remaining errors or omissions.

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Published by
PENSIONS POLICY INSTITUTE

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www.pensionspolicyinstitute.org.uk
ISBN 978-1-906284-96-1