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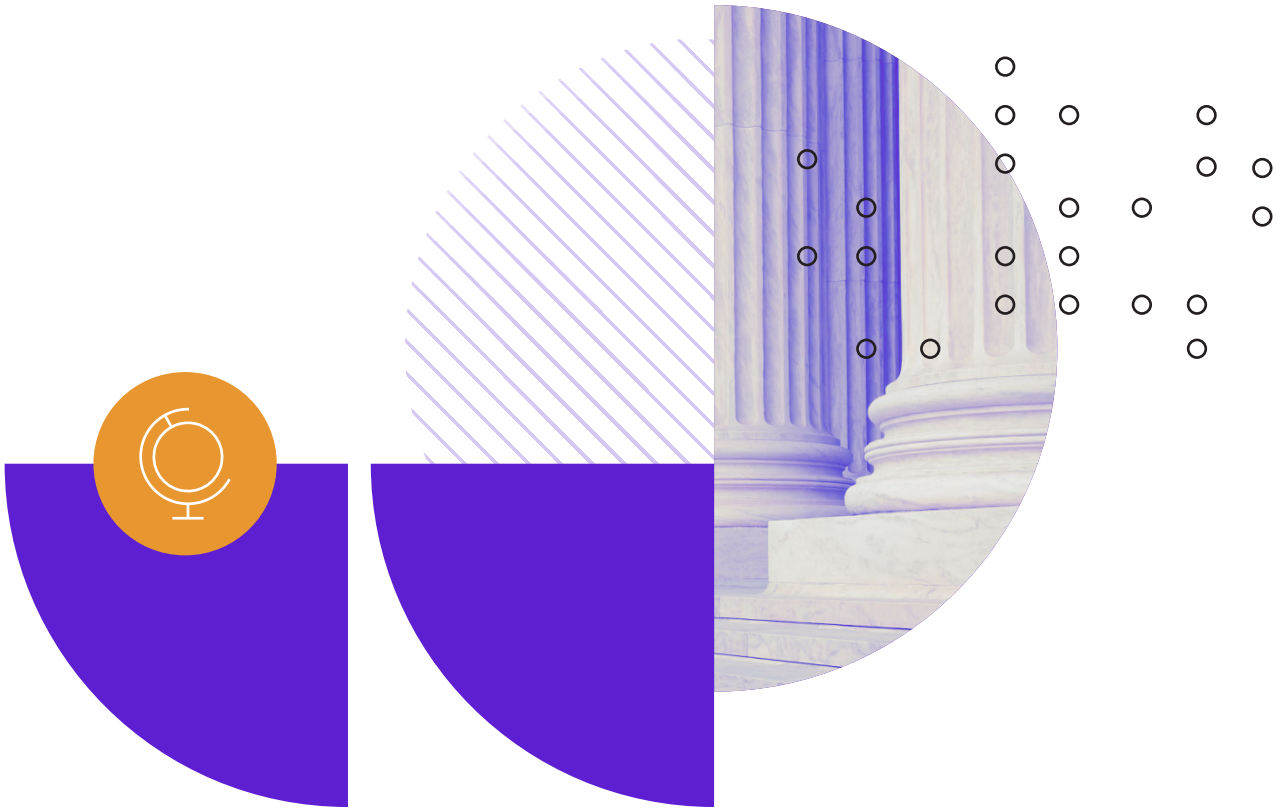
Going Global

An Evaluation of Retirement Systems Around the World



Executive Summary

There is no one-size-fits-all approach to help employees help themselves build retirement funds.

Around the world, public policy increasingly puts the onus on workers to build assets that can meet their needs in retirement. In many countries, public or social security pensions will provide no more than a basic retirement income, and, as retirement ages increase, people will be waiting longer to start receiving it. Building sufficient personal retirement provisions to provide supplemental income to social security pensions that will last through longer life expectancy and longer retirements, on average, is vital to securing a comfortable retirement.

While many retirees are receiving some of their income from occupational defined-benefit, or DB, schemes, the number of schemes continues to decline, together with the number of current employees accruing benefits in such schemes. Consequently, the number of people who have the security of knowing they have guaranteed income, and the level thereof, for the duration of their lives is shrinking.

Most countries operate some form of a three-pillar pension framework, with the first built around a social security pillar; the second of occupational- or workplace-related savings; and a third of personal or individual savings. Optimising each of the pillars and their interaction has broad scope. In this paper, we look at the extent of the role and some of the ways in which workplace retirement schemes help to provide secure and cost-effective investment frameworks for employees to build the funds needed to generate a retirement income, whether via annuitization or drawdown or a combination of the two.

We find that the defined-contribution, or DC, scheme is already thriving in some markets and at a more embryonic stage in others; in large part, this is shaped by the extent to which social security pension schemes provide, or historically provided, a significant proportion of individuals' retirement income.

We also see developmental solutions seeking a hybrid between DB and DC schemes, such as the United Kingdom's new collective defined contribution schemes, designed to provide members with a nonguaranteed, but more likely, albeit potentially variable, income for life, where contribution rates are defined in advance for employers and employees and where risks and costs are shared between the schemes members rather than individually.

In this, our first international look at retirement frameworks, we focus on the features of workplace retirement schemes in eight highly educated and wealthy countries spanning the Americas, Europe, and Asia. The countries—Australia, Canada, Hong Kong, New Zealand, Singapore, Sweden, the U.K., and the United States—all have effective retirement systems that are often cited in independent studies as among the best-in-class frameworks in their regions.

Each country has distinct variations in how they harmonize social security, workplace, and personal retirement provisions, and we explore these in Section 1, before analysing the different approaches to workplace schemes in Section 2. Rather than attempting to rank them based on differences, which might overly emphasize one approach, we have elected to observe and highlight both best practices and areas for improvement, describing these in Section 3 and illustrating them visually in the Exhibit 8 heatmap. We summarise the frameworks and policies of each country in Section 4.

A common challenge we observed across heterogeneous retirement frameworks is complexity. They generally operate within complex rules and offer investment options that are not necessarily intuitive to inexperienced investors. Together, these factors make it challenging for many individuals to ascertain how best to both accumulate, and then decumulate, retirement savings.

Overall, the hallmarks of the best-placed workplace schemes are government-mandated contributions; savings incentives, such as tax breaks or government contributions and employer-contribution-matching programs; and transparent oversight or benchmarking of scheme funds' performance and costs.

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Key Takeaways

DC puts investment risk squarely on individuals. Getting unconflicted fiduciary advice to workers and retirees cost-effectively is a challenge still eluding most countries.

Choice is good. Too much choice is counterproductive, and some countries are better than others at limiting it so that participants are more likely to select a high-quality, low-fee, investment option or be defaulted into such an option.

Fragmentation is a problem. Minimizing the number of separate workplace plans that individual workers hold lowers costs and increases engagement, and countries have tried various approaches such as:

- Plan-follows-member
- Consolidating legacy plans into a 'paid-up' plan
- Auto-transferring small, orphaned plans to an individual's current or central plan (with the twin benefit of preserving savings and preventing early encashment of small plans)

Auto-enrolment programs are effective. They get more people saving earlier, and countries have scope to expand them, for example, by bringing more people into the program and escalating contribution rates.

Early access to workplace savings poses a delicate balancing act. We find varying approaches to avoiding depletion of retirement savings while not allowing inaccessibility to discourage adding to those savings.

Engagement efforts need stepping up. We find increasing examples of proactively engaging members as retirement approaches but a dearth of initiatives to engage younger people in retirement saving.

SECTION ONE

Retirement Savings Architecture

Good Retirement Frameworks Depend on Aligning Multiple Programs

A Social Security Pension Only Goes So Far but Further in Some Countries Than Others

Foundational social security pension models tend to take one of three forms:

- Flat-rate, or redistributive: as in the U.K., where contributions are made as a proportion of earnings, but where the annual pension is a flat rate for everyone, except for those who have not contributed during the full required number of years, where it is reduced. Contributions from higher-earners are effectively redistributed to lower earners.
- Earnings-related: as in Sweden, where the annual pension is proportionate to the earnings on which contributions were made.
- Means-tested: as in Australia, where pensioners are guaranteed a minimum level of income in relation to their other income and assets.

While these models generally provide a basic level of retirement income, the proportion of supplemental replacement income that workplace schemes need to generate, varies from country to country. Regardless, the more retirement savings that individuals can build the more comfortable retirement will be.

Workplace Schemes Are Key to a Comfortable Level of Retirement Income

Workplace schemes to provide retirement income go by a variety of names in different countries, including, to name a few, *pension funds, superannuation funds, provident funds, and 401(k)s*. For simplicity, we will use the terms *workplace plan* and *workplace scheme* interchangeably throughout this report to cover all of these.

In this study, we analyse the principal schemes used across eight markets in their transitions to DC from predominantly DB environments. We look at the policies and frameworks that they operate under; the degree to which employers and employees are incentivised, or mandated, to fund retirement contributions; the key features of the predominant scheme types, such as the investment choice architecture; costs and performance of the investments available; and the extent to which guidance or advice is provided to individuals about both the accumulation and decumulation of their retirement savings.

The Intersection Between Social Security and Workplace Schemes by Country

Exhibit 1 plots two dimensions for each of the eight countries we analysed to help visualise the current stage at which they are in balancing their social security and workplace schemes.

Exhibit 1: Retirement Frameworks

Social Security Payout Model	Mostly DB (>67%)	Mixed (33%-67% DB/DC)	Mostly DC (>67%)
Earnings-based	Canada	Sweden, U.S	Singapore
Means-tested			Australia, Hong Kong
Flat-rate		U.K.	New Zealand

Source: Morningstar analysis of government disclosures and regulations from the represented markets.

While these payout models generally provide a basic level of retirement income, the proportion of supplemental replacement income that workplace schemes need to generate varies from country to country.

Most Systems Employ Varying Degrees of Automatic or Even Mandatory Enrolment

Requiring employers to auto-enrol their employees into a workplace saving scheme has been a proven success in three of the markets we looked at. In Australia, New Zealand, and the U.K., worker participation rates have increased and opt-outs, where permitted, are generally low.

The optimum mandated contribution amount depends in part on how extensive a country's retirement framework is otherwise and in finding a balance between not dissuading people by setting contributions too high or creating a false sense of security by going too low. A staged approach of enlisting employees and gradually increasing contributions is a beneficial way of increasing the retirement provision for many employees who otherwise may not do so. Both the U.K. and Australian models have increased minimum contribution rates over time, with pretax payroll deductions in Australia set to further rise in 50-basis-point increments from the current 10.5% to 12.0% by mid-2025, having started at 3% when the system was launched in 1992.

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Similar judgements need to be made in regard to investment choice and risk. NEST, a U.K. public body created to operate a workplace scheme for employers, offers an innovative three-stage approach to building savings. Starting with a five-year foundation phase designed to help younger members get into the habit of saving regularly, the scheme adopts an investment approach targeted at outpacing inflation and avoiding any discouraging sharp losses of money. A growth phase follows, starting from around workers' mid-20s, roughly 40 years out from retirement, with an inflation plus 3% performance target. Ten years out from retirement, the investment profile will move to one of consolidation via a shift to lower-risk assets, while still aiming to at least match inflation.

Ireland, another country just teeing up its own auto-enrolment program, offers a good example of the inherent factors that must be considered and balanced. Taking effect in 2024, it will feature minimum employee and employer contributions of 1.5%, escalating by 1.5% every three years until they reach 6%. The government will make further contributions equal to 33% of employees' contributions, and employers will be required to match employee contributions up to an earnings threshold of EUR 80,000.

Employees aged between 23 and 60 and earning more than EUR 20,000 must be enrolled and will have an option to opt out after six months but will be re-enrolled after two years. They will be offered an investment choice of a conservative-, moderate-, and higher-risk fund or be defaulted into a lifestyle fund, and their pot will remain with them if and when they change employers.

The key features of each market's auto-enrolment approach can be compared in Exhibit 2.

Exhibit 2: Auto-Enrolment Systems

Country	Mandatory Auto-enrol[1]	Primary Exclusions From Auto-enrolment	Minimum Employer Contribution	Minimum Employee Contribution	Government Contribution
Australia	Yes, no opt-out	None	10.5%[2]	0%	Up to AUD 500[3]
Canada	No	N/A	1%[4]	N/A	N/A
Hong Kong	Yes, no opt-out	Under 18s	5%	5% on monthly earnings HKD 7,100 – HKD 30,000	Individual contributions up to HKD 18,000 are tax-deductible
New Zealand	Yes, with opt-out	Under 18s	3%	3%	50% of employee contribution, up to NZD 521.43 per year
Singapore	Yes, no opt-out	None	17% on monthly earnings > SGD 50	20% on monthly earnings > SGD 750	Tax relief on individuals top- up contributions to SGD 8,000
Sweden (Social Security PPM)	Yes, no opt-out	None	2.5% to PPM (+ 16% to income pension)	0%	N/A
Sweden (Workplace - ITP)	Some employers	Under 25s	4.5% of salary up to SEK 44,375 + 30% of excess salary	0%	N/A
U.K.	Yes, with opt-out	Under 22s and those earning < GBP 10,000	3%	8% minus employer contribution[5]	Tax relief on up to GBP 40,000 of contributions per year
U.S.	Some employers	N/A	Determined by arcane test to ensure the benefits do not flow only to the highest paid	None	Contributions have tax advantages based on marginal tax rate and some credits

Source: Morningstar analysis of government disclosures and regulations from the represented markets.

[1]Refers to mandated enrolment into pension savings schemes on top of basic social security pensions.
[2]The amount is deducted from gross, pretax pay.
[3]Available for low-income workers without employee contribution and for middle-income workers as a matching contribution.
[4]Based on a Registered Pension Plan.
[5]Minimum total contribution is 8%.

Low Earners Face a Double Whammy

Social security pensions vary in the extent to which they redistribute proportionately more income to lower earners. Even in markets where enrolment into workplace schemes is mandatory, a single employer may feature an earnings threshold below which contributions are not required, as shown in Exhibit 2. These exclusions compound the difficulties low earners face in their future, with limited disposable income to divert into retirement saving. The growth of the gig economy compounds the problem, with an increasing number of people having multiple jobs that do not meet the income thresholds with a single employer, or where they are instead classified as self-employed.

Such income thresholds and exclusions may simplify scheme operation and reduce administrative costs, but requiring employer contributions on all of an employee's earnings would build savings for the most vulnerable. Leading the way, Australia has recently moved to abolish its AUD 450 per month minimum earnings requirement before employer contributions become mandatory—a move that is estimated to benefit a further 300,000, or 3% of, employees,[6] with those at the upper end gaining AUD 500 per year of superannuation contributions that they previously did not get. This principle becomes even more important in countries whose social security pensions do not replace a significant proportion of a retiree's former earnings income.

A further risk to lower-paid workers comes in the form of how scheme contributions are channelled from employers to scheme providers. Taking the U.K. example, firms can elect to make contributions from their employees' pretax or aftertax pay. In the latter case, the scheme provider will reclaim basic tax relief from the Treasury, but in the former, those earning below the basic-rate tax threshold will be disadvantaged in that their contribution is not meaningfully reducing their taxable income.

Thorny Issue: Tax Is Taxing

Tax policy is a significant differentiator of retirement policies. Retirement-savings taxation must intersect with taxation of other savings and investments to minimise disparities for different cohorts of investors. By way of example, the European Union has had a big success story with UCITS and the cross-border investment opportunities it opened to citizens, but, largely because of taxation differences among individual member states, parallels in the retirement arena are still very early stage via the Pan-European Personal Pension plan.

We summarize in Exhibit 3 the countries' differing approaches to utilising their tax systems to incentivise retirement saving. Where contributions are tax-deductible, there will typically be a cap on the amount of contribution entitled to the benefit, and in some cases, there are annual, or even absolute, caps on the amount that can be deposited into workplace schemes. In some countries, the annual contribution allowances operate on a use-it-or-lose-it basis, and in others, unused allowance from one tax year can be utilised in subsequent years.

[6] Australian Treasury. July 2020. "Retirement Income Review - Final Report." https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf

Assets growing within workplace schemes range from being untaxed to being taxed as any other investment. And on withdrawal, workplace scheme income may be taxed in the same way as income from other sources or taxed more advantageously, and in some countries a portion of the accrued savings can be taken as a tax-free lump sum.

A related theme to workplace plans and contributions is the option for workers to use coexisting non-retirement-focused investment wrappers to build further savings that can ultimately provide retirement income. This kind of choice architecture is beneficial but, without advice, can be complex to navigate and arrive at the optimum blend of investment products that maximise tax breaks and savings.

Exhibit 3: Taxation Comparative

Country	Employers' Contributions	Individuals' Contributions	Scheme Growth	Scheme Income	Lump-Sum Withdrawals	Regular Income Withdrawals	At Death
Australia	15%	15%[7]	15%[8] (max)	15%[9]	Tax-free to tax dependents	Tax-free	Tax-free if aged 60+
Canada	Tax-deductible	Tax-deductible	Tax-free	Tax-free	10% – 30%	10% – 30%	Tax-free to spouse
Hong Kong	Tax-deductible	Tax-deductible	Tax-free	Tax-free	Tax-free[10]	Tax-free	Tax-free
New Zealand	No relief	No relief	10.5% – 28%	10.5% – 28%	Tax-free	Tax-free	Tax-free
Singapore	Tax-deductible	Tax-deductible	Tax-free	Tax-free	Tax-free	Tax-free	Tax-free
Sweden	Tax-deductible	Tax-deductible	Tax-free	Tax-free	Marginal rate	Marginal rate	Tax-free
U.K.	Tax-deductible	Tax-deductible	Tax-free	Tax-free	25% tax-free	Marginal rate[11]	Tax-free if under 75
U.S.	Tax-deductible[12]	Typcally tax-deductible[13]	Tax-free	Tax-free	Marginal rate	Marginal rate	Tax-free to spouse[14]

Source: Morningstar analysis of government disclosures and regulations from the represented markets.

[7] If made via salary sacrifice. Untaxed, subject to a cap, if made from aftertax earnings.
[8] Reducing to 10% for investments held over one year. Tax-free in retirement phase/drawdown.
[9] Tax-free in retirement phase during drawdown.
[10] Except for the element accrued from employer voluntary contributions.
[11] Withdrawals after the 25% tax-free element are subject to normal income taxation.
[12] Assuming it is in a qualified plan.
[13] Traditional contributions are above-the-line deductions, although they are subject to Medicare and Social Security tax. Participants may have options to use Roth vehicles, which are aftertax contributions that can be withdrawn tax-free at retirement.
[14] The money could be tax-free to other beneficiaries depending on their age and the age at death of the accountholder. In most cases, nonspouse beneficiaries would need to withdraw the account balance within 10 years and pay income taxes on those withdrawals.

SECTION TWO

Workplace DC Scheme Design

Retirement Policy Must Encourage Plans to Serve and Guide Participants With Varying Needs and Levels of Sophistication

Choice Is Good. Too Much Choice Is Counterproductive

Investment choice is a particularly interesting area of policy difference, ranging from a controlled choice of government or regulatory approved funds (as in Singapore, Hong Kong, and the new Swedish Fund Selection Agency), through to choices from across literally thousands of funds (as in Australia and the U.K.). Other countries (such as New Zealand) operate a middle ground, where a set of approved products are available (and which abide to fee and asset-allocation constraints) but where choice is not confined to these products.

Arguably, scheme trustees in some jurisdictions, whose mandate includes acting in the best interests of scheme members, should be filtering investment choices to best-in-class options and reducing the chances of members directing their savings to poorly performing funds. A twin benefit of reducing the number of funds to choose from would push up contributions to the remaining funds and provide more bargaining power for fee reductions on those funds.

Structuring the available investment choices and helping guide scheme members to elect the most appropriate investments for their circumstances are more important than the number of choices. That becomes easier to implement if there are a manageable set of options to choose from in each asset class.

Benchmarking those choices to ensure they remain some of the better investment vehicles in each class provides further surety to members. Standardised product frameworks are more conducive to such comparisons.

A twin benefit of reducing the number of funds to choose from would push up contributions to the remaining funds and provide more bargaining power for fee reductions on those funds.

There is some evidence, most notably from Sweden, that aggressively promoting the availability of investment choices, and their potential benefits, can encourage people to make more active decisions. The Premium Pension Authority, or PPM, was introduced in 2000 with heavy government and provider advertising that saw a high proportion of members self-select investments but which declined over time as promotional activity reduced.

More current catalysts that can increase people engagement include the growing interest in environmental, social, and governance, or ESG, investing, coupled with heightened interest in stock trading among some cohorts.

Default Options: A Quest to Best Balance Risk and Return for Members

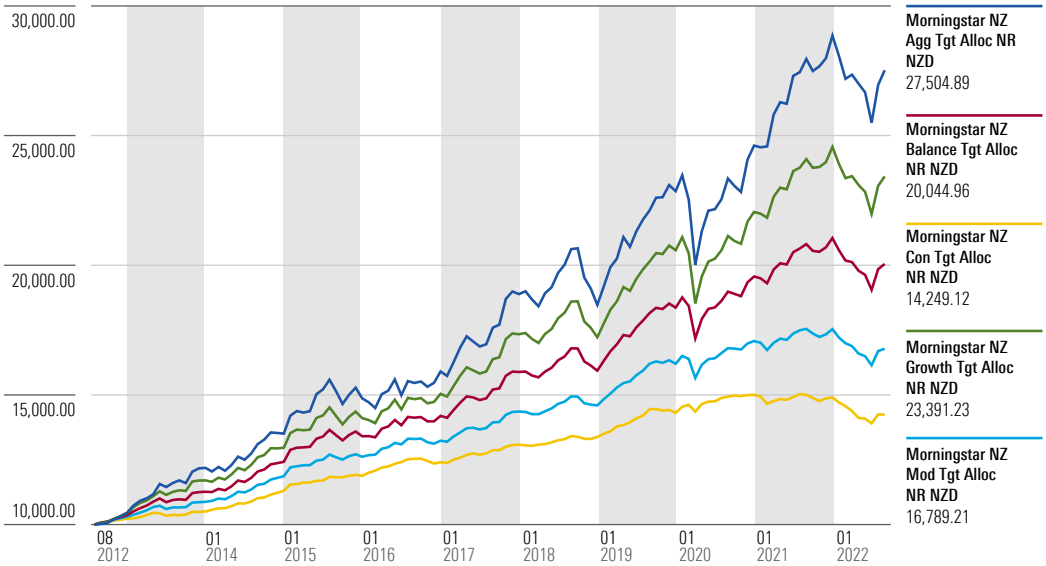
Regardless of choice, realistically, many people, whether because of inertia or lack of confidence, will continue to be invested into a default option, making the quality and remit of these funds critical.

Approaches to this vary from tightly controlled rules about asset allocation and maximum cost at one end of the spectrum to allowing market forces and respective workplace scheme providers and their trustees to determine the default vehicle at the other end.

While in some countries, most notably the U.S., target-date solutions are commonly used as defaults, other countries typically rely on allocation funds. Firms typically offer a suite of such funds, differentiated by the proportion of equities and bonds in each, but there are dangers in being overly cautious. In 2021, the New Zealand Financial Markets Authority ruled that, considering the long-term nature of accruing retirement funds, default options should have more emphasis on growth assets, using a moderate-allocation fund (typically 60/40 equity and bond allocation) rather than the conservative-allocation funds (more typically a 25/75 split) that were previously used.

The Morningstar New Zealand Allocation Index range is shown in Exhibit 4, illustrating the return profiles over time given their different levels of equity weighting. Similar return patterns are evident in the equivalent indexes for other geographic markets.

Exhibit 4: Getting the Balance Right



Source: Morningstar data as of August 2022.

The amounts accumulated from a notional NZD 500 monthly scheme contribution to each of the indexes over a period of 10 years to 1 August 2022 can be seen in the last column of Exhibit 5.

Exhibit 5: Value of NZD 500 Invested Monthly for 10 Years

Index	Cumulative Return (%)	Annualized Return (%)	Value (NZD)
Morningstar NZ Con Tgt Alloc NR NZD	42.5	3.6	68,281
Morningstar NZ Mod Tgt Alloc NR NZD	67.0	5.3	74,162
Morningstar NZ Bal Tgt Alloc NR NZD	98.4	7.2	81,663
Morningstar NZ Grth Tgt Alloc NR NZD	130.3	8.9	88,859
Morningstar NZ Agg Tgt Alloc NR NZD	169.3	10.7	97,644

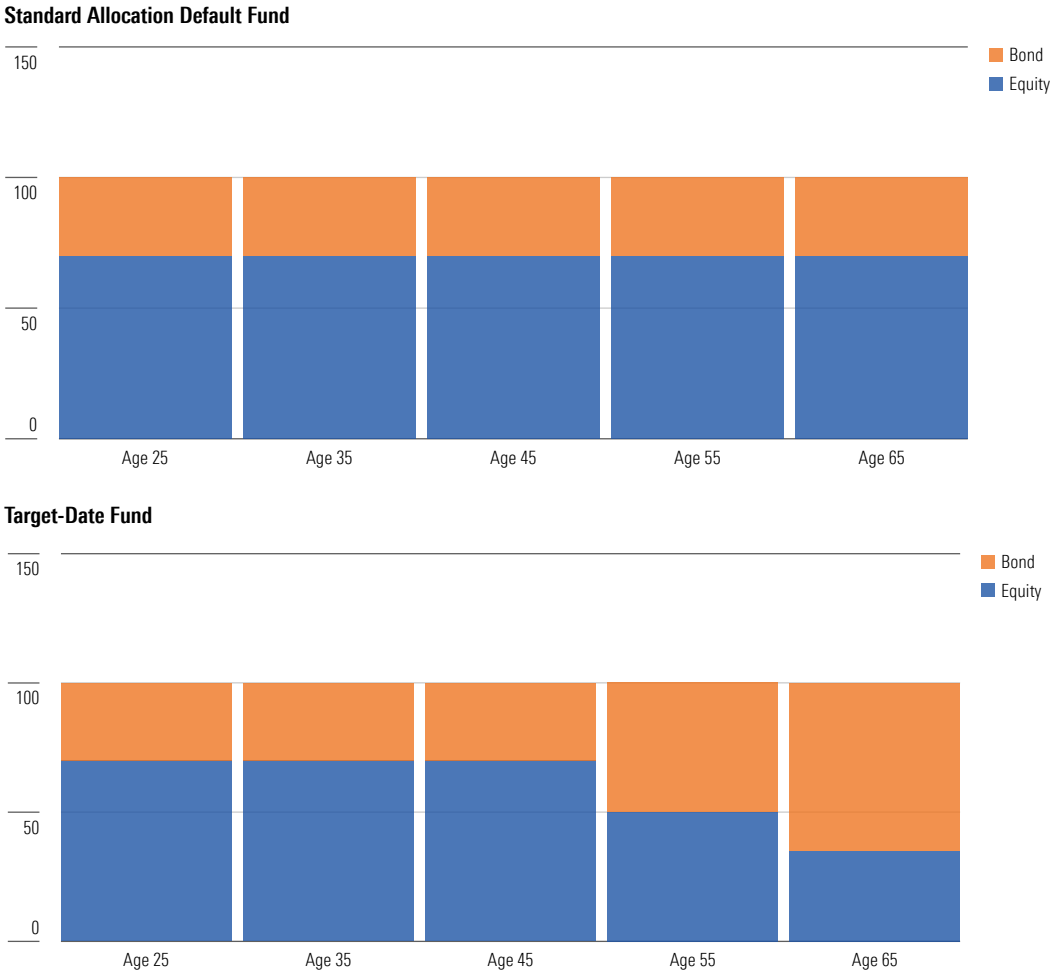
Source: Morningstar data as of August 2022.

Some trustees in Australia have taken similar actions themselves to offer allocation funds with very high weighting to growth assets, reflecting their 'younger' membership. However, these instances also highlight the importance that plan members do not passively remain in the default fund if they have shorter investment horizons—whether they are closer to retirement or planning to access some of their savings toward housing costs—where lower volatility may be required.

Many people, whether because of inertia or lack of confidence, will continue to be invested into a default option, making the quality and remit of these funds critical.

In the U.S., target-date solutions have been widely used since reforms introduced in the Pension Protection Act of 2006. The target-date approach, in which retirement savers invest into a product designed to run either to or through the saver's intended retirement date, is contrasted with the standard allocation fund in Exhibit 6. In other markets, including the U.K., a blended life-styling option is more popular, where people's contributions are switched from the standard default fund to more-conservative default funds as they approach retirement.

Exhibit 6: Asset Allocation of a Target-Date Fund and a Standard Allocation Default Fund



Source: Morningstar analysis.
Note: Illustrative hypothetical allocation not reflecting a specific product.

ESG Is an Opportunity to Engage Investors

Consideration of environmental, social, and governance, or ESG, factors is pervading investors' thought processes and is especially pertinent in the retirement-savings arena, which is, by its nature, long term.

Governments and regulators are at varying stages of incorporating ESG considerations into their retirement rulebooks—New Zealand forbids fossil fuel investments in default funds; the U.K. requires plan trustees to set out their ESG policies to investors and to produce Task Force on Climate-Related Financial Disclosures-aligned reporting; France requires all pension schemes to include ESG-oriented investment options in their plan lineups; and the U.S. has moved to clarify that ESG investments within retirement plans are permissible.

The Case for Illiquid Securities Is More Nuanced

At a less advanced state, but an increasingly prominent debate, is the degree to which retirement savers should be allowed the opportunity to invest in less-liquid securities, particularly private equity and infrastructure investments. Australia is a current leader, with some MySuper funds holding over 20% of assets in unlisted property, infrastructure, and private equity.[15]

In the U.K., to encourage diversification and investment in assets that can bring higher returns, proposals are in the works for trustees of workplace DC schemes with over GBP 100 million in total assets to publicly disclose and explain the default asset-class allocation in their annual statement across the main asset classes, including private equity, property, infrastructure, and private debt.

Given the additional liquidity and risk issues inherent in such assets, together with wider dispersion of returns, encouragement of their inclusion in retirement savings is best confined to professionally managed default schemes rather than individually selectable investments, at least without the various definitions of accredited investors being reviewed. Currently, these frequently revolve around an individual's investable assets, which, with the growth of DC investments, will see increasing numbers meeting the criteria of accredited investors while, in many cases, having very limited investment knowledge and appreciation of these different asset classes.

Fragmentation Is a Problem

In some countries, it is all too easy for employees to accumulate multiple workplace plans. Having several, often small, separate plans exacerbates the challenge of successfully encouraging worker engagement with their savings. Worse, it is easy for disinterested people to lose track of previous scheme accounts or for people to take advantage of some countries' rules on cashing in small balances well ahead of retirement age, thereby depleting their retirement savings.

Having several, often small, separate plans exacerbates the challenge of successfully encouraging worker engagement with their savings.

At best, it is more challenging to manage a portfolio when investments are scattered across multiple schemes, and at worst, it increases costs, with each scheme likely levying charges on top of individual investment security fees.

[15] The Australian Prudential Retirement Authority. August 2022. "Quarterly MySuper statistics September 2020 – June 2022." Download available at https://www.apra.gov.au/quarterly-superannuation-statistics.

The better policies prevent or at least discourage this, as in Australia, by tying the account to the member and, upon job changes, new employers continue to fund the same scheme account. Next best are policies, such as those in Canada and Hong Kong, that encourage transferring the balance, at low or no cost, either to the new employer's scheme or to a 'paid-up' plan so that you have one noncontributory scheme and a current contributory one. Some countries at least make it easier to track different accounts via dashboards that aggregate a person's workplace scheme positions in a consolidated report. Australia and Sweden both provide a consolidated online view of workplace accounts for each person via a personal portal, and the U.K., after a lot of stop-start, is due to start rolling out retirement dashboards in 2024.

Early Access to Workplace Savings Is a Delicate Balancing Act

Experience in Australia and the U.K. has shown that auto-enrolment is a successful way to enlist workers into retirement saving. Two reasons people do not use workplace schemes are the desire to maximise disposable income and the fear that goalposts will be moved by future regulatory change. Another reason is nervousness about tying up savings for many years. For example, accessing investments in retirement accounts is mostly impractical in the U.K. before savers reach the age of 55.

In a voluntary system, it can be helpful to give people some options to access accounts, but we want to see these accounts remain retirement accounts, not general-purpose accounts. Some countries do allow controlled access to retirement savings. For example, Americans can borrow from their retirement accounts and New Zealanders can use a portion of their retirement savings toward the purchase of a primary, personal residence.

More generally, certain health conditions can trigger early access clauses, and the COVID-19 pandemic saw some countries grant access to retirement funds in cases of extreme hardship, although these actions potentially defer problems for individuals by pushing retirement further out. Further, some countries allow small pots to be cashed in; for low-paid workers and those who change jobs frequently, this could potentially deplete their retirement savings. A better solution would be auto-transferring, even with an opt-out, of small, orphaned accounts into a current or central account, similar to the Canadian Locked-In Retirement Account.

A summary of the approaches to fragmentation, access, and benchmarking of schemes is shown in Exhibit 7.

Exhibit 7: Portability, Access, and Benchmarking of Workplace Schemes

Country	Portability	Early access	Benchmarking
Australia	Tied to individual	Qualifying house purchase; hardship provisions	Independent, by regulator
Canada	Option to transfer to Locked-In Retirement Account (LIRA)	Qualifying house purchase; education–subject to repayment within 10 years; illness and small balances; one annual withdrawal from LIRAs	None
Hong Kong	Individual contributions can be moved	Incapacity or terminal illness; small balances	Performance published by regulator
New Zealand	Individual choice	Qualifying house purchase; significant hardship; illness	Data site provided by regulator
Singapore	Tied to individual	Reduced life expectancy; potentially, incapacitation	Investments subject to performing in top 25% of global peer group and fee constraints
Sweden	Optional, and subject to transfer fee caps	Insurance to increase pension in event of terminal illness and government assistance available prior to pension commencement	Regular tender process for providers of ITM occupational pensions
U.K.	Individual choice subject to scheme terms and conditions	Incapacity or terminal illness; small balances	Mandatory self-assessment
U.S.	Individual choice subject to scheme terms and conditions	Emergent financial need, such as medical or funeral expenses; education; qualifying house purchase; small balances	Annual disclosure to employees includes benchmarking of investments

Source: Morningstar analysis of government disclosures and regulations from the represented markets.

Independent Oversight and Benchmarking Can Hold Providers Accountable

Some countries have frameworks to assess the performance or value for money offered by workplace scheme providers. These play an important role in raising standards, containing costs, and assisting investors' choice processes. This is particularly true when the benchmarking data is used to power product information and screening tools, as in New Zealand and Australia, although the latter has not been without controversy as to how performance is benchmarked.

These countries run some of the most effective frameworks, conducting independent benchmarking and requiring providers to meet minimum standards. They seek to ensure that performance is acceptable, or at least transparent, and that downward pressure is exerted on fees without providers scrimping on other important elements of the whole scheme package, such as administration and servicing.

Next best, as recently adopted in the U.K., is to require trustees or workplace scheme providers to assess and report whether their schemes are delivering value for money in terms of performance, costs, and administration.

The U.S. system is more unique, in that much of the accountability is achieved through litigation, although the Department of Labor does have oversight over plans, with regulations governing private-sector plans generally requiring plan sponsors to provide participants with annual reports that disclose the costs and performance of all investment options available in the plan. The report will also provide a benchmark for each fund's performance and detail any administrative costs participants pay separate from the investment fees; however, a benchmark does not need to be provided for this component.

Beyond these disclosures, plan participants are protected by laws that hold plan sponsors to a fiduciary standard in managing the plan. Participants can sue the plan sponsor, and other service providers when relevant, if they believe there has been a breach of this fiduciary duty in the selection of plan investments, the setting of fees, or other features of the plan. Since the mid-2000s, hundreds of such lawsuits have been filed, and while the result of each lawsuit varies, the cumulative effect has been downward pressure on fees and a greater emphasis on selecting high-quality investments for the plan.

The greater the choice investors are given, the higher the likelihood of being presented with underperforming or poor value funds, and thus the more important good benchmarking and selection tools become.

Workers Often Need More Guidance Than Is Available to Best Navigate Their Workplace Saving Journey

The accumulation and decumulation of retirement savings are complicated processes. The move to DC plans puts investment risk squarely on the shoulders of individuals, many of whom may have never saved outside of cash deposit accounts. Taxation frameworks are usually complex, and determining which tax breaks are available, and how to best use them, is not easy. Alternatives to workplace plans, such as other tax-advantaged savings schemes or property investment, may appeal to some people more than workplace plans do but may not necessarily be the better option.

Perhaps the most egregious fallout is on those workers who lose free money by not enrolling in their employers' schemes, consequently missing out on employer contribution-matching programmes.

Financial advice is rightly a highly regulated activity. In some markets, it is increasingly fee-based, and many workers will be reluctant to pay or unable to afford it. Conversely, many people's retirement savings may be too small to be of interest to advisors.

Guidance is a defined lighter-touch option in some countries, but employers and scheme providers can get nervous about inadvertently crossing the somewhat blurry line between it and advice. Australia is attempting to find solutions as it works through its own Quality of Advice Review and evaluating what scaled, episodic advice might look like.[16]

While solutions are being sought, the importance of good, reasonably priced default options and strong regulation is underlined. Some governments are taking steps to improve the lot of workers. For example, in the U.K., employees are now required to take independent advice before they can transfer out of a DB scheme. Those reaching age 50 are also being nudged to avail themselves of a free Pension Wise meeting with an advisor. Both are positive developments in helping people navigate their decumulation options, but other than auto-enrolment, there are as yet few best-practice examples of getting more people started early in retirement saving.

At the other end of the journey, and particularly in countries where there are more freedoms in terms of choices at retirement, advice is equally important. Aware that advice is often not sought, even via the free Pension Wise service, the U.K. requires DC providers to offer a choice of four default investment pathways, depending on an individual's planned use of the accrued scheme savings, ranging from having no plan to touch the money in the next five years through using the money for income, either directly or via buying an annuity, to taking out all the money within the next five years.

[16] A report of findings is scheduled to be provided to the government in December 2022. https://treasury.gov.au/review/quality-advice-review

SECTION THREE

Our Assessment Framework

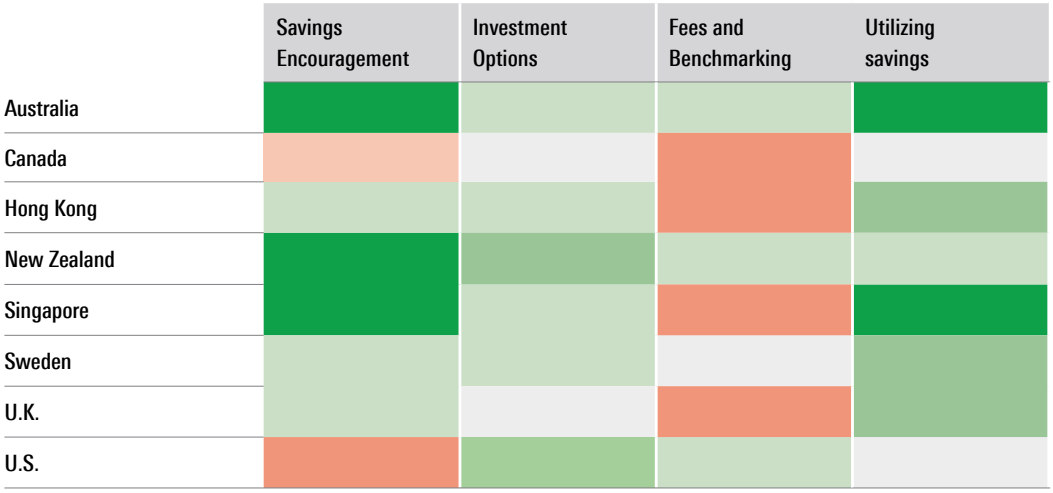
While history, policy, and culture have naturally seen countries evolve significantly different frameworks to support their citizens in retirement, the overarching challenges that each of their systems face are essentially the same:

- Getting as many people as possible saving towards retirement as early as possible
- Growing people's savings in line with their risk tolerances and anticipated needs
- Optimising the decumulation choices that people make at and in retirement

The heatmap in Exhibit 8 reflects the relative strengths of each country's tools and approaches to addressing these challenges. Factoring into this is the extent to which DC plans have become established, ranging from Australia where they are ubiquitous to Canada where DB continues to account for a sizable proportion of retirement plans.

Similarly, the higher proportion of replacement income that can be relied upon from state or social security schemes, such as in Sweden, provides people with more surety and security. This can reduce the need for increasing engagement with workplace schemes while at the same time allowing informed investors to adopt more-aggressive investment allocations with their workplace savings.

Exhibit 8: Addressing Retirement System Challenges - Heatmap



Source: Morningstar analysis of government disclosures and regulations from the represented markets. The colouring highlights the countries whose systems do relatively better (green), near the middle (grey), and relatively poorly (red). The colouring is applied to each column separately.

Saving

We find that auto-enrolment is the single most effective solution to encouraging retirement saving and is a primary factor in the countries that have so far best navigated the transition toward DC systems replacing DB and/or social security systems as a primary source of retirement incomes.

Absent this, a strong culture of employers making workplace schemes readily accessible to their employees and encouraging their utilization is the next best scenario. Perhaps the strongest encouragement factor is a contribution-matching programme that boosts any savings an employee makes.

Tax incentives are an important factor in both encouraging the provision of workplace schemes and contributions to them, for both employers and employees. These can take various forms but ultimately result in a proportion of earnings that are contributed to workplace schemes being taxed less than they would be as income or not at all.

Once started, retaining people's saving habits is also important. In the current inflationary environment, with costs-of-living having risen rapidly for many people, reducing or redirecting discretionary retirement contributions is a potentially easy and obvious area to make an adjustment. However, ensuring that people understand the likely consequences of that on their future retirement income is an important step that does not necessarily occur. In the absence of financial advice, notifications or nudges from employers and scheme providers prior to contributions ceasing, together with periodic reminders about their reinstatement, would be beneficial.

We find that auto-enrolment is the single most effective solution to encouraging retirement saving and is a primary factor in the countries that have so far best navigated the transition toward DC systems.

Scope of Inclusion and Level of Savings. On this measure, the unique approach of Singapore's compulsory savings and pension plan to fund retirement, healthcare, and housing needs, and the Australian auto-enrolment system, with its escalating contribution level and recently abolished lower earnings threshold for inclusion, set a high bar. Hong Kong also has a solid auto-enrolment system, albeit with lower required contributions, as do New Zealand and the U.K., which permit opt-outs and exclude more employees based on age and earnings level. Both Hong Kong and Singapore require employers to pay contributions for low-paid employees without requiring the employees to do so themselves.

Setting the contribution level is a balancing act—set it too high and people are more likely to opt out; set it too low and the resultant savings are less likely to return a meaningful amount of replacement income in retirement, particularly as many participants will not increase their contributions above the minimum.

A reasonably common aid to maximising retirement savings comes via allowing employees to carry forward unused annual contribution allowances to subsequent years, rather than operating a use-it-or-lose-it policy.

Canada and Sweden employees are often part of collective industry retirement-saving schemes that supplement the significant social security frameworks funded from payroll contributions. The U.S. has an all-round less-regimented environment, with firms not required to offer workplace schemes to their staff, although many do, and some operate their own auto-enrolment policies.

Facilitating Self-Management of Retirement-Savings Pools. The experience of employees who change jobs several times during their career varies considerably. In Sweden, the U.K., and the U.S., they must be proactive to avoid becoming members of multiple different schemes, with the consequent challenges of keeping track of and managing their savings. In contrast, Australia, Canada, Hong Kong, New Zealand, and Singapore all adopt various practices to minimise the number of separate savings pools, such as tying the scheme to the individual regardless of employer and making it easy to transfer a savings pool when leaving an employer.

Optimising Growth

Two key factors are vital to optimising the accumulation of retirement savings: (i) maximising inflows, not only through the level of workers' own contributions but also in taking best advantage of employer matches and tax breaks; and (ii) investing savings in a manner this is best suited to each worker's circumstances and anticipated needs. There is an ongoing quest to engage workers in addressing these problems, both in ensuring they contribute to workplace plans when available and in raising their awareness of how the savings are invested so they can provide active input.

With few examples of countries that have solved the matter of engagement, especially for younger people, the second factor requires an important safety net in the form of good default investment options at reasonable cost. Investment choices should also cater to different cohorts of savers, from those with no interest in how their savings are invested through those with some interest to those with significant interest.

It is incumbent on operators of DC schemes to select a good lineup of investable products, spanning core asset classes, at competitive cost.

Ensuring that default investments are not too conservative for the age of scheme members is important. Also crucial is finding ways to increase people's awareness of the options and advantages to investing some of their savings more aggressively, particularly when they have a good level of guaranteed retirement income from social security, previous DB schemes, or a combination thereof.

It is incumbent on operators of DC schemes to select a good lineup of investable products, spanning core asset classes, at competitive cost. Refining the lineups by excluding the worst products, be they highly priced or poor-performing products, can improve members' chances of success by reducing the likelihood of them investing in poor products.

Retirement Plan Investment Lineups. Retirement savings are many people's biggest monetary asset, and many of these people are inexperienced investors at best. Hence, the ideal retirement plan will offer a clearly structured choice of good investment products spanning the main asset classes, with an option for more interested and experienced investors to self-select additional securities.

Contrasting approaches can achieve similar good outcomes as borne out by that of the U.S. and Singapore. The fiduciary requirement on U.S. plan sponsors contributes to them commonly selecting a finite choice of best-in-class options for members of their plans, while the board of the Singapore CPF Investment Scheme selects a range of products that it considers likely to exceed benchmark returns.

At the other end of the spectrum, the investment or insurance-company-administered schemes commonly used by Australian and U.K. employers adopt the approach that the more choice the better. Consequently, plan members are frequently faced with a bewildering choice of similar products from different providers. In contrast to these types of plans, the U.K.-government-sponsored NEST master trust scheme adopts a much more guided approach, with a range of retirement-date funds supplemented with a handful of other strategies, executed via a manager of manager approach.

Default Investment Options. Sizable numbers of members will not make active investment choices, so a good default option is important. Key requirements over and above costs are that the default be suited to the individual's age and risk tolerance, typically achieved via a life-styling investment approach, where contributions are directed to more conservative default funds as a person ages; a target-date fund, where the allocation of the fund gets progressively more conservative as the target retirement date approaches; or an asset-allocation fund, where plan sponsors make a judgement about the optimum asset allocation for the range of age cohorts across their membership, with individuals ideally reviewing the selection to make sure it is acceptable to them.

Beyond the principle of suiting the characteristics and needs of members, there are few examples of specific requirements on providers. A notable exception is in New Zealand, where providers must offer a balanced allocation fund with a higher orientation to growth investments than is typical in more-conservative allocation funds.

Sweden's PPM default fund, AP7, is one of the most growth-oriented default funds. This is in part because the Premium Pension is a relatively small component in relation to a person's Income Pension.

To varying degrees, regulators are also focusing on opportunities to utilise the long investment horizons of retirement savings to direct more funding to infrastructure and other long-term, less-liquid investments. Simultaneously, there is increasing focus on ESG, particularly consideration of sustainability risks in the investment process, with some countries having gone further, such as New Zealand's ban on fossil fuel investments in default funds.

Cost. Sweden is also a leader on the cost front. The AP7 fund has a fee of at most 0.11%. A criterion for admission to the PPM for third-party funds is that they offer considerably discounted costs to those that they levy via other distribution channels.

The Morningstar Global Investor Experience study has repeatedly found the U.S. to be the most competitive market; this is in large part caused by market structure and competition.[17] This holds true in the retirement space, aided by the propensity to select a limited number of options for a plan and utilise the consequent investment flows to negotiate on costs with those product providers.

Fee caps on default funds are a feature of some markets, including Australia, New Zealand, and the U.K., but come with a risk that many products will cluster around the cap and not go lower, while some firms will argue that the cap compromises the investment strategy they would like to employ.

Benchmarking. Regardless of the quality of communication materials from scheme providers and levers to keep scheme and product costs reasonable, many people remain at risk of staying in poor products for extensive periods of time. Assessing the degree to which retirement-saving investments are meeting investors' objectives has been a welcome growing focus of regulators.

The most comprehensive move has come in Australia, with specific monitoring of fund performance against benchmark and requiring MySuper scheme managers to notify members of underperformance. The U.K. is heading towards requiring scheme overseers to self-assess annually the value that their scheme investments have provided to members.

New Zealand is evaluating a similar move and already subjects the operators of default Kiwi-saver schemes to a re-election process every seven years. Hong Kong, Singapore, and Sweden all operate variations of this with respect to funds in their Mandatory Provident Fund, Central Provident Fund, and PPM plans, respectively.

[17] Morningstar. March 2022. "Global Investor Experience Study: Fees and Expenses." https://www.morningstar.com/lp/global-fund-investor-experience

Accessing Savings and Decumulation

As countries continue the evolution toward DC, more people are faced with complex choices about how best to utilize their accrued savings in retirement. Many of their predecessors had a fairly straightforward transition into retirement, with their earnings replaced by a combination of a social security pension and a corporate or government DB pension.

People's options are multifaceted, even in markets further along the journey to DC. The U.K., for example, used to require workplace savings to buy an annuity income, but additional freedoms now enable a range of uses, such as being cashed in, being gradually drawn down, or remaining invested and untouched.

People's options for decumulation are multifaceted, even in markets further along the journey to DC.

Availability of Advice. Perhaps understandably, equipping people to make these decisions is at a relatively nascent stage. We find more positive steps from countries toward educating people at the older end of the age spectrum. The U.K., for example, requires trustees to nudge scheme members to take, or actively opt-out of getting, guidance from the free Pension Wise service prior to accessing their workplace savings. Members are also entitled to withdraw a GBP 500 pension advice allowance from their DC savings, but take-up remains relatively low. Singaporeans similarly receive invitations to one-to-one sessions with the Retirement Planning Service when turning 55.

These efforts need to continue and to expand so as to get educational messages to younger people as well, giving more people more time to plan and build the savings necessary for aspirational retirements. The recent steps in Australia requiring scheme providers to inform members about the retirement-income products available to them can also help in this regard.

Government efforts are core to this but so, too, are those of the financial-services industry, coupled with innovative product solutions to help employers sponsoring plans and their workers.

Accessing Savings Preretirement. There is no right or wrong policy when it comes to enabling people to access their workplace savings prior to retirement. Retirement savings will often be a person's largest pool of money, and not being able to use it in times of need might dissuade some people from saving into their workplace scheme. However, diminishing their savings can have a significant, and potentially unappreciated, effect on future retirement income.

Most countries allow access in some form in the event of terminal illness. Others introduced hardship provisions during the COVID-19 pandemic. Australia, Canada, and New Zealand go further by allowing an element of workplace savings to assist in qualifying house purchases, while the U.S. has perhaps the most flexible model, allowing for loans to be taken against retirement savings.

Using Savings Postretirement. Australia set the bar in terms of providing individuals with a wide choice. The U.K. pension freedoms followed suit in 2015, enabling individuals to buy a guaranteed income (annuity); arrange 'flexible drawdown', where lump sums or regular payments can be drawn down; or take the whole amount as one lump sum or a series of smaller lump sums.

In contrast, New Zealand, having put significant efforts into improving the reach and extent of workplace scheme accumulation, has as yet few options or products to assist people in using their savings.

In between are more-guided approaches, usually allowing for member choice, within age bands, as to when they trigger payments from their workplace retirement savings.

SECTION FOUR

Zooming In
Assessing Each Country

Australia

Earnings-based
Means-tested
Flat-rate

Mostly DB (>67%)
Mixed (33%-67% DB/DC)
Mostly DC (>67%)

Retirement Market Framework. The Australian Government Age Pension is received to some degree by around 62%[18] of Australians over the age of 65 and provides basic living expenses via a regular, fortnightly income.

The primary retirement savings vehicles, though, are workplace superannuation schemes, into which employers must enrol employees and contribute 10.5% of their earnings—the Superannuation Guarantee—on their behalves. This benefit is becoming available to many additional people by virtue of a July 2022 reform abolishing the previous earnings threshold of AUD 450 a month before an employer had to start contributing.

Most providers offer a simple default (balanced or lifecycle) fund, known as a MySuper product, for those workers who are not making active choices. Features include low costs, with no entry fees or commissions. The default fund can remain tied to an individual, so that they continue to have contributions directed to the same fund even when moving employer; this avoids multiple accounts and likely extra fees.

"Super" funds usually take one of four forms: retail for-profit funds open to anyone; industry not-for-profit funds, some of which restrict membership to individuals working in a specific industry; public-sector funds for government employees; and corporate funds, run by usually larger companies for their employees.

A fifth option, not regulated by the Australian Prudential Regulation Authority, are self-managed superannuation funds. These permit a broader range of investments than other funds and can have up to six members, each of whom will be a trustee and have responsibility for the investment management and all associated costs.

Contributions. In addition to the mandatory employer contribution of 10.5% of earnings, individuals can make additional contributions from aftertax income or from pretax income via salary sacrifice, where the individual agrees to a reduced salary in return for the employer contributing a commensurate amount to the individual's super account. Contribution limits apply, above which additional tax may be liable.

Lower- or middle-income earners making personal (aftertax) contributions may be entitled to a government co-contribution up to a maximum amount of AUD 500.

Taxation Landscape. Employer contributions are taxed at 15%, as are individuals' salary-sacrificed (or concessional) contributions. Individuals earning less than AUD 37,000 will receive a low-income super-tax offset, while at the other end of the spectrum, those whose income and super contributions exceed AUD 250,000 will pay an extra 15%. Nonconcessional contributions made from aftertax income are not subject to a contributions tax, just a cap.

[18] Australian Bureau of Statistics and Department of Social Services. March 2021. https://www.aihw.gov.au/reports/australias-welfare/age-pension

During the accumulation phase, earnings within supers, are subject to up to 15% income and capital gains tax. Investment earnings from a retirement phase pension fund are tax-free, up to a balance cap of AUD 1.7 million.

Investment Options. Most retail super providers will offer a low-cost, default MySuper product, plus a range of Choice funds, funds that employers cannot select as a default but that employees can opt into, for scheme members who wish to select their own portfolio of funds. Providers must cap their administration and investment fees at 3% per year, per product, to prevent those products with fixed fees from being disproportionately expensive for members who have a final balance of less than AUD 6,000 for their MySuper or Choice product in an income year.

Concerns have been voiced by the Australian Prudential Regulation Authority, or APRA, about the extensive investment choices' ability to confuse investors, and it is subjecting both MySuper and Choice products to increased scrutiny.

MySuper products are subjected to annual tests based on an assessment of at least five years of performance history against an objective benchmark. Thirteen out of 76 products failed the inaugural performance test in 2021, with the failing funds called out and required to write to their customers, numbering around 1 million members, to inform them of the underperformance and make them aware of an online product comparison tool run by the Australian Taxation Office.

In June 2022, the Australian Securities & Investments Commission reviewed the first round of these communications and became concerned that members were at risk of being misled or confused by some of the communications about performance. It warned the trustees of the super funds to become clearer.

Since the performance tests are benchmark-relative, and with the punitive consequences on funds failing the tests, especially in consecutive years, there is the potential that managers will be dissuaded from running funds with high active share and instead concentrate more on managing tracking error.

These tests supplement an annual heatmap analysis that has been conducted on MySuper products since 2019 and that was extended to Choice products in 2021. More than 45% of Choice investment options examined by APRA had returns of less than the heatmap benchmark, with 15% of options delivering significantly poor returns.[19]

APRA is also updating governance requirements in 2023 ahead of which it plans to publish guidance on how ESG considerations should be reflected in investment strategies.

[19] The Australian Prudential Retirement Authority. October 2021. "Choice sector performance: improving outcomes for superannuation members." https://www.apra.gov.au/sites/default/files/2021-10/Choice%20sector%20performance%20-%20improving%20outcomes%20for%20superannuation%20members.pdf

Accessing Workplace Savings. Australians can access their super upon reaching their 'preservation age', which ranges from 55 to 60 depending on whether they were born before, during, or after the period 1 July 1960 to 1 July 1964.

People who reach their preservation age but have not permanently retired can still access part of their super by opening an account-based pension to provide for drawdown payments, funding it by transferring some of their accrued super account.

As of 1 July 2022, trustees of super funds are required to make a Retirement Income Strategy summary available to members detailing how they propose to deliver retirement-income strategies and products catering to their retiring members.

Early access to super contributions may also be possible in cases of hardship and for purchase of a first home, under the First Home Super Saver Scheme. The scheme allows for voluntary super contributions to save for a first home and for access to those contributions and their earnings to buy the home.

Canada

Earnings-based
Means-tested
Flat-rate

Mostly DB (>67%)
Mixed (33%-67% DB/DC)
Mostly DC (>67%)

Retirement Market Framework. In Canada, it is mandatory for employees to contribute to the federal pension plan (Canadian Pension Plan or the Quebec Pension Plan). In most cases, contributions are deducted from employees' pay, with the employer and employee each paying half of the contributions.

To supplement this, corporations may offer DB or DC group retirement plans, taking one of three forms:

- Registered pension plans, or RPP—managed by a financial institution selected by the employer, usually offering a range of investment options, including mutual funds and segregated accounts.
- Group registered retirement savings plans, or RRSP—individual contributions are tax-deductible, but employer contributions are treated as taxable income.
- Deferred profit-sharing plans, or DPSP—employers contribute a share of profits to the plan. For employees, these plans are noncontributory and investment growth is free of tax. The quid-pro-quo is that employers, whose contributions are tax-deductible, can elect the criteria governing which employees participate, vary the contributions significantly from year to year, and specify lock-in periods so that, if employees leave within that period, contributions to date will be returned to the employer. Employees may be able to choose how their entitlement is invested and, upon leaving employment, can transfer their accumulated benefits tax-free into a RPP or RRSP.

When leaving an employer, individuals can choose to transfer their accumulated pension into a Locked-In Retirement Account, where it becomes locked-in until retirement—continuing to be invested and accruing tax-free investment growth but without further contributions.

Although typically not offered through an employer, tax-free savings accounts are available to Canadians. These shelter aftertax contributions with a maximum annual contribution limit of CAD 6,000 (as of 2022). Any portion of this limit that is unused rolls over to subsequent years, allowing individuals to make up that contribution at a later date. Assets and distributions in these sheltered accounts grow tax-free. Assets can be withdrawn at any time, without impacting taxable income, and the amount withdrawn can be replaced, as it is added to the following year's contribution limit.

Contributions. As of 2022, 11.4% of earnings from those employees over age 18, between a minimum of CAD 3,500 and a maximum of CAD 64,900, are contributed to the federal pension plan, with half coming from the employer and half from the employee. In 2021, the Quebec Pension Plan implemented enhancements that resulted in employers and employees subject to that plan contributing 5.9% each in 2022.

There are no minimum contributions for DPSPs. It is common for employers to offer contribution matches to RRSPs, while with RPPs, employers must contribute a minimum of 1% of the employee's salary.

Employee contributions to RPPs are made directly by the employer from pretax income.

Taxation Landscape. Employee contributions are tax-deductible up to 18.4% of their earnings, subject to a maximum contribution of CAD 29,210 in 2022. Unused annual contribution allowances can be carried forward to later tax years.

Assets within pension wrappers grow tax-free. Income from pensions is subject to standard income tax rules.

Investment Options. The federal pension plan is managed by the Canadian Pension Plan Investment Board, which invests on Canadians' behalf in a multi-asset portfolio including private investments.

Group retirement plans (RPPs and RRSPs) where the employer is a plan sponsor are typically offered through a life insurance provider, and the employer chooses which of the platform's available investment options are on offer to employees. These will typically be a range of mutual funds, and, potentially, segregated accounts.

Accessing Workplace Savings. Funds in an RRSP can be withdrawn with a fee in addition to the withdrawn amount being added to the taxable income for the year of withdrawal, whereas Locked-In Retirement Accounts cannot be withdrawn until the individual reaches retirement age.

The standard age to start receiving Canadian Pension Plan funds is 65, although individuals may commence it at any time between the ages of 60 and 70. In 2022, the maximum monthly pension payable from the scheme was CAD 1,253.59 and the average monthly amount was CAD 727.61.

With DPSPs, an individual can withdraw funds, subject to income tax, at any time after they have vested. An employee may be able to withdraw up to CAD 25,000 from an RRSP to buy or build a qualifying home or CAD 20,000 to fund education. This amount must be paid back into the RRSP account (without interest) within 10 years of the withdrawal date.

At retirement, pension funds can be converted to a Registered Retirement Income Fund, a tax-deferred retirement plan. These provide more flexibility and tax advantages, allowing the assets to remain invested versus taking an annuity or a lump-sum withdrawal. A minimum amount, subject to income tax, must be withdrawn each year according to a schedule that starts at 5.28% of the RRIF's year-end value at age 71, increasing to 6.82% at age 80 and to 20% at age 95.

Hong Kong

Earnings-based
Means-tested
Flat-rate

Mostly DB (>67%)
Mixed (33%-67% DB/DC)
Mostly DC (>67%)

Retirement Market Framework. The Mandatory Provident Fund scheme is the principal retirement savings vehicle for Hong Kong's workforce. Most commonly, Master Trust Schemes are available to all employers, employees, self-employed persons, and persons planning to open personal accounts or tax-deductible voluntary contributions, or TVC, accounts.

Around 85% of the workforce is covered under either MPF schemes, Occupational Retirement Schemes, or statutory pension schemes for specific groups, such as civil servants or teachers.

Employers choose one or more scheme providers and are obliged to enrol employees aged 18 to 64. Employees can choose to direct their own contributions to any other scheme providers and, under an Employee Choice Arrangement, can exercise a right of transfer once a year and move the portion of their scheme derived from their own mandatory contributions into another scheme of their choice.

Employees are not able to have employer contributions redirected, in part because, under MPF rules, employers have been able to access those contributions to offset severance payments. A bill passed in June 2022 will stop this practice from 2025 and provide more security for employee's retirement savings.

Three types of accounts can be set up under Master Trust Schemes: contribution accounts, which will receive contributions made under an employee's current employment; personal accounts, which can hold monies accrued from previous employments; and the abovementioned TVC accounts, which employees can contribute to directly and are the only account type where voluntary employee contributions are tax-deductible.

To protect scheme members' benefits, all provident fund schemes must be vetted by the MPF Schemes Authority and comply with all statutory requirements and standards before being registered as an MPF scheme.

Contributions. Employers and most employees are required to make mandatory contributions of 5% of the employee's income into the employee's MPF account, subject to current minimum and maximum monthly income levels of HKD 7,100 and HKD 30,000, respectively. Employees earning less than HKD 7,100 per month are not required to make the minimum 5% contribution, but their employer is.

Fees can be collected by deduction from funds or unit deduction from members.

Taxation Landscape. An employer can claim tax deduction for the mandatory and voluntary contributions made for an employee, to the extent that it does not exceed 15% of the employee's total earnings. Mandatory employee contributions are tax-deductible up to a limit of HKD 18,000 per year. Voluntary contributions to a TCV account are tax-deductible up to HKD 60,000 per year.

Withdrawals derived from mandatory contributions to an individual's MPF account are not taxable, and MPF withdrawals derived from voluntary contributions are not taxable, except if the employee's service was terminated before 10 years, in which case a portion of the voluntary contributions made by their employers will be taxable.

Investment Options. The MPF Schemes Authority makes available an MPF Fund Platform[20] that facilitates comparison of all MPF schemes and the funds available, together with key information about each.

If a scheme member does not indicate any fund choice in their MPF enrolment form, contributions will be invested according to a Default Investment Strategy, by investing in a Core Accumulation Fund, or CAF, with approximately 60% of assets in global equities, and the rest in global bonds, and an Age 65 Plus Fund, or A65F, where the asset split is around 80% bonds and 20% equity.

Scheme members aged 50 – 64 will see their account holdings gradually reduced from CAF and moved to A65F.

Management fees of default funds are capped at 0.75% and out-of-pocket fees at 0.2% per year.

Investors have a choice of 18 MPF provider firms, offering 475 funds. The range of funds is shown in Exhibit 9, where they are counted by Morningstar Category.

Accessing Workplace Savings. MPF withdrawal can commence at age 65, or at age 60 subject to making a statutory declaration that an individual has ceased all employments and self-employments and has no intention of becoming employed or self-employed again. Other access is limited to incapacity, terminal illness, small balances less than HKD 5,000, and death.

Scheme members may withdraw their MPF in a lump sum or by instalments or choose to remain invested in retirement.

[20] See https://mfp.mpfa.org.hk/eng/mpp_list.jsp for more information

Exhibit 9: Investment Strategies Available on MPF Fund Platform

Category	Number of Funds
HK MPF Hong Kong Equity	47
HK MPF HKD Money Market	35
HK MPF Cautious Allocation	33
HK MPF Moderately Aggressive Allocation	33
HK MPF DIS - Age 65 Plus Fund	30
HK MPF DIS - Core Accumulation Fund	30
HK MPF Global Equity	30
HK MPF China & Greater China Equity	28
HK MPF Aggressive Allocation	27
HK MPF Moderate Allocation	27
HK MPF Global Bond	24
HK MPF Target Date	20
HK MPF Guaranteed Funds	19
HK MPF Asia ex-Japan Equity	18
HK MPF Asia-Pacific ex-Japan Equity	15
HK MPF US Equity	12
HK MPF Europe Equity	11
HK MPF Other Money Market	9
HK MPF China Bond	8
HK MPF HKD Bond	7
HK MPF Other Equity	5
HK MPF Asia Bond	4
HK MPF Japan Equity	3

Source: Morningstar data as of August 2022.

New Zealand

Earnings-based
Means-tested
Flat-rate

Mostly DB (>67%)
Mixed (33%-67% DB/DC)
Mostly DC (>67%)

Retirement Market Framework. The New Zealand Super Fund is a New Zealand government savings vehicle to help prefund the future cost of universal retirement income for citizens over the age of 65. The standard aftertax rate of pension is NZD 22,721 for a single person and NZD 34,955 for couples where both are eligible.

KiwiSaver, or KS, is the predominant retirement savings scheme for New Zealanders to supplement the government pension. Eligible 18- to 65-year-olds will be auto-enrolled by their employer but can elect to opt out. The self-employed, and those not working, can make KS contributions directly through a scheme provider.

It is rare for people to actively contribute to non-KS retirement programs because tax benefits are greater when using approved KS schemes. Further, KS member benefits, subject to eligibility criteria, include contributions from employers and the government as well as help to buy a first home.

Independent KS providers run the savings schemes, and the government currently oversees six firms operating as default scheme providers. Individuals can choose funds from a KS scheme provider and switch at any time. Employees do not have to stay with their employer's chosen provider or a default provider. Employees who do not choose a KS provider themselves are randomly allocated to a default provider by the Inland Revenue Department. Employers can select a KS fund to partner with as their 'default' provider for employees, which does not have to be an official default provider.

The six default providers, chosen from a cohort of firms that applied for the status, enter into a seven-year contract with the government that requires them to meet certain requirements designed to ensure that the schemes remain competitive and members' best interests are looked after. These include having reasonable fees, communicating with members on key issues, and allowing for their activities and default investment funds to be closely monitored.

Prior to the 2021 review of providers, there were nine default providers, and members of those firms that were deregistered were automatically transferred to a new provider.

KS schemes can be structured as either widely held superannuation schemes or portfolio investment entities, or PIEs. All the KS default schemes are PIEs.

Contributions. Once enrolled, an individual's default contribution rate is 3%, and employers must also contribute a minimum of 3%. There is a yearly government KS contribution to members, which providers apply for on behalf of their members. The amount of the government contribution depends on how much a member has contributed to the fund from 1 July to 30 June each year, with a maximum government contribution of NZD 521.43.

Taxation Landscape. Tax is payable on the money that investments in a KS earn. Widely held superannuation fund earnings are taxed at 28%, while members of PIE schemes have their earnings taxed using a prescribed investor rate, or PIR, based on the individuals' total taxable income in the last two income years. There are three PIRs in KS—10.5%, 17.5%, or 28%—and members must inform their provider of the PIR that applies to them each year.

Withdrawals from KS schemes are tax-free.

Investment Options. A KS scheme is a collection of funds from which members choose. After the 2021 review, default funds now have a balanced, rather than conservative, investment mandate[21] and are not permitted any investments in fossil fuel production or illegal weapons.

Investors have a choice of 27 pension provider firms, offering 415 funds, 250 of which are KS products. The most common strategies are balanced and growth funds, with many of the providers also offering moderate, conservative, aggressive, and cash funds. Some providers also offer domestic and international equity, bond, and sector funds. None of the default providers offer age-based or lifecycle funds. Exhibit 10 provides a breakdown of the number of funds by Morningstar Category. A fuller Morningstar analysis of KS products is published quarterly.[22]

All new default members are required to be offered access to an on-boarding advice service that includes information about fund choices and contribution rates.

The Financial Markets Authority provides a screener, KS Tracker, to help people compare fees and returns across products, together with risk and benchmark information for each fund.

Accessing Workplace Savings. The current eligibility age to start withdrawing from a KS is 65. The government requires providers to contact members at key points to help with important decisions. These include investment choices and contribution rates both 10 years and one year out from reaching 65, as well as how to manage ongoing KS investment or withdrawals after turning 65.

Prior to then, and subject to the scheme permitting it, members may also be able to take out accrued pension savings to buy their first home, if they have been in the scheme for at least three years and leave a minimum of NZD 1,000 in their account.

[21] Murphy, T. December 2021. "KiwiSaver Default Changes Have Arrived, but Are They an Improvement?" https://www.interest.co.nz/sites/default/files/2021-12/Morningstar.pdf

[22] For latest, see https://www.morningstar.com.au/insights/topic/kiwisaver-survey

Exhibit 10: New Zealand Pension Investment Strategies by Category

Category	Number of Funds
NZ Insurance Multisector - Balanced	56
NZ Insurance Multisector - Growth	52
NZ Insurance Multisector - Moderate	37
NZ Insurance Cash	28
NZ Insurance Multisector - Conservative	26
NZ Insurance Equity Region World	19
NZ Insurance Multisector - Aggressive	19
NZ Insurance Equity Region World - Hedged	16
NZ Insurance NZ Bonds	16
NZ Insurance Multisector - Balanced Non-PIE	15
NZ Insurance Equity Region NZ	14
NZ Insurance Global Bond	14
NZ Insurance Equity Region Australasia	10
NZ Insurance Multisector - Moderate Non-PIE	10
NZ Insurance Equity Region World Non-PIE	9
NZ Insurance Equity Region Australia	8
NZ Insurance Equity Sector NZ - Real Estate	7
NZ Insurance Equity Region North America	6
NZ Insurance Equity Region NZ Non-PIE	6
NZ Insurance Equity Sector Global - Real Estate	6
NZ Insurance Miscellaneous	6
NZ Insurance Multisector - Aggressive Non-PIE	5
NZ Insurance NZ Bonds Non-PIE	4
NZ Insurance Cash Non-PIE	3
NZ Insurance Equity Region Emerging Markets	3
NZ Insurance Equity Sector NZ - Real Estate Non-PIE	3
NZ Insurance Multisector - Growth Non-PIE	3
NZ Insurance Multisector - Conservative Non-PIE	2
NZ Insurance Unlisted and Direct Property - NZ	1

Source: Morningstar data as of August 2022.

Singapore

Earnings-based
Means-tested
Flat-rate

Mostly DB (>67%)
Mixed (33%-67% DB/DC)
Mostly DC (>67%)

Retirement Market Framework. The Central Provident Fund, or CPF, is the key pillar of the retirement market framework for Singaporeans. The CPF combines saving for a secure retirement with healthcare and home financing. The scheme aims to minimize retirees' outgoings on home rental and medical costs by funding three accounts from each contribution to the CPF: an Ordinary Account, or OA, for savings toward retirement and housing; a Special Account, or SA, for investment in retirement-related products; and a MediSave Account, or MA, for medical expenses. When members reach the age of 55, a further Retirement Account, or RA, is created for them.

Lower-income workers are automatically eligible for additional support via the Workfare Income Supplement scheme. Based on age, the scheme pays supplements between SGD 1,700 and SGD 4,000 per year to eligible citizens, with 40% made as a monthly cash payment and 60% as a monthly contribution to an individual's CPF account.

Contributions. Employers must contribute to the CPF for all Singapore Citizen or Permanent Resident employees earning total wages of more than SGD 50 per month.

Employees aged 55 and below must contribute 20% of their earnings (above monthly earnings of SGD 750, capped at an ordinary wage ceiling of SGD 6,000), and employers a further 17%. The contribution rates decline, in five-year bands, to a total 12.5% for those aged 70 and above.

Contributions are not required from employees earning between SGD 50 and SGD 500 per month, though employers are still required to pay their share of CPF contributions for those individuals.

Contribution rates to the three accounts vary by age group. Those under 35 will see 21.62% allocated to their MA, 16.21% to their SA, and 62.17% to their OA. The proportion of MA and OA contributions increase and decrease, respectively, as people age, with SA contributions fluctuating.[23]

Further top-ups can be made to SAs (for those aged 55 and under) or RAs (for those over 55). Both are entitled to up to SGD 8,000 tax relief per year and, since 2022, for an initial five-year period, the Singapore Government will match cash top-ups to an RA, up to a maximum grant of SGD 600 a year, subject to eligibility criteria.

People aged 55 to 70 who do not meet a basic retirement sum, currently SGD 96,000, can make cash top-ups to get higher retirement payouts.

[23] Central Provident Fund Board. January 2022. "CPF Allocation Rates from 1 January 2022." https://www.cpf.gov.sg/content/dam/web/member/faq/growing-your-savings/documents/CPF_Allocation_Rates_from_1_January_2022.pdf

Taxation Landscape. Tax relief is available on contributions up to an ordinary wage ceiling of SGD 6,000 per month and an additional wage ceiling of SGD 102,000 per year.

Investment Options. Individuals' uninvested CPF savings earn interest from Special Singapore Government Securities, issued and guaranteed by the Singapore Government.

The CPF Investment Scheme, or CPFIS, enables individuals, subject to completing a self-awareness questionnaire and setting aside OA savings of SGD 20,000 and SA savings of SGD 40,000, to invest in a wide range of investments.[24] To guard against members taking excessive risks, limits are set at 35% and 10% of investable savings in stocks and gold, respectively.

Funds included under CPFIS are evaluated by the board's investment consultant. The focus of its due diligence is to evaluate whether each fund has a reasonably high probability of achieving future outperformance relative to its benchmark. The due diligence covers both qualitative and quantitative aspects of the fund and is not limited to consideration of past performance.

Elected funds are subject to expense-ratio caps dependent on their risk level (Higher Risk 1.75%; Medium to High Risk 1.55%; Low to Medium Risk 0.95%; Lower Risk 0.35%). There are currently 11 providers offering 119 funds: 66 (predominantly equity) funds for use in OAs and 53 (mainly allocation plus some fixed-income) funds available for use in either an OA or SA.

Accessing Workplace Savings. Upon reaching age 55, individuals receive a letter with details on how to make an appointment to attend a one-to-one session, using personalised information with the CPF Retirement Planning Service, to explain the CPF rules.

To ensure that an individual's retirement savings will not run out, they can, or will, be enrolled into the CPF Lifelong Income for the Elderly annuity scheme, with some of their retirement savings used as premiums to ensure provision of an income for life, commencing between age 65 and 70.

Members can gain access to their CPF savings from the age of 55, and withdrawals can be made subject to a basic retirement sum being set aside in members' RAs to fund regular monthly payouts covering basic expenses in retirement. Members who do not own a property must set aside a full retirement sum in their RA, equivalent to twice the level of the basic retirement sum; it is designed to cover the additional costs of home rental.

For higher monthly payouts, members may choose to top up their RA to the enhanced retirement sum, set at 3 times the basic retirement sum.

CPFIS-OA and CPFIS-SA investments may be withdrawn, as well as the cash balance in investment accounts, providing the full retirement sum is in a member's RA.

Those with reduced life expectancy or unable to work can gain early access to some of their pension savings.

[24] The CPF board chooses the available investment options, acting as a gatekeeper for all funds applying for inclusion into the CPF scheme, by taking in Morningstar Manager Research as its incumbent consultant.

Sweden

Earnings-based
Means-tested
Flat-rate

Mostly DB (>67%)
Mixed (33%-67% DB/DC)
Mostly DC (>67%)

Retirement Market Framework. The foundation of the Swedish pension system is a national public general pension, comprising a general (safety net) pension, an income pension, and a premium pension, or PPM, the value of which depends on investment growth. The retirement pension will depend on the level of earnings, the number of years contributed, and the age of pension commencement, as well as, for the premium element, investment growth.

In the workplace arena, many firms have a collective agreement, with four major pension agreements covering employees of the municipality and region, the state, civil service or private firms, plus individual employer schemes.

The PPM scheme is managed by the Swedish Pensions Agency, or SPA, and a new Swedish Fund Selection Agency will oversee the available funds universe, which has been open to UCITS funds that have authorization to distribute in the Swedish market and that have entered into a fund agreement with the agency. Suitable funds must be cost-effective, sustainable, controllable, and of high quality, and authorization is subject to requirements that funds have a three full-year return history and at least SEK 500 million of capital in the fund outside of the PPM system.

Contributions. It is mandated that 16% of employee's earnings, up to a threshold of SEK 44,375 per month, contribute toward the income pension and 2.5% toward the premium pension.

Where employers provide a workplace scheme, it is usual for them to contribute a minimum of 4.5% of employees' earnings.

Taxation Landscape. Pension contributions are tax-deductible for the employer, and a tax of 24.26% is levied on the amount of the contribution.

During the growth phase, pension funds are not subject to income or capital gains tax.

Pension withdrawals and income are subject to standard income taxation rules.

Investment Options. Individuals can choose up to five unit-linked funds in which to invest their premium pension contributions or be defaulted into the AP7 Såfa fund, a blend of the AP7 Equity and AP7 Fixed Income funds. In part because the premium element is generally a small component of people's total general pension, and in contrast to default funds in many countries, 100% is allocated to the equity fund for those aged 55 and under. From the age of 56, the allocation is annually rebalanced toward the fixed-income fund until reaching an allocation of two-third fixed-income fund and one-third equity fund at the age of 75.

The pension reforms in 1999, and the creation of the PPM with its links to mandated savings of 2.5% of citizens' pensionable income, saw many asset managers apply; this resulted in many funds for people to select from. Concerns about too much choice, including potentially subpar funds, led to the authorization requirements being tightened. Currently, people face a choice of around 530 funds from 66 providers. Those UCITS are domiciled in Sweden (about 230), Luxembourg and Ireland (about 210), and Norway and Finland (about 90).

The SPA provides information on all the eligible funds to help investors select where to invest and switch their contributions. Qualifying as a PPM fund requires managers to commit to fee terms and rebates that will usually see the funds offered at more attractive fees through the scheme than through any other channel.

The SPA also requires that PPM fund managers be subject to United Nations-backed Principles for Responsible Investment and to provide certain information related to sustainability.

Outside of collective agreements, the workplace DC market sees employers typically select an asset manager or insurance company as a scheme provider for their employees.

Accessing Workplace Savings. There is no fixed retirement age, and people may start to access their pension from age 62. Financed half by the state and half by the pension companies, minPension is an independent and free service that enables everyone who has earned pension rights in Sweden to view their entire pension and make pension forecasts.

United Kingdom

Earnings-based
Means-tested
Flat-rate

Mostly DB (>67%)
Mixed (33%-67% DB/DC)
Mostly DC (>67%)

Retirement Market Framework. The social security (or state) pension, as well as the health service and certain other social security benefits, are funded via National Insurance contributions. Employees contribute 12%-14% of eligible earnings, automatically deducted from their pay by employers, who contribute a further 13.8%. Those with a full contribution record will receive a maximum social security pension of GBP 9,339.20 per year, or GBP 179.60 per week. It is redistributive, in that everyone receives the same rate, subject to qualifying years, regardless of the amount of their contributions.

Auto-enrolment has been phased in since 2012, requiring employers to enrol their employees (aged 22 or above and earning at least GBP 10,000 per year) into a workplace scheme, although employees may elect to opt out.

Employers can choose from three main options when looking to set up a DC scheme for their workers. These are predominantly run by insurance companies and include:

- An individual trust pension scheme—a scheme that is only available to that employer and its workers. Trustees run the scheme in the best interests of its members, being past and present employees.
- A master trust pension scheme—a scheme that can be used by separate employers and their workers. Trustees run the scheme in the best interests of all the members.
- A group personal pension—a workplace scheme set up by an employer as a collection of individual pension plans for each employee.

A new variation is emerging, known as a collective defined contribution scheme. These seek to provide a middle ground between DB and DC schemes and are designed to provide members with a more-certain—although not guaranteed—income for life. Contribution rates are defined in advance for employers and employees, and risks and costs are shared between the scheme's members, rather than individually.

Trust-based schemes are regulated by The Pensions Regulator, with scheme trustees having a fiduciary duty to act in the best interests of members, while contract-based schemes are regulated by the Financial Conduct Authority and are overseen by independent governance committees. The former tend to offer fewer 'at-retirement' options and a more contained set of guided investment choices than contract-based schemes, which are usually operated by insurance companies and offer access to large ranges of investment options from multiple fund management firms.

Fragmentation is common, with many people accruing multiple accounts via different employers. Not only does this increase administration as well as costs, but it also complicates portfolio management, and people can lose track of past schemes. Long-talked-about plans for individual pension dashboards that will show people a full picture of their social security, workplace, and personal pension entitlements have been resurrected and are due to begin roll out in 2024.[25]

[25] Financial Conduct Authority. February 2022. "Pensions dashboards: proposed rules for pension providers." https://www.fca.org.uk/publication/consultation/cp22-3.pdf FCA CP22/3

Contributions. The employer will set workplace scheme rules to define which elements of earnings are included for contribution purposes, known as 'pensionable earnings'. If the scheme is being used for automatic enrolment, it will usually cover all taxable income from the employer.

Employer contribution ranges vary significantly, but in the case of auto-enrolment schemes, a minimum 8% of an employees' pensionable salary between GBP 6,240 and GBP 50,270 must be contributed, with at least 3% coming from the employer. Employees will usually be able to contribute more, and in many cases, employers will match the extra contributions based on a declared formula and up to prescribed limits.

Taxation Landscape. Pension contributions are eligible for tax relief at an individual's marginal income tax rate, subject to a maximum contribution limit equal to the lower of their annual earnings or GBP 40,000, reducing to GBP 4,000 once a withdrawal has been made from their pension. Amounts equivalent to the basic rate of income tax (currently 20%) will be automatically added to each contribution. Higher-rate taxpayers (40%-plus) must claim the additional relief via their annual tax returns. Unused allowance from one year may be carried forward for up to three years, but exceeding the annual contribution allowance triggers tax penalties.

Salary-sacrifice arrangements are permitted, whereby employers can choose to offer employees the option of agreeing to reduce their earnings by an amount equal to their pension contributions. In exchange, the employer agrees to pay the total pension contributions, the employee pays less income tax by virtue of their lower notional salary, and both the employee and the employer pay less in National Insurance contributions. In some cases, employers may offer a higher pension contribution rate, funded from their National Insurance savings.

Within pension wrappers, U.K. assets are free from capital gains and income tax liabilities, and up to 25% of the account can be withdrawn tax-free after an individual attains the age of 55 (rising to 57 in 2028).

There is a lifetime allowance, or LTA, that can be accrued in a person's pension savings without incurring a tax charge. The LTA has reduced over the last decade, from a high of GBP 1.8 million in 2011-12 to its current GBP 1,073,100. Pensioners benefits are tested against the allowance when certain benefit crystallisation events occur, such as moving into drawdown, buying an annuity, or attaining age 75.

From an inheritance tax perspective, pension accounts do not form part of individual's asset base, and it can therefore be beneficial for individuals to use other assets to fund retirement income ahead of their pension savings.

Investment Options. Many U.K. pension wrappers, particularly those run by insurance companies, direct contributions to a distinct legal form of unit-linked pension funds. The options usually comprise a range of internal funds managed by the host insurance company, coupled with an often broad set of wrap funds, where the insurance company sets up a separate fund, wrapping, typically, an open-end fund. The insurance company will manage and price this fund independently of the underlying fund, while channelling members' contributions directly into the underlying fund.

Increasingly, schemes are also granting access to entire ranges of funds and listed securities that are available via specific investment platforms.

Consequently, scheme members are faced with a huge, and potentially daunting, choice of investments. Absent exercising that choice, contributions will be invested in a default balanced fund or lifecycle program designed to suit a broad range of people.

Management fees for default funds in schemes used for auto-enrolment are capped at 0.75%, excluding transaction costs and, going forward, well-structured performance fees as well. The U.K. regulators are also in the midst of developing further specifications for pension providers to monitor and inform whether and how their schemes are offering value for money to their members.[26]

The government established NEST as a public corporation to run a workplace scheme, and it currently serves employees of over 900,000 firms.

Accessing Workplace Savings. Prior to attaining age 55, rising to 57 in 2028, pension savings are effectively inaccessible, aside from in a few exceptional circumstances. When over this age, individuals can use their accumulated money to buy a guaranteed income annuity, take a flexible retirement income, or continue to manage the account without withdrawals indefinitely. Those electing to use some or all of their balance to buy an insurance company annuity have a whole-of-market option, enabling them to compare rates across the market and not automatically opt for an annuity from their pension provider.

In preparation for this milestone, once attaining age 50, individuals are entitled to, and increasingly nudged to utilize, a free impartial Pension Wise appointment, a government service to help people understand their pension options. These nudges will be strengthened from mid-2022, prohibiting any benefit payments from being made by pension providers prior to them obtaining confirmation from members that they have had a Pension Wise appointment, are already an independently advised client, or do not wish to avail themselves of the appointment opportunity. The rules stop short of automatically making appointments for pension scheme members.

[26] The Pensions Regulator. May 2022. "Feedback statement on driving Value for Money in defined contribution pensions." https://www.thepensionsregulator.gov.uk/en/document-library/consultations/value-for-money-discussion-paper/feedback-statement-on-driving-value-for-money-in-defined-contribution-pensions

DC scheme members are eligible for GBP 500 of tax-free employer-arranged advice and may also take up to three GBP 500 withdrawals from their accounts to use for advice. We think the rollout of pension dashboards will trigger a new band of people seeking advice to understand their best course of action to using their accrued pensions and benefits.

Other regulatory levers under consideration include requiring pension providers to warn savers who, by moving accumulated pension savings, have left more than a certain percentage uninvested in cash, and offer a prompt to consider investing in other assets to retain the relative value of their savings.

The increasing prevalence of pension scams has led to a requirement for pension providers suspicious of a scam to request members take a guidance interview before transferring out a person's pension savings. Further, people seeking to transfer out of a DB scheme are now required to take independent advice, and the advisor will need to justify any recommendation to proceed.

United States

Earnings-based
Means-tested
Flat-rate

Mostly DB (>67%)
Mixed (33%-67% DB/DC)
Mostly DC (>67%)

Retirement Market Framework. The government-managed social security benefits are funded by payroll taxes. Contributions are deducted from employees' pay automatically at a rate of 6.2% on up to USD 147,000 of annual income, with employers contributing at the same rate. The benefits that retirees receive are determined by a combination of their average earnings and the age at which they begin receiving benefits. The payout rate for social security benefits declines at higher earnings thresholds, so lower earners will have a higher portion of their preretirement income covered, while higher earners will need to supplement social security benefits to achieve the same replacement rate. Additionally, claiming benefits before "normal retirement age", set at 67 for anyone born after 1959, decreases the payout, while delaying until age 70 maximizes the benefits.

Employers are not required to offer a retirement plan. In general, larger employers are more likely to offer a plan, in part to be competitive in the labour market, while smaller companies can face challenges in establishing a plan. Current estimates peg coverage at around two-thirds of the private-sector workforce having access to a workplace plan. The distinction between private-sector and public-sector employers is significant because they are subject to different regulatory requirements when offering a plan. The differing regimes generally make it easier for public-sector employers to provide a plan, as there is reduced reporting and a narrower scope of investment vehicles allowed in the plans. As a result of the reduced reporting, there is also less insight into what these plans offer, what the costs are, and how employees are utilizing them. We focus our analysis on the public sector as this is where we have access to standardized data and where a greater variety of products can be introduced.

Recently, some states have introduced legislation that requires public-sector companies to facilitate enrolment in personal retirement savings accounts if they do not offer a plan. While these mandates aim to boost retirement savings for workers at smaller employers, they also further complicate an already complex system. Additionally, the account type that states can mandate has a significantly lower maximum annual contribution, limiting the impact to overall savings rates and retirement preparedness.

Contributions. Contributions to workplace plans are not mandatory for employers or employees. To comply with certain regulations and be competitive in the labour market, most companies will contribute to employees' accounts. This is either achieved by matching an employee's contributions, up to a threshold, or by contributing an amount equal to a fixed percentage of an employee's salary, regardless of whether they contribute or not.

There is an annual limit on employee tax-protected contributions. In 2022, this limit is USD 20,500, and unused portions cannot be rolled over to subsequent years. Workers who are 50 and older can contribute an additional USD 6,500 in "catch-up" contributions, for a limit of USD 27,000 in 2022. There is a separate limit on the combined contributions of employees and employers of USD 61,000 or 100% of salary, whichever is less. This limit is again extended by USD 6,500 for workers 50 and older.

Taxation Landscape. All money in workplace plans is exempt from capital gains taxes, allowing it to grow tax-free. Employee contributions are always subject to payroll taxes such as those funding social security, but the payment of income taxes on the contributions can be done upfront or deferred. If made pretax, which is generally considered the standard, the withdrawals in retirement will be subject to income tax.

Contributions made after taxes can fall into two categories: Roth and aftertax. Roth contributions are subject to income taxes when the contribution is made but can be withdrawn in retirement tax-free. Roth contributions are also subject to the tax-protected USD 20,500, or USD 27,000 if aged 50 and up, annual limit. Aftertax contributions are subject to income taxes when the contribution is made and when it is withdrawn in retirement. The benefit of aftertax contributions comes from the higher annual limit as these count toward the USD 61,000, or USD 67,500 if aged 50 and up, limit but not the lower tax-protected limit.

Investment Options. Plan sponsors are responsible for selecting the investments made available to participants in the plan. Sponsors have a fiduciary duty to use prudence in the selection of investment options, but they can utilize service providers to provide guidance on their selections or take over the process entirely.

Investment lineups will generally feature managed investment vehicles across a range of investment strategies, including allocation funds for those wanting a hands-off approach and asset-class-specific investments for those wishing to customize their savings. The most common allocation strategies are target-date funds, and these are often the default investment when sponsors auto-enrol employees into their plans. Other default investments include allocation funds with a fixed equity/fixed-income ratio and managed accounts, which use individual information, such as age, salary, target retirement age, and outside investments, to customize allocations for each individual across the full range of the investment lineup.

Open-end mutual funds remain the most common investment vehicle, but larger plans increasingly turn to collective investment trusts and separately managed accounts to reduce costs and allow for increased customization of the investment strategy to their participant needs. Many plan sponsors will also allow participants to direct their contributions into a brokerage window that offers them a wider range of investment options, although there may be an additional fee for this service.

Accessing Workplace Savings. Retirement savings are accessible before age 59½, but there are limitations to avoid incurring a 10% penalty, and the provision of these is at the plan sponsor's discretion. Plan sponsors have the option of allowing participants to take a loan from their account for up to USD 50,000. The plan sponsor determines the rates, but unless the loan is used for purchasing the participant's principal residence, it must be repaid within five years. Plan sponsors can also facilitate hardship withdrawals, allowing employees to withdraw for an immediate and heavy financial need, such as medical expenses, postsecondary education tuition, funeral expenses, and expenses related to purchasing, avoiding eviction from, and certain repair to a principal residence. For a hardship distribution, the employee can withdraw up to the amount needed to satisfy the financial need, and the distribution is subject to income taxes. Any withdrawals before age 59½ that do not meet the hardship criteria are subject to a 10% penalty and income tax.

When changing jobs, an individual can generally transfer savings to an account at the new employer if a plan is offered, but there may be conditions imposed by either employer, and this is not automated. Many employers will automatically cash out any balances below a certain threshold. Additionally, the plans may charge a fee for an outgoing transfer. Most plans will, alternatively, allow former employees to leave their savings in their accounts, increasing the plan's asset base even if the former employee can no longer make additional contributions. As a result of these conditions and the increasing frequency of job changes, many workers have multiple retirement savings accounts that can be disjointed and difficult to track.

Disclosures

The information, data, analyses, and opinions presented herein do not constitute investment advice; are provided as of the date written and solely for informational purposes only and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. Past performance is not indicative and not a guarantee of future results.

This white paper contains certain forward-looking statements. We use words such as “expects”, “anticipates”, “believes”, “estimates”, “forecasts”, and similar expressions to identify forward looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially and/ or substantially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason.

This should not be considered financial planning advice. Please consult a financial professional for advice specific to your individual circumstances.