Pension Notes

No. 72; July 2023

# Automatic Enrollment worldwide: International Experience and Lessons for Latin America

Federación Internacional de Administradoras de Fondos de Pensiones

**Executive summary**

In the last few years there have been major efforts by countries worldwide to reform pension systems, often involving the expansion of individual savings programs. A tool that has shown great effectiveness in increasing voluntary pension savings (VPS) is automatic enrollment (AE). Based on principles of behavioral economics, workers are automatically enrolled in an individual pension savings plan, with the possibility of opting out it if they actively decide to do so. This note studies the case of 4 countries that have implemented AE:

- **United Kingdom:** As of 2012, employers have been required to automatically enroll all their eligible workers (aged 22-65, with annual earnings above €10,000) in an occupational pension scheme. Between 2012 and 2021, the percentage of employees participating in private pension schemes increased from 46.5% to 79.4% and total savings in occupational schemes rose from GBP 81.7 billion to GBP 114.6 billion. The system's opt-out rates have also been low, at between 8% and 14%, according to various estimates.

- **New Zealand:** Since July 2007, new workers aged 18-65 have been automatically enrolled in an occupational plan with tax incentives (Kiwisaver). Membership has increased steadily since the creation of the program, reaching 3.2 million in 2022, and accumulating NZD 89,708 million in funds as of the same date. The opt-out figures have also been low: as of June 2022, just over 243 thousand people had taken this option, corresponding to an opt-out rate of 18.6%.

- **Poland:** The PPK Act came into effect in 2019, creating individual savings plans with AE. AE Is mandatory for people between 18 and 55 years of age. Participation in the PPK was 33.1% at the end of 2022. Although participation was expected to be higher, it has grown steadily and has far outpaced participation in the other voluntary savings programs. Since its inception, the funds saved in the PPK have steadily increased to PLN 7.67 billion.

- **United States:** 12 states and 2 cities have enacted AE in Individual Savings Plans (IRAs), known as Auto IRAs. The Auto IRA is now operational in four states: California, Connecticut, Illinois and Oregon. As of March 2023, the number of accounts in those 4 states amounted to just over 664,000 (a 2.5 times increase as of December 2020), accumulating total savings of USD 780 million. The opt-out rate in these states has also been relatively low, ranging from 14% (Connecticut) to 37% (California).

From the study of AE programs at an international level, it can be concluded that:

- In occupational pension systems, the worldwide transition from defined benefit (DB) to defined contribution (DC) plans is clear, as evidenced in the United Kingdom, Poland and the United States.

- In countries where VPS programs with tax benefits or other complementary measures already existed, AE programs made a difference and rapidly improved savings rates since their implementation.

- The creation and strengthening of AE mechanisms is evidence of the efforts being made by countries worldwide to increase private savings. Total private pension assets in OECD countries rose from 64% of GDP in 2011 to 105% of GDP in 2021.

- Based on the above, there is no rational explanation for why reforms that reduce savings have been proposed in some Latin American countries, going in the opposite direction to developed countries. Thus, for example, a reform is being discussed in Colombia that seeks to severely reduce contributions to individual accounts and redirect them to the PAYGO system, by limiting coverage of individual savings to those who receive a salary greater than 3 minimum wages, which in practice amounts to very few people. In Uruguay, in turn, the recently approved pension reform reduces workers' contributions to their individual savings accounts and increases contributions to the PAYGO systems, while considering some parametric changes that improve the sustainability of the system.

- VPS levels are extremely low in Latin American countries, amounting less than 0.2% of GDP in Chile and Colombia, and even less than that in countries such as Mexico or Peru. Hence, AE emerges as a great alternative that has shown good results at an international level. Countries in the region should take advantage of its benefits and the flexibility its design provides for adapting it to the characteristics and needs of each of them.

- A crucial element for AE to work is people's confidence in their country's pension and political systems. In countries with a lack of trust, many people will choose not to participate in such a scheme. Hence, for AE to be effectively implemented it must be accompanied by a long-term awareness campaign that must start long before the first people are automatically enrolled in the plans.

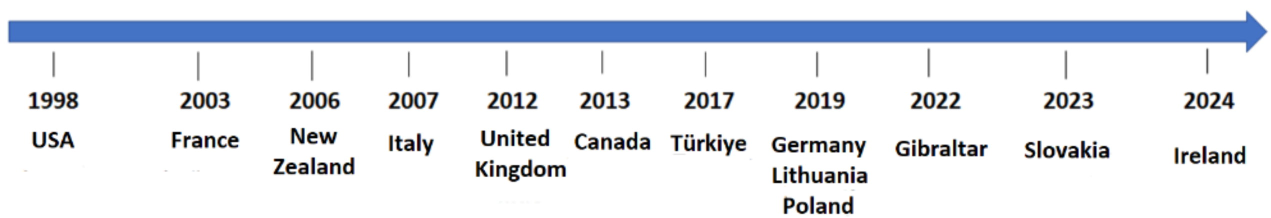
### I. Introduction

In the last few years there have been major efforts by countries worldwide to reform pension systems. Given the undeniable impact that demographic changes have on PAYGO pension systems, these reforms have often involved an expansion of privately managed individual savings programs. According to the OECD, these individual savings plans are expected to continue to increase in importance over time as pension funds are expected to continue to play an essential role in financial markets.

A key instrument for improving pension amounts, especially when mandatory contributions are insufficient, is Voluntary Pension Savings (VPS). It has also been important in countries with PAYGO systems where the cost of transitioning to individual savings programs is very high. Although countries like the United States, Ireland or Great Britain have mandatory PAYGO systems, more than half of the pensions paid to the average worker are based on VPS schemes[1].

Countries can opt for a variety of tools to boost VPS, such as tax incentives, providing liquidity to those savings and employers' and/ or State contributions (matching contributions). Nonetheless, one tool that has shown remarkable effectiveness has been Automatic Enrollment (AE). Based on behavioral economics principles, workers are automatically enrolled in a voluntary individual savings plan, with the possibility of opting out it if they actively decide to do so.

AE will be applied to individual savings plans in at least 13 countries by 2024[2], helping to supplement the sources of income for the retirement of thousands of workers.




This Pension Note will study the cases of the United Kingdom, New Zealand, Poland and the United States, compiling experiences and lessons for Latin America and Caribbean countries, in which VPS is still a pending public policy issue.

[1] Source: Pensions at a Glance 2021, OCDE.

[2] Considers those countries in which AE is an employer obligation (employers must automatically enroll their workers in an individual savings plan, and workers can opt out if they wish), as well as countries in which it is voluntary for workers.

**II. Automatic Enrollment (AE) and Behavioral Economics**

Encouraging voluntary savings is crucial, due to the demographic changes affecting pension systems worldwide. However, this challenge entails some obstacles:

- On the one hand, pensions are seen as something distant, since it is difficult to imagine old age, so the decision to act in the present is not a high priority issue and is easily postponed. This effect, in which we value what we have today more than what we may have in the future, is known as "intertemporal myopia."
- On the other hand, despite how simple the product may seem, pension plans remain a complex instrument that can cause confusion. Choosing a pension scheme is a complicated decision that requires considerable effort.

Hence, even though workers know that participating in voluntary pension savings schemes is best for their future, many do not do so. People, therefore, need to be "nudged" to make decisions that benefit them. AE provides this "nudge," thus using people's inertia to encourage savings. The whole process is designed in such a way that even if individuals take no action, they will be saving for retirement, so if they want to opt out of the program, they will have to make the active decision not to save.

It is also important to include default funds that reduce risk exposure as retirement age approaches. We know that the sheer number of options available can be overwhelming and that this will result in greater use of the default option, so the design of these types of funds will be crucial.

These measures can be complemented by other tools, such as matching contributions by the employer and/or the Government, or the establishment of tax benefits, which also enable clearer and more direct communication on the benefits of savings.

## III. The United Kingdom

The UK's pension system comprises 3 pillars[3]:

**First pillar:** non-contributory and tax-funded, it provides the so-called "Pension Credit" to low-income individuals over 65. It comprises (a) Guaranteed Credit, a solidarity means-tested pension that guarantees all retirees an income over a certain amount, and (b) Savings Credit, which provides extra benefits to those who have some private savings or additional income for retirement.

**Second pillar:** two systems coexist: (a) a fixed-amount public pension system (State Pension, PAYGO), with a component of additional benefits proportional to income. (b) a private occupational pension system with EA (includes defined contribution and benefit programs).

**Third pillar:** supplementary voluntary savings.

Those who reached retirement age in the public system after April 6, 2016, will receive the New State Pension, which raises full pension amounts, increases the number of years of contribution requirement for a full pension to 35 years, and eliminates the possibility of Pension Credit and additional State Pension benefits.

[3] Source: https://www.pensionspolicyinstitute.org.uk/media/4103/20220629-ppi-2022-pensions-primer-final.pdf

**III.1 Reform context**

The UK had a successful private pension system in the 1960s and 70s, based mainly on defined benefit (DB) schemes, provided by large employers, with high levels of coverage. By the 1980s and 90s, coverage of these systems began to fall, mainly for two reasons:

I. **Changes in industry and the labor market:** the industry migrated from manufacturing to retail, a sector with a higher turnover of personnel where providing pensions to employees was not standard practice. The number of small and mid-sized employers, where the availability of occupational plans was lower, also grew.
II. **Demographic changes:** the increase in longevity made DB plans considerably more expensive for employers, who had to assume the investment and increasing longevity risks.

In the 1990s and 2000s, governments attempted to increase private savings by introducing simpler products and improving incentives and financial education. However, it continued its downward trend. In 2002, the government appointed a Pension Commission to diagnose the problem and make recommendations.

The first report, published in 2004, noted that the problems of the pension system were low savings, the complexity of the system, income inequality and sustainability. In its second report published in 2005, the Commission recommended:

I. **Working Longer:** It suggested significant and ongoing increases in the retirement age in the public PAYGO system.
II. **Increase public spending:** The government's offer should be simpler, with greater coverage.
III. **Save More:** The UK should implement an AE system to address demand side issues and a state managed scheme to address supply side issues in the pension market.

**III.2 Automatic enrollment in the UK**

As of 2012, employers had to give all their eligible workers (between 22 and 65 years of age, with annual incomes above £10,000) access to a pension. Entry thresholds would be subject to annual review by the government.

Employers must automatically enroll their workers, and assuming that the latter do not choose to opt out of the program, they must contribute at least 8% of workers' salaries between them. A lump sum tax-free withdrawal of up to 25% of the funds can be made at retirement age. The rest can be withdrawn as a lump sum, used to buy a life annuity, or workers can opt for flexible scheduled withdrawals (paying taxes).

Between 2012 and 2019, the contribution rate to the AE program gradually increased, minimizing the impact on workers' wages and costs for employers, as shown in Table 1.

**Table 1.- Increase in contributions to the AE system – United Kingdom**

| Date | Employer | Worker | State | Total |
|---|---|---|---|---|
| Oct 2012 - Mar 2018 | 1% | 0,8% | 0,2% | 2% |
| Apr 2018 - Mar 2019 | 2% | 2,4% | 0,6% | 5% |
| As of Apr 2019 | 3% | 4% | 1% | 8% |

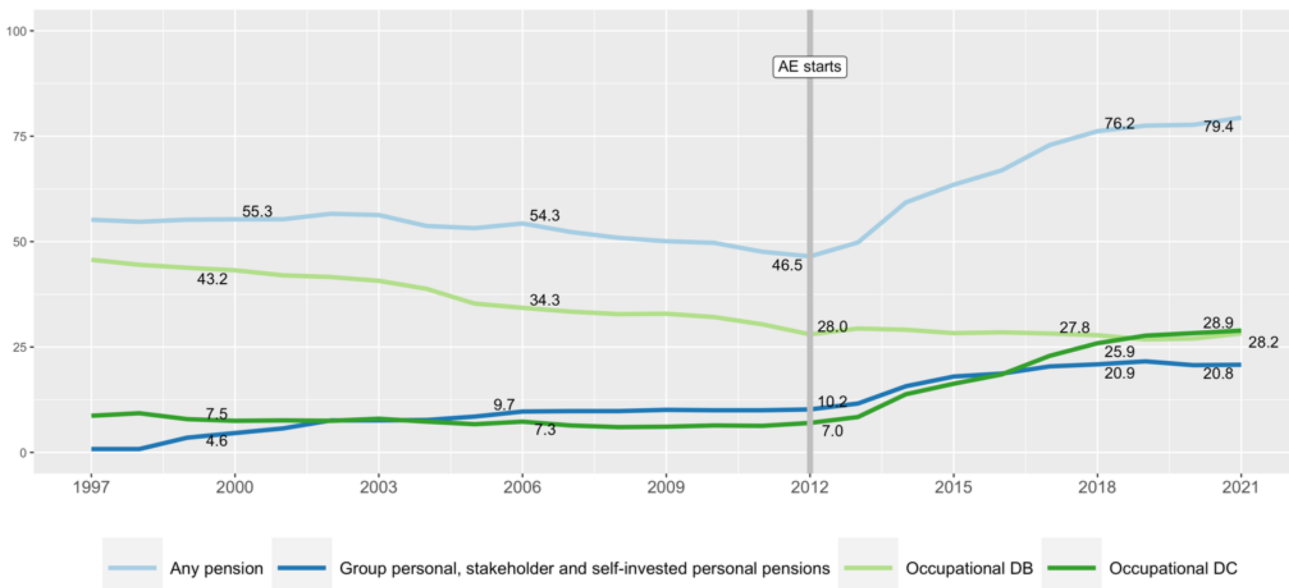
Source: Martínez-Cue (2019).

For employers and workers who do not have their own occupational pension schemes, the National Employment Savings Trust (NEST), a public corporation, provides this type of service by default: NEST is a public pension scheme that seeks to increase the coverage of occupational plans, but outsources fund management to private companies[4]

Workers can choose to opt out of the pension scheme within a short time window after being enrolled, and their contributions are reimbursed. Thereafter, they can opt out of the scheme, but their contributions will remain in the pension fund. Every three years, employers must re-enroll all workers who have opted out of the scheme.

Since the introduction of the AE, the proportion of workers contributing to an occupational pension scheme has increased significantly. The increase has been led by defined contribution (DC) pensions, including group personal pensions, stakeholder pensions, and self-invested personal pensions.[5]. At the same time, a constant drop in the proportion of employees contributing to the DB system has been observed.

**Graph 1.- Percentage of employees with occupational pension schemes, by type of pension, 1997-2021 – United Kingdom**




Source FIAP, drawn up with data from the national statistics office: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/bulletins/annualsurveyofhoursandearningspensiontables/2021provisionaland2020finalresults

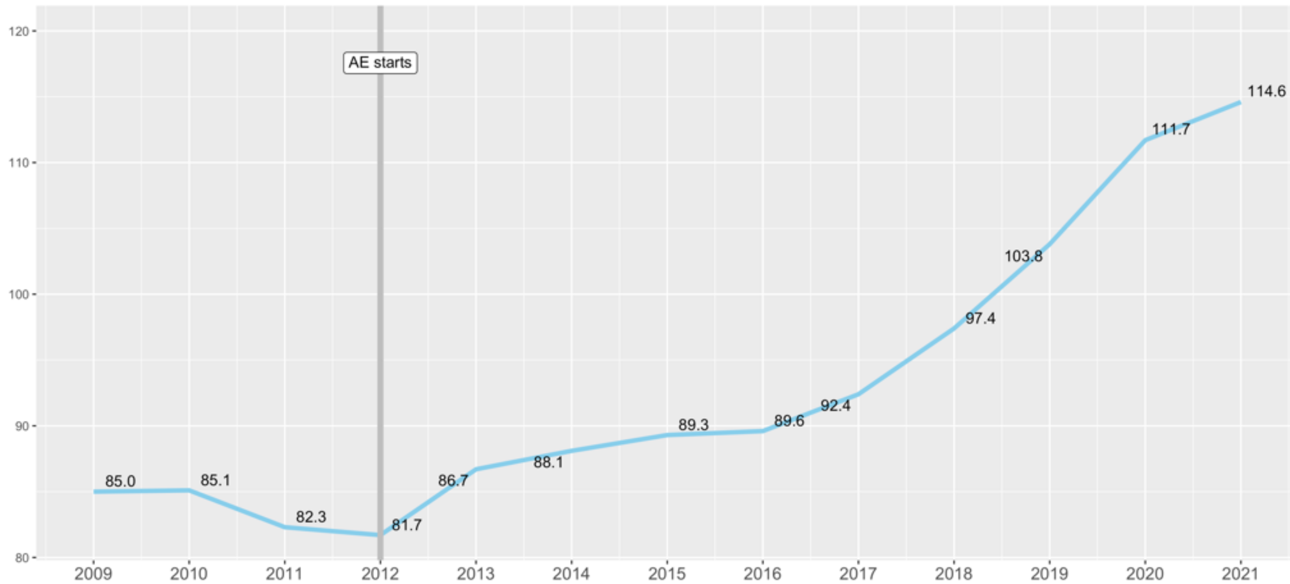
Likewise, in Graph 2 we can see the rapid growth of savings amounts in occupational pension schemes. As of the implementation of AE in 2012, total savings increased from £81.7 billion to £114.6 billion by 2021, an increase of £32.9 billion. According to data presented by the UK House of Commons, the average annual savings per eligible saver was £3,090 in 2021.

The system's opt-out rates have also been low, with several estimates ranking them at between 8% and 14%.

[4] https://www.nestpensions.org.uk/schemeweb/nest/investing-your-pension/how-nest-invests/our-investment-team.html

[5] These are different types of individual savings accounts that usually have tax incentives.

**Graph 2.- Total savings of eligible workers in occupational pension schemes, in billions of pounds sterling, 2009-2021, United Kingdom**




Source: FIAP, drawn up with data from the UK Department of Pensions and Labor, https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2021

Following the evident success of AE, in 2017 the UK Department of Labor and Pensions proposed a number of measures that included confirming that AE should remain available to all eligible workers, lowering the age of participation from 22 to 18, and lowering the minimum income threshold for AE eligibility, among others.

### IV. New Zealand

New Zealand's pension system comprises 2 pillars:

**First pillar:** New Zealand Superannuation (NZS), non-contributory public system, funded by taxes, not subject to income or employment status. Single individuals received around NZD 490.73 (USD 306.25) per week in 2021.

**Second pillar:** Private voluntary occupational schemes not subsidized by the State and Kiwisaver, which is a state subsidized AE occupational savings scheme (mandatory for employers and voluntary for workers because they can opt out if they wish).

#### IV.1 Reform context

From its inception (late 19th century) to the present day, the New Zealand pension system has never resorted to contributory PAYGO systems[6]. Instead, its focus has been on financing public pensions with taxes (NZS), with some periods dominated by universal pensions and others by means tested pensions.

In 2007, the country's Minister of Finance noted that New Zealanders had one of the lowest household savings rates among developed countries. Estimates by the Reserve Bank of New Zealand put this figure at negative 17.5%. Furthermore, participation in complementary occupational plans had been relatively low: at the end of 2005, some 600,000 people were enrolled in some form of retirement plan with a total of NZD 18.2 billion (USD 11,352) in assets under management. The 2001 household savings survey, in turn, showed that less than 20% of those earning between NZD 15,000 and NZD 50,000 (USD 9,356 and USD 31,187 respectively) per year were enrolled in some type of occupational savings plan.

#### IV.2 Automatic Enrollment in New Zealand

Kiwisaver is a new occupational individual savings and AE program that works in parallel to previous occupational programs. Since July 2007, new workers between the ages of 18 and 65 have been automatically enrolled in a Kiwisaver occupational plan with the possibility of opting out between the second and eighth week of employment. Those who are not automatically enrolled can voluntarily enter the program (opt-in), via employer or pension provider.

The default contribution rate is 6%, but it can be changed to 3%, 4%, 8% or 10%. It includes 3% of employer contributions and government contributions of NZD 0.5 for each NZD contributed. Until 2015, new members received an initial government contribution of NZD 1,000 (USD 624) to their individual accounts.

At least a portion of the funds may be accessed in advance in situations of financial hardship, serious illness, or for purchasing a first housing unit, with certain restrictions. At retirement age (65), one can either fully withdraw the balance of the fund or opt for a programmed withdrawal of the funds.

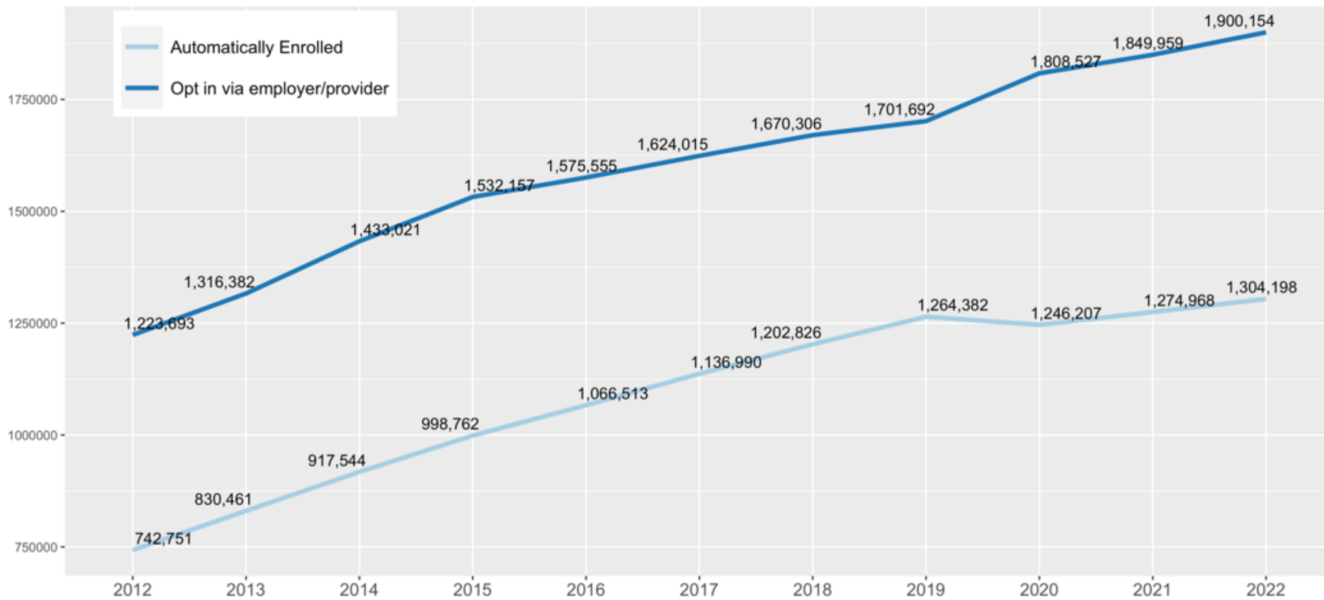
As shown in Graph 3, the number of members has increased steadily since the program's inception, reaching 3.2 million in 2022. Moreover, according to OECD data, Kiwisaver coverage reached 80.8% of the working-

---

[6] History of New Zealand's pension System: https://assets.retirement.govt.nz/public/Uploads/Retirement-Income-Policy-Review/Background-papers/History-and-trends/27b4c9b6d8/RI-Review-BP-Retirement-Income-History-2008.pdf

age population in 2021. The opt-out figures are also positive: as of June 2022, just over 243,000 people had taken this option, corresponding to an opt-out rate of 18.6%.

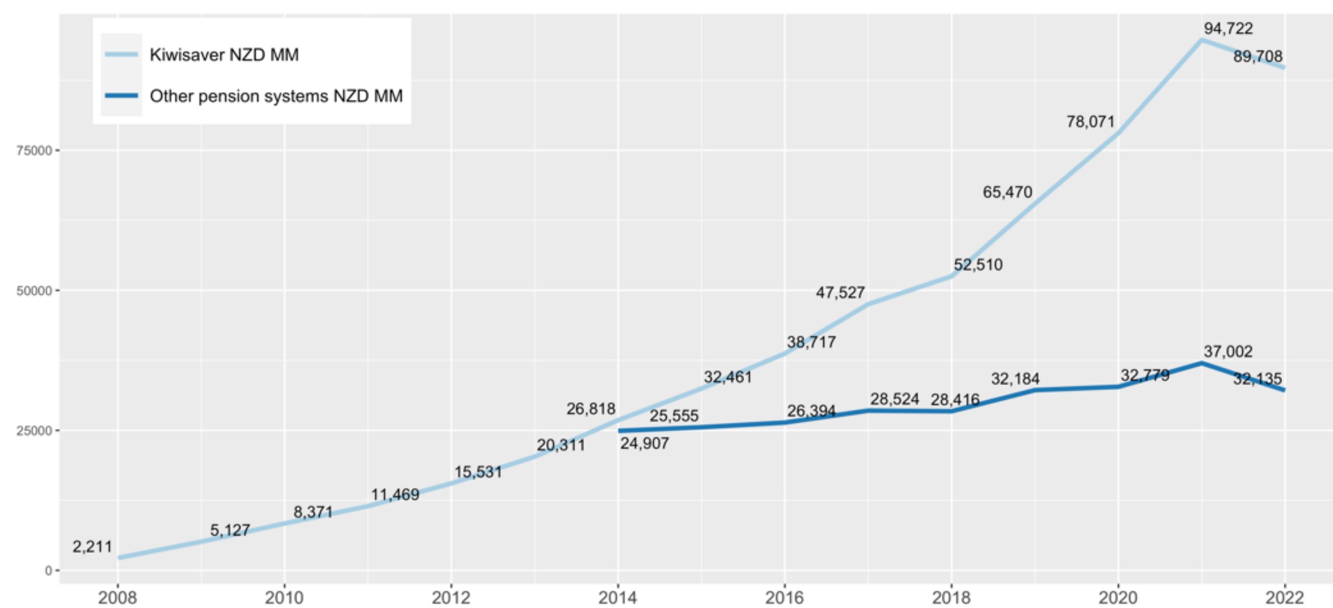
**Graph 3.- Number of Kiwisaver members by income method – June 30 of the respective year**




Source: Inland Revenue Administration data, https://www.ird.govt.nz/about-us/tax-statistics/kiwisaver/datasets

Similarly, funds saved in Kiwisaver have increased sharply since its inception, far outpacing savings in other types of occupational systems.

**Graph 4.- Total savings per occupational pension system, in millions of New Zealand dollars, 2008-2022, New Zealand**




Source: New Zealand Reserve Bank, KiwiSaver funds: assets - T43, https://www.rbnz.govt.nz/statistics

## V. Poland

Poland's pension system comprises 3 pillars:

**First pillar:** Public Notional Defined Contribution (NDC) PAYGO system. Minimum pensions require an “insurance period” of many years, which can be credited with contributions, as well as years of study in higher education, periods of illness or rehabilitation.

**Second pillar:**

- Voluntary Individual Savings Scheme (OFE), as of 2014. 19.5% of contributions are paid into the NDC system by default, and members can choose to allocate 2.92 percentage points thereof to OFE.

- Individual Occupational Savings System with Automatic Enrollment (PPK).

**Third pillar**: Voluntary employer-funded occupational collective savings plans (PPE) and individual savings plans with tax benefits: IKE (enable obtaining tax-exempt capital gains) and IKZE (enable deducting the amounts deposited in the year from the taxable base income).

### V.1 Reform context

There was a DB PAYGO system in Poland until 1998. Due to the population aging observed since the mid-1990s, the social security system saw its finances heavily affected.

As a result of the so-called “great pension reform,” the DB system was replaced by a DC system. The first pillar was a NDC system managed by the Social Security Institute (ZUS). The second pillar was a mandatory individual savings system, in which contributions were transferred through the ZUS to the OFEs. Under the new system, 12.22% of the contribution went to the first pillar and 7.3% to the second pillar. However, after a series of changes in contribution rates, the contribution to the OFEs dropped to 2.92% in 2014.

This was followed by several fundamental changes that would end up altering the functioning of the system. Individuals were forced to transfer most of their funds in the OFEs to the ZUS, and voluntary participation in the OFEs was incorporated. It was also agreed that 10 years before reaching retirement age, funds in the OFE would be gradually transferred to an account in the ZUS, supposedly to limit its volatility.

The third pillar consists of additional forms of savings for old age. The collective occupational employee pension scheme (PPE) was established in 1999. The possibility of voluntary individual savings for retirement was created In 2004, with individual retirement accounts (IKE) and individual safety accounts for retirement (IKZE). Unfortunately, none of these voluntary saving mechanisms achieved broad coverage. In 2018, the third pillar had only 900,567 participants.

### V.2 Automatic enrollment in Poland

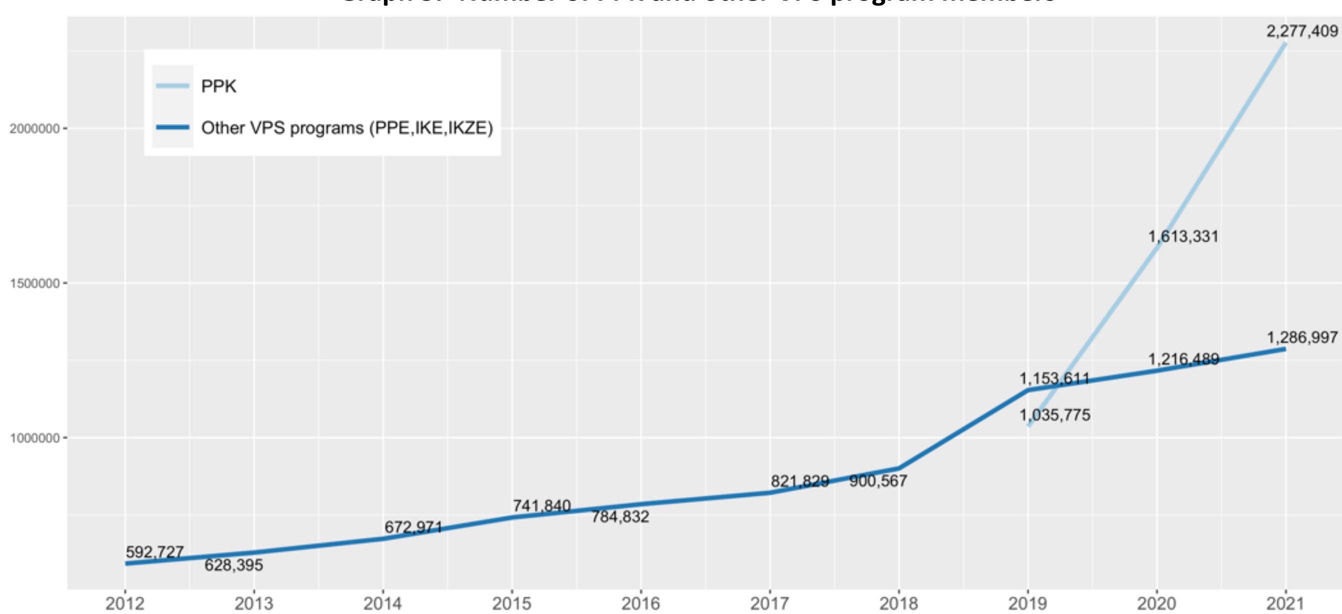
In 2019, the PPK Act came into effect, creating individually funded savings plans with automatic enrollment for employees (PPK), mandatory for employers and voluntary for workers who can choose to opt out if they wish. Its aim is to significantly increase the safety of Poles in retirement. Mandatory automatic enrollment in the PPK applies to people between 18 and 55 years of age, whereas those between 55 and 70 can voluntarily opt-in. Participants can opt out at any time by sending notice to their employer. Workers must be re-enrolled in the PPK by employers every 4 years.

The basic contribution rate financed by workers is usually 2% of wages, with lower income workers being able to reduce it to 0.5%. The employer contributes a basic amount of 1.5% of the worker's wages. Employers and workers can agree to increase their contributions to a maximum of 4% each, thus totaling 8%. The State also pays contributions into the accounts, regardless of the worker's salary, with a welcome payment of PLN 250 (USD 59) after three months of contributions and an annual payment of PLN 240 (USD 57) if some requirements are met.

The funds in the PPK are privately owned by workers and are invested in life cycle funds (FZD). 25% of the funds can be accessed in case of serious illness, and 100% can be withdrawn to finance a mortgage for up to 45 years. Saved funds can be withdrawn as a lump sum or as a programmed withdrawal at 60 years of age.

Participation in the PPK was 33.1% at the end of 2022 (PPK active accounts of people employed in companies with PPK plans). While participation was estimated to be higher (70%), PPK participants have grown steadily, quickly outpacing the number of participants in the other voluntary savings programs (PPE, IKE and IKZE).

**Graph 5.- Number of PPK and other VPS program members**



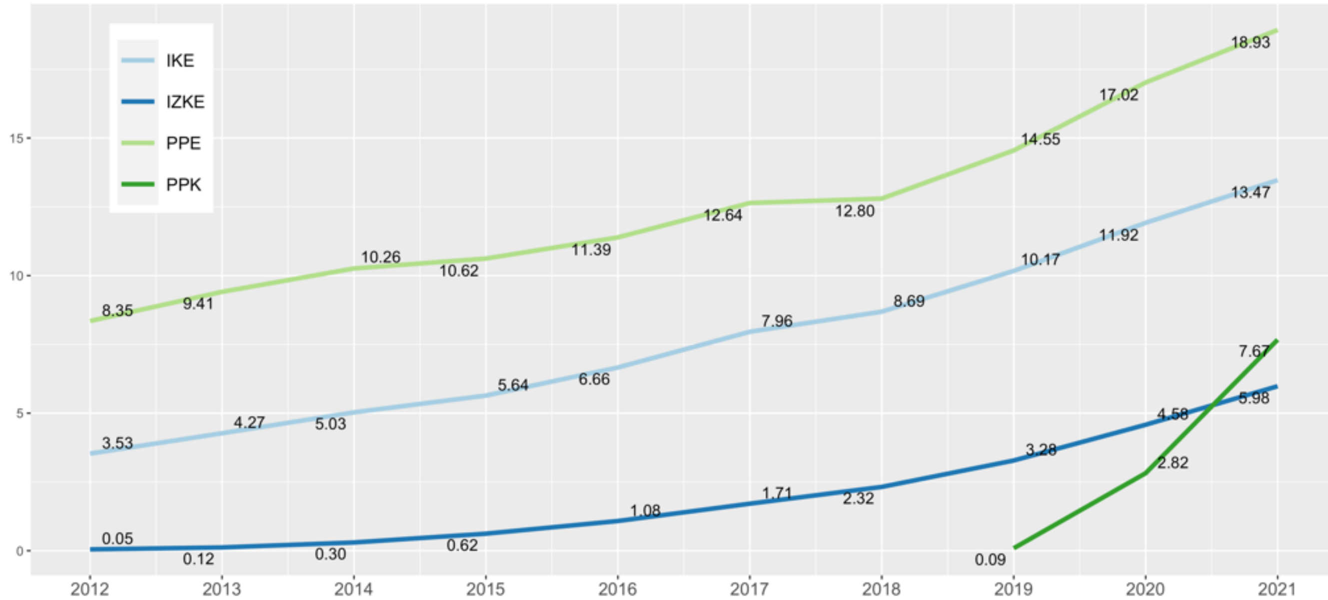

Source: KNF, Polish Financial Supervisory Authority, PPK data.

Likewise, Graph 6 shows that the funds saved in the PPK have steadily increased since its creation, amounting to PLN 7,670 million in 2021.

Some explanations have been given regarding the modest growth of program participants and assets[7]. The transfer of funds from the OFEs to the public system (ZUS) may have affected confidence in the savings system. Furthermore, the fall of the Warsaw stock exchange and high inflation may raise doubts in some people who have not considered the long-term nature of pension savings systems.

[7] Source: https://www.ipe.com/cee/central-and-eastern-europe-polands-qualified-success-with-auto-enrolment/10064187.article

**Graph 6.- Total savings by pension system at the end of each year, billions Zlotys**




Fuente: KNF, Polish financial supervisory authority, data on PPK.

## VI. The United States

The US pension system comprises 3 pillars:

**First Pillar[8]:** Public system known as "Social Security." Provides non-contributory pensions (Social Assistance) to people with low income and contributory income related DB PAYGO pensions (Social Insurance).

**Second Pillar:** Private DC or DB occupational pensions savings system, the most widespread being the 401(k), which is in the process of incorporating AE.

**Third pillar:** Voluntary individual savings, including Roth IRA programs (enabling tax-exempt capital gains during retirement) and IRAS (which allows the deduction of amounts deposited throughout the year from the taxable base income). Some states in the country have incorporated AE into these plans.

### VI.1 Reform context

A report by the U.S. Government Accountability Office[9] (GAO) 2019, noted that fundamental changes have occurred over the past 40 years that have led to risks and challenges for the country's pension system:

- In the first pillar, the report's projections indicated that by 2034[10], the Old Age and Survivors Insurance Trust Fund will only suffice to pay 77% of scheduled benefits. Other federal government retirement programs also face financial uncertainty, for example, the Pension Benefit Guaranty

[8] Source: https://www.oecd.org/els/public-pensions/PAG2019-country-profile-United-States.pdf

[9] Source: https://www.gao.gov/products/gao-19-342t

[10] In March this year, the council of social security advisers estimated that the first pillar old-age pension fund will expire in 2033, a year earlier than previously forecast.

Corporation, which insures the pension benefits of most DB plans, estimates a greater than 90 percent likelihood that multi-employer plans will be insolvent by 2025.

- At the same time, second-pillar occupational plans have undergone a shift from DB to DC programs, which provide greater portability to savings, but also require people to take greater responsibility in planning and managing their savings.

- In the third pillar, the report noted that voluntary savings may be constrained by economic trends such as low real wage growth and rising health care expenditure.

### VI.2 Automatic enrollment in the United States

#### VI.2.1 Occupational plans

In December 2022, the President signed Secure 2.0 into law. The three main axes of the law are: promoting retirement savings, incorporating incentives for small and mid-sized companies to offer retirement plans and providing greater savings flexibility to people close to retirement. As part of these measures, AE and automatic contribution escalation were incorporated into nationwide occupational plans for those working for an employer offering new pension plans as of 2025. This means that automatic enrollment will be mandatory for employers from that date. The default contribution is 3% of salary and will increase 1 percentage point of the salary per year to a minimum of 10% and a maximum of 15%.

#### VI.2.2 Individual Savings Plans

Despite the above, many workers may not have access to the benefits of occupational plans, as these are voluntary for the employer. Hence, 16 states[11] and 2 cities have enacted new programs for private and/or public sector workers to date, 14 of which are state automatic enrollment programs in IRA plans, known as Auto IRAS. The states and cities that have enacted Auto IRA are: California, Colorado, Connecticut, Delaware, Hawaii, Illinois, Maine, Maryland, New Jersey, New York, New York City, Oregon, Virginia, and Seattle[12]. It has already been implemented, at least partially, in 4 of these states: California (2019), Connecticut (2021), Illinois (2018) and Oregon (2017).

Auto IRAs automatically assign 3% (Connecticut) or 5% (California, Illinois, and Oregon) of the worker's salary to a Roth IRA, with an option to switch to an IRA, or opt-out. In Oregon and Illinois, contributions rise 1 percentage point of salary per year up to 10% and in California up to 8%. Programs provide a variety of life-cycle funding options and do not allow employer contributions.

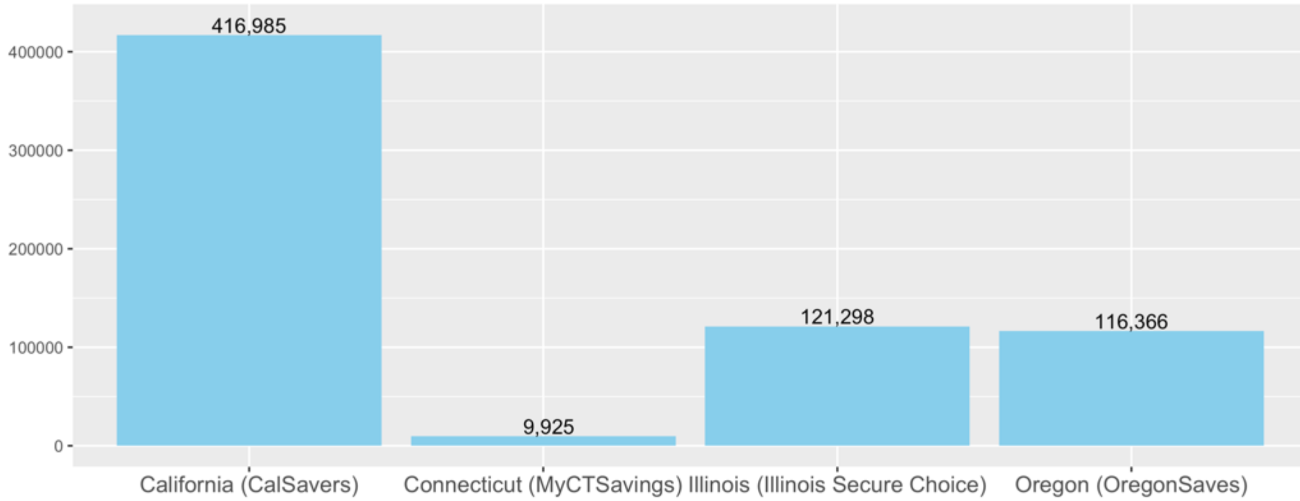
Workers can withdraw funds from the Roth IRA at any time. However, withdrawals made before age 59.5 are included in taxable income and are generally subject to a 10% penalty.

Graph 7 shows the number of individually funded accounts that exist in the states where AE has been implemented. As of March 2023, these figures imply a 1.5-fold increase since December 2021, 2.5-fold since December 2020 and 6-fold increase since December 2019.

[11] Source: https://cri.georgetown.edu/states/

[12] Other voluntary savings plans implemented in a few states are: IRA plans with voluntary payroll deduction, multi-employer plans, and purchase of pension plans from state-approved providers. More details here: https://sgp.fas.org/crs/misc/IF11611.pdf

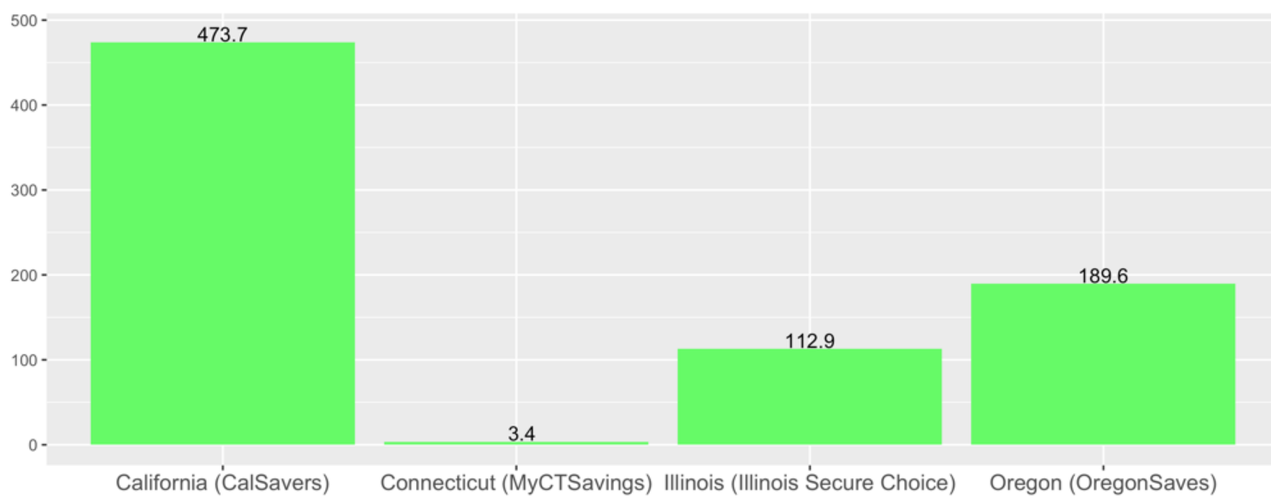
**Graph 7. Number of individually funded accounts with Auto IRA by state – March 31, 2023**




Source: Georgetown center for Retirement Initiatives, https://cri.georgetown.edu/states/state-data/current-year/#ct-monthly

Graph 8, on the other hand, shows the total savings achieved in each state. A total of US$779.8 million in assets was saved, with just over 150,000 employers registered in AE programs. These figures summarize the rapid savings growth that AE has driven in individual plans in the U.S, even though the programs do not include employer contributions to accounts, or easy early access to funds. The opt-out rate has also been relatively low, reaching 36.5% in California, 33.9% in Illinois, 23.4% in Oregon and 14.3% in Connecticut.

**Graph 8.- Total Savings by State in Auto IRA Plans, US$ million- March 31, 2023, USA.**




Source: Georgetown Center for Retirement Initiatives, https://cri.georgetown.edu/states/state-data/current-year/#ct-monthly

## VII. Comparative analysis:

Table 2 shows the main characteristics of the AE systems studied:

- The countries under study automatically enroll people who are in the active stage, requiring no minimum income, with the exception of the United Kingdom. It is worth mentioning that lowering the income threshold to increase coverage is being discussed in the United Kingdom.
- The default contribution rate of workers is between 2% and 5%. In three U.S. states automatic scaling of contributions (annual increase of the contribution rate to a certain value) is included, whereas in New Zealand and Poland, flexibility is given to change the contribution rate. In all countries under study except for the USA employers must contribute to workers' accounts.
- State subsidies can be tax benefits, matching contributions, or contributions of a fixed amount to accounts.
- Plans typically include early access to funds without tax penalties, or at least to part of them. Some common reasons for early access are serious illness or purchase of a first home. In the US, however, there is less flexibility for these types of withdrawals, with people usually having to pay taxes and even additional penalties on early withdrawals.

**Table 2 – Main characteristics of automatic enrollment systems worldwide**

| | United Kingdom | New Zealand | Poland | Auto IRA USA (CA, CT, IL and OR) |
|---|---|---|---|---|
| Who is automatically enrolled? | Workers between 22-65 years of age, with income of more than £10,000 | Workers aged 18-65 with permanent residence in NZ | Workers between 18 and 55 years of age | Workers at least 18 years old and employed in the respective state. |
| Member's Contribution Rate | 5% of income | 3%,4%,6%,8% or 10% of income | 2% of income, which can increase to 4% or decrease to 0.5%. | OR and IL: 5% of income by default, increasing by 1 pp per year up to 10%; CA: 5% of income Increasing by 1 pp per year up to 8%; CT: 3% |
| Mandatory Employer's Contribution | 3% of the worker's income | 3% of the worker's income | Between 1.5% and 4% of the worker's income | They don't contribute. |
| State subsidies | Tax reduction on contributions (1% of income) | *Matching contributions of 0.5 NZD for each NZD contributed. | Initial payment of PLN 250 (USD 59) and annual contribution of PLN 240 (USD 57) under certain conditions. | Does not contribute directly, but enrolls in Roth IRA plans, paying taxes at the time of contribution and not at retirement. |
| Liquidity and access to saved funds | Tax-free lump sum withdrawals of up to 25% of the funds can be made. The rest can be withdrawn as a lump sum, used for buying a life annuity or flexible programmed withdrawals. | At least a portion of the funds may be accessed in advance in situations of financial hardship, serious illness, or for purchasing a first housing unit, with certain restrictions. Full or programmed withdrawals can be made at age 65. | 25% of the funds can be accessed in case of serious illness, and 100% can be withdrawn to finance a mortgage, up to age 45. At age 60 it can be withdrawn as a lump sum or as programmed withdrawal. | Early withdrawal of funds from an IRA before age 59.5 is subject to tax and an additional 10% penalty. There are exceptions to the 10% penalty, such as using IRA funds to pay one's health insurance premium after losing one's job. |

* Maximum annual government contribution: NZD 521.43 (USD 321.83).

## VIII. Conclusions and lessons for Latin America

- In occupational pension systems, the worldwide transition from DB to DC plans is clear, as evidenced in the United Kingdom, Poland and the United States. In New Zealand, DB plans did not achieve very high coverage, but it is clear that Kiwisaver (DC) has far outperformed the other pension plans. This trend is due to the high costs that demographic change has assessed on DB plans.

- In the UK, New Zealand and Poland, where VPS programs with tax benefits or other complementary measures already existed, AE programs made a difference and rapidly boosted savings since their implementation. In the US, where neither employer contributions nor large liquidity facilities are included, AE programs have also shown notable positive effects on savings.

- The creation and strengthening of AE mechanisms is evidence of the efforts being made by countries worldwide to increase private savings. Total private pension assets in OECD countries rose from 64% of GDP in 2011 to 105% of GDP in 2021.

- Based on the above, there is no rational explanation for why reforms that reduce savings have been proposed in some Latin American countries, going in the opposite direction to developed countries. In Colombia, a reform is being discussed that seeks to severely reduce contributions to individual accounts and redirect them to the PAYGO system, by limiting the coverage of individual savings to those who receive a salary greater than 3 minimum wages, which in practice amounts to very few people. In Uruguay, the approved reform reduces the contributions of workers to their individual savings accounts and increases contributions to the PAYGO system, although considering some parametric changes that improve the sustainability of the system.

- VPS levels are extremely low in Latin American countries, amounting less than 0.2% of GDP in Chile and Colombia[13], and even less in countries like Mexico or Peru. Hence, AE emerges as a great alternative that has shown good results at an international level. Countries in the region should take advantage of its benefits and the flexibility its design provides for adapting it to the characteristics and needs of each of them.

- An essential element for AE to work is people's confidence in their country's pension and political systems[14]. In countries with a lack of trust, many people will choose not to participate in such a scheme. Hence, for AE to be effectively implemented it must be accompanied by a long-term awareness campaign that must start long before the first people are automatically enrolled in the plans.

[13] Statistics on voluntary savings in FIAP countries at: https://www.fiapinternacional.org/estadisticas/

[14] For references, please see: (i) European Commission Report "Best practices and performance of auto-enrolment mechanisms for pension savings"; (ii) Key Takeaways from the Warsaw Conference on Retirement planning: https://irrationalretirement.com/2023/05/31/key-takeaways-from-the-warsaw-conference-on-retirement-planning/

**References**

- European Commission (2021), "Best practices and performance of auto-enrolment mechanisms for pension savings".

- Key Takeaways from the Warsaw Conference on Retirement planning (2023). Available on: https://irrationalretirement.com/2023/05/31/key-takeaways-from-the-warsaw-conference-on-retirement-planning/

- OECD (2023), Pension Markets in Focus 2022.

United Kingdom:

- House of commons. Saving for later life, Debate Pack (2023)
- House of commons. Pensions: automatic enrolment – current issues (2022)
- https://www.gov.uk/personal-pensions-your-rights/how-you-can-take-pension
- Saving the next billion from old age poverty, Pinbox (2018).

New Zealand:
- https://www.ird.govt.nz/kiwisaver
- https://www.kiwiwealth.co.nz/learn/guides/what-happens-to-my-kiwisaver-when-i-turn-65/
- https://assets.retirement.govt.nz/public/Uploads/Retirement-Income-Policy-Review/Background-papers/History-and-trends/27b4c9b6d8/RI-Review-BP-Retirement-Income-History-2008.pdf

Poland:
- https://www.ipe.com/cee/central-and-eastern-europe-polands-qualified-success-with-auto-enrolment/10064187.article
- Zapotoczny (2022), Origins of the Employee capital plans in Poland and summary of the four years of the program's operation.

United States:
- https://cri.georgetown.edu/states/
- https://www.oregonsaves.com/
- https://akfconsulting.com/wp-content/uploads/SRRP-Market-Report-FINAL-as-of-2021-10-27-130pm.pdf
- https://www.calsavers.com/
- https://www.ilsecurechoice.com
- https://www.gao.gov/products/gao-19-342t



International Federation of Pension Fund Administrators (FIAP).
Address: Avenida Nueva Providencia 2155, Torre B, piso 8, Of.810-811, Providencia. Santiago – Chile
Phone: (56-2) 2381 1723; Email: fiap@fiap.cl; Website: www.fiapinternacional.org