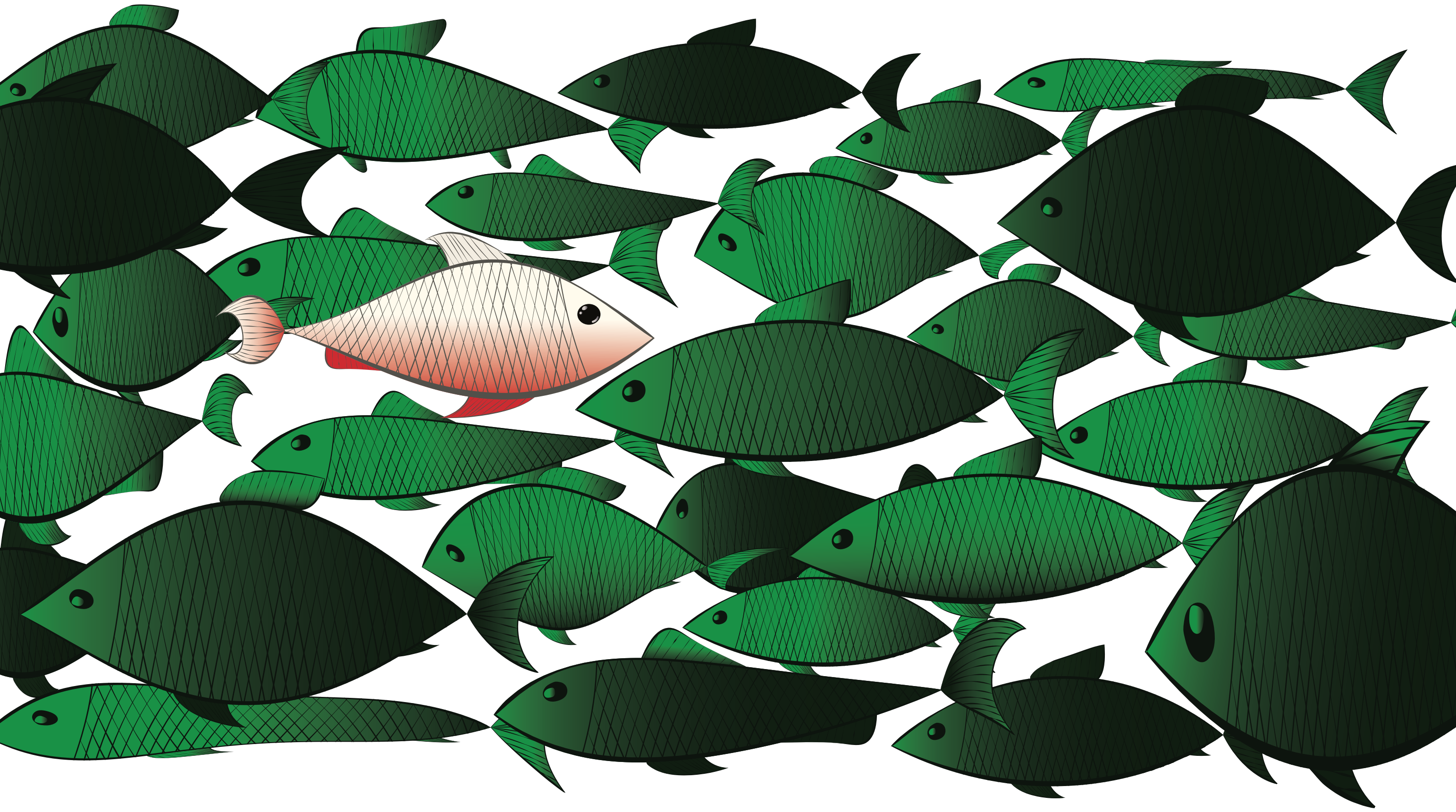


AUTO-ENROLMENT

Going against the crowd

Auto-enrolment (AE) has been hailed as a great success for encouraging greater pension saving rates, but challenges are being seen in some AE systems, with Lithuania recently announcing plans to move away from AE in favour of a voluntary system. Sophie Smith **reports**

The role of auto-enrolment (AE) in the European pensions landscape has been growing in recent years, with the latest *Pensions at a Glance* report from the OECD revealing that the number of OECD countries operating an AE retirement savings scheme at a national level has continued to increase.

The Slovak Republic recently became the latest country to join the growing list of those making use of specific AE systems as part of their pension system, joining Lithuania, New Zealand, Poland, Turkey and the United Kingdom.

Ireland is also in the process of setting up an AE scheme for employees not currently covered by occupational pension schemes provided by employers, although its launch date is facing further delays, perhaps pointing to just how complex these systems are to create.

It is not just Europe; AE is also encouraged by regulation in Canada and the United States.

And the spread of AE seems set to continue further yet, as the European Commission (EC) recently announced plans to promote greater use of AE in occupational pension schemes, as part of its new Savings and Investments Union strategy, arguing that this has already proven effective in increasing participation rates of workers and enhancing returns for pension-holders.

But not all see the journey of AE so far as a purely successful one, as the Lithuanian government recently announced plans to potentially backtrack on the progress made by AE, outlining plans to replace AE with a voluntary system, as well as abolishing the state's matching contribution in favour of a personal income tax deduction, and the introduction of a 12-months opt-out period.

The Lithuanian Investment and Pension Funds Association (LIPFA) has raised significant concerns around the proposals, with CEO, Dr. Tadas Gudaitis, warning that the plans could destabilise the country's pension system for years to come [*read more on p33*].

And these concerns are not unique to LIPFA, as PensionsEurope is also encouraging the Lithuanian government to reconsider its proposed pension reforms, warning that they would "severely undermine" the country's retirement system.

PensionsEurope argues that the changes could risk "significantly weakening" retirement security and undermining pension adequacy, likely causing a rapid decline in participation rates.

It also warns that the proposed reforms go beyond dismantling AE, as the proposed abolition of the 1.5 per cent state matching contribution and its replacement with a tax refund mechanism will "drastically" reduce incentives to save, disproportionately impacting lower- and middle-income earners.

But this is an opportunity to learn from past mistakes, as Association for Privately Administered Pensions in Romania (APAPR) board adviser and spokesperson, Mihai Bobocea, says that negative examples in the past – like the Hungarian and Polish reform reversals – should serve as lessons to be avoided in the future.

"Existing well-functioning private pension systems should be consolidated and not weakened if the goal is to have strong financial markets, robust economic growth and adequate pension systems as a whole," Bobocea says.

However, many in the industry agree that AE alone is not enough to solve the challenges facing European pension systems.

"THE SITUATION OF OCCUPATIONAL PENSION SCHEMES IN THE EU, BUT ALSO WITHIN GERMANY, IS SIMPLY TOO DIVERSE"

Indeed, Germany's Professional Association for Occupational Pensions (ABA) managing director, Klaus Stiefermann, says that while AE is generally a viable instrument for increasing participation in the second pillar, the introduction of AE must not be mistaken for a magical formula that, on its own, will automatically lead to a significant uptake of occupational pension schemes.

"The situation of occupational pension schemes in the EU, but also within Germany, is simply too diverse," he says.

"In order to strengthen the second pillar, a combination of measures is necessary that include the creation of an adequate legal framework concerning tax, social, labour and prudential law as well as establishing awareness that saving for retirement is essential."

This is echoed by Bobocea, who says that "AE alone is not sufficient to achieve long-term sustainability of pension systems: Contribution adequacy (increases!), promoting tax incentives and other initiatives should be taken up by member states and encouraged by the EU".

In addition to this, Stiefermann argues that the impact of AE depends on how it is introduced, e.g. by the parties to a collective agreement as part of its sector or company pension scheme provisions or by statutory regulation for the second or the third pillar.

"Hence, decisions on the implementation (if and how) of AE should be taken at the national level," he says, suggesting that the EU should not act as legislator, but as a forum in which the member states formulate common goals and exchange best practices.

Now Pensions head of PR and campaigns, Samantha Gould, agrees, suggesting that whilst AE as a concept is "brilliant" at getting people saving, there isn't a "one-size-fits-all saving mechanism".

Adequacy is also a growing concern surrounding the use of AE, as Stiefermann points out that the introduction of AE by itself does not automatically lead to adequate contribution levels.

"This particularly concerns low-income earners, who – especially since the steep increase of the costs of living after the Covid-19 pandemic and the war in Ukraine – often simply do not have the capacity to save," he continues.

The self-employed, alongside women and carers, are another key under-pensioned group, across Europe, that is often excluded from AE systems.

This experience is already becoming a reality in the UK, as whilst AE has brought more than 11 million additional people into a workplace pension scheme, many in under-pensioned groups do not meet the eligibility criteria and miss out on the opportunity to save for their retirement.

Indeed, recent research from the UK's Now Pensions found that almost nine million people in the UK remain significantly under-pensioned compared to the broader population, with annual private pension incomes around 43 per cent to 80 per cent lower than the population average.

Given this, Stiefermann suggests that groups such as low-income earners need a "coordinated effort" that involves both state and employers.

"Germany, for instance, has made very positive experiences with its policy of subsidising employers who pay contributions to the occupational pension schemes of their low-income employees via tax breaks," he says.

Stiefermann also warns that AE does not excuse politicians from responsibility, emphasising that "it does not exempt governments from their responsibility to create appropriate framework conditions and to ensure adequate funding".

But getting these reforms and changes through can prove challenging, with political issues often coming into play.

The UK government, for instance, has faced repeated calls to reform the AE system, with the government's own 2017 AE Review recommending a number of changes.

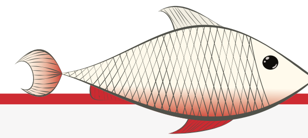
But progress on these reforms has been slow, and more than eight years on these changes are still to be implemented.

In fact, the calls for change have only grown, with many in the UK pensions industry also making calls for the government to also increase minimum contribution rates and introduce greater flexibility.

So whilst AE is playing an increasingly important role, challenges remain.

And despite the focus on AE in the Savings and Investments Union strategy, EC head of unit insurance and pensions, Tilman Lueder, recently clarified that the AE proposal within the union is not a binding mandate, but rather a policy recommendation aimed at addressing specific gaps in pension coverage.

Given this, it is yet to be seen whether Lithuania is an outlier pushing against the AE current, or the start of a new trend.



Auto-enrolment across the globe

- **UK**

Introduced in 2008, the UK's AE system requires employers to automatically enrol employees aged between 22 and state pension age and earning at least £10,000 per year into a workplace pension. The total minimum contribution is 8 per cent of qualifying earnings, with employers paying at least 3 per cent and employees 5 per cent.

- **Ireland**

The government signed off on AE proposals at the end of 2024, with around 800,000 workers to be enrolled into the My Future Fund scheme. The scheme will apply to people aged between 23 and 60 who do not have a pension and are earning more than €20,000 a year. Whilst contribution rates will start at 1.5 per cent of gross salary during the first three years of enrolment, this will rise gradually, with contributions of 14 per cent from the 10th year.

- **New Zealand**

New Zealand's AE scheme, KiwiSaver, was introduced in 2007. It works alongside the pay-as-you-earn tax system, covering new workers between the ages of 18 and 65. Workers have the opportunity to opt-out within eight weeks, although opting out was purposefully made difficult. However, workers can apply for contribution holidays of up to five years. Workers also have some flexibility in how they use their pension (e.g. first home deposit).

- **The Slovak Republic**

The Slovak Republic legislated for AE in 2022, with new entrants to the labour market (post May 2023) aged 40 or younger automatically enrolled, with the option to opt out after two years. The contribution rate is 5.5 per cent in 2023, increasing to 6 per cent in 2027, which is three years later than previously legislated. Enrolment is still voluntary for those who entered employment earlier than May 2023.

- **Lithuania**

Introduced in 2019, Lithuania's AE system has seen more than 70 per cent of workers join the second pillar system, paying in 3 per cent of their gross wage, with a 1.5 per cent contribution from the state. Continued participation is irrevocable for those who do not opt out within six months. However, the government is looking to move to a voluntary system, and introduce a 12-month opt-out window.

- **Turkey**

In Turkey, the AE system requires employers to automatically enroll employees under 45 into a pension plan. Employees are required to contribute at least 3 per cent of their earnings, while employers are not required to contribute. Salaried employees in both the public and private sectors, under the age of 45 are automatically enrolled.

- **Poland**

Introduced in 2023 ,the Polish AE system covers employees aged 19-55, with employers and employees contributing at least 1.5 per cent and 2 per cent of covered salary respectively. Employees may opt out, but are opted back in regularly, and the employee would need to opt out every four years to avoid being covered.