2 How best to involve employers in the provision of asset-backed pension arrangements

This chapter provides policy guidance on how best to involve employers in the provision of asset-backed pension arrangements. It analyses current employer involvement as well as employers' motivations to be involved in the provision of asset-backed pension arrangements. The policy guidance aims at assisting countries to make the best use of the advantages of involving employers, while addressing to the extent possible the potential challenges associated with employer involvement.

In most countries, employers play a role in the provision of asset-backed pension arrangements. Employers are well placed to assist their employees to save for retirement. They can link participation in an occupational pension plan to the employment contract and facilitate savings through payroll deductions.

The role of employers can take different forms. Some countries rely on employers, alone or together with social partners, to sponsor, design, contribute and administer asset-backed pension plans. In other countries, the role of employers is rather limited, with plan design handled by legislation, contributions by individuals, and administration by third-party financial institutions. Some countries mandate employers to take an active role in the provision of asset-backed pension plans for their workforce, while others let employers decide whether to offer a plan and to contribute.

Additionally, developments in the labour market may undermine the role of employers. Workers are more likely than in the past to change employers multiple times during their career and to take self-employment jobs. This translates into the necessity to make it easy for workers to save for retirement with any employer and independently of their employment status.

This chapter provides policy guidance on how best to involve employers in the provision of asset-backed pension arrangements. It presents options to make the best use of the advantages of involving employers, while addressing to the extent possible the potential challenges associated with employer involvement, while also considering the motivations for employers to get involved in the provision of asset-backed pension arrangements.

Employer involvement in the provision of asset-backed pension arrangements is already important in many OECD countries. One of the key roles they currently play is to pay a significant share of the total contributions to asset-backed pension plans. While employer-sponsored asset-backed pension plans bring many advantages and form part of the strategy of some employers to attract and retain the best employees, involving employers in the provision of asset-backed pension arrangements is not without challenges, especially for small employers. Policy guidance to optimise employer involvement include taking into account the structure of the labour market and the labour force mobility; ensuring good conditions in regulations and financial markets; reducing barriers preventing employers from establishing pension plans; providing flexibility for employers to tailor the design of the plan within a regulatory framework that ensures non-discriminatory treatment across workers; promoting the use of behavioural strategies to foster participation and savings; facilitating the delivery of financial education in the workplace; and providing the necessary framework for good governance.

The structure of this chapter is as follows. Section 2.1 analyses current employer involvement in the provision of asset-backed pension arrangements in OECD countries. Section 2.2 presents the motivations for employers to be involved in the provision of asset-backed pension arrangements. Section 2.3 discusses the advantages and potential challenges associated with employer involvement. Section 2.4 provides policy guidance to optimise employer involvement in the provision of asset-backed pension arrangements, based on OECD countries' experiences, and Section 2.5 concludes.

2.1. Current employer involvement in the provision of asset-backed pension arrangements

This section presents the extent to which employers in OECD countries are currently involved in the provision of asset-backed pension arrangements. It first discusses the various degrees of employer involvement depending on the type of plan. It then looks at statistics on participation, contributions and assets to assess quantitatively employer involvement.

While the range of roles that employers can play in the provision of asset-backed pension arrangements is large, the extent to which employers have to fulfil each of these roles varies across different types of plans. Table 2.1 describes the degree of employer involvement for statutory personal plans, workplace personal plans and occupational plans.

Table 2.1. Role of employers according to the type of asset-backed pension plan

	Statutory personal plans	Workplace personal plans	Occupational plans
Establish the plan			X
Design the plan			X
Establish, select or join a pension provider (1)		X	X
Assess and enrol eligible employees			X
Deduct and remit employee contributions	X	X	X
Pay employer contributions	X	X	X
Select investment options			X (DC)
Establish the investment policy			X (DB)
Bear or share risks			X (DB)
Keep records			X
Transmit employee information	X	X	X
Provide information and financial education		X	X

Note: 1. Depending on the country, the term referring to “pension providers” may differ. For example, in Chile, they are called pension fund administrators. In the United Kingdom, they are called pension schemes. Their role may vary according to the country. In this document, a pension provider is an independent entity with legal capacity that has ultimate legal responsibility for a pension fund and may have a broader range of activities. It does not refer to plan members, the plan itself, or the employer.

Employer involvement is minimal in statutory personal pension systems. In these systems, the law sets up the design of the plan and the conditions of enrolment (e.g. mandatory in Chile, voluntary in the Slovak Republic, automatic with an opt-out option in Lithuania). Workers need to select a pension provider, join the plan established by the pension provider according to the law and choose their investment strategy. The role of the employer is limited to deducting and remitting employee contributions to the pension provider and transmitting employee information to the relevant stakeholders.[1] In some countries, they also have to pay employer contributions.

Employers have additional responsibilities when they provide access to a workplace personal plan to their employees. In particular, they have to select a pension provider established by a financial institution and provide information about the plan features to employees. In agreement with the pension provider, they may also select some design features of the plan (e.g. eligibility conditions, default contribution rate). Paying employer contributions is usually voluntary.

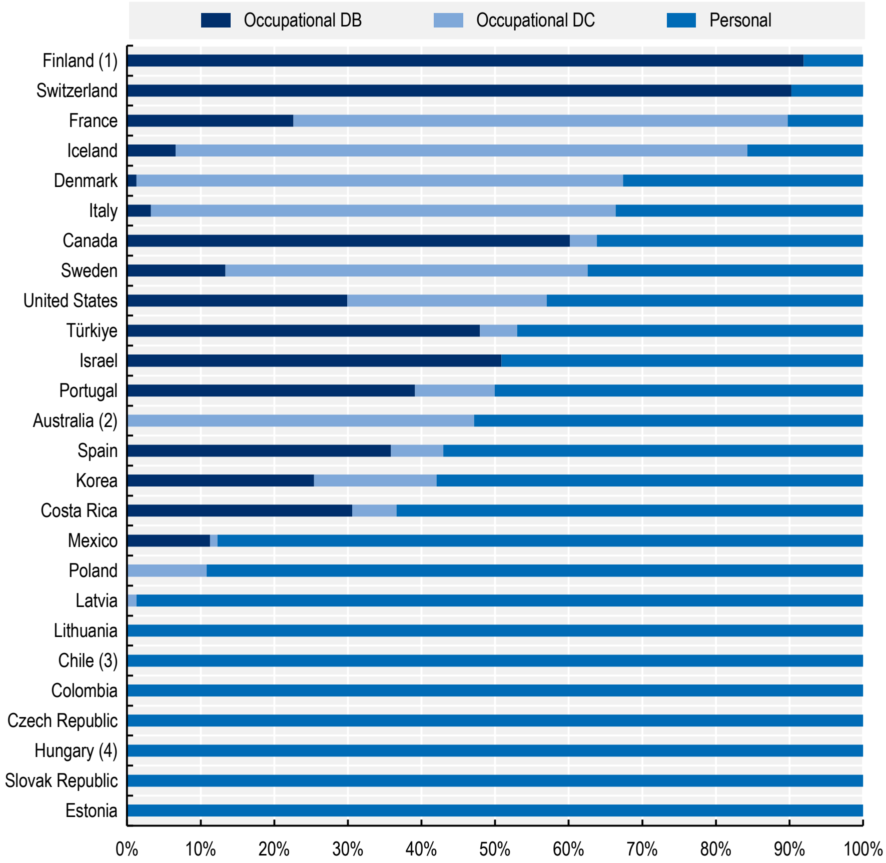
Employer involvement is the largest in occupational pension plans, in particular in defined benefit (DB) plans. When employers voluntarily choose to offer a plan to their employees, they have to establish and design that plan. When a law or a collective agreement requires employers to set up the plan, it may also define some of the design features. To run an occupational plan, employers have to establish the financial vehicle themselves, select a pension provider established by a financial institution, or join a pension provider selected or established by social partners. Employers also need to assess their employees’ eligibility to join the plan and enrol them mandatorily, automatically or at their request. In the case of automatic enrolment, employers also need to act on opt-out requests. In defined contribution (DC) plans, members bear the investment risk, but employers may select the investment options that members can choose from, including the default option. By contrast, the employer bears fully or partially the investment and longevity risks in DB plans. This makes them responsible for the investment policy. Employers may also provide financial education to their employees.

Employers can share all these responsibilities related to the provision of an occupational pension plan when that plan is jointly established with other employers or with trade union associations. Indeed, most countries allow multi-employer pension plans. Participation in such plans may be restricted to employers who belong to the same industry or sector, or may be open to any employer. All participating employers share the responsibilities and costs related to the plan. In the case of master trusts, some responsibilities may even be transferred to the pension provider, such as establishing the investment policy or communicating with employees. Employers or groups thereof (e.g. business associations) may also establish occupational plans jointly with trade union associations as a result of collective agreements. Collective agreements establishing occupational plans may apply at the company level, such as in France, Japan, Korea, Latvia, Portugal and Slovenia, or at the level of the industry or sector, such as in Denmark, Finland, Iceland, Italy, the Netherlands and Sweden. In that case, some or all of the responsibilities related to the plan may be shared with, or transferred to the social partners. For example, social partners are fully responsible for establishing and implementing occupational pension plans in Denmark, Finland, Iceland, the Netherlands and Sweden.

A large proportion of OECD countries rely on occupational pension plans, where employer involvement is the highest. Figure 2.1 shows the split of total pension assets by type of plan in selected OECD countries. Assets in occupational pension plans represented more than 50% of total assets in 11 OECD countries in 2020. By contrast, in seven OECD countries, all pension assets were in personal pension plans. Among the countries with occupational pension plans, DB assets exceeded DC assets in Canada, Costa Rica, Finland, Israel, Korea, Portugal, Spain, Switzerland, Türkiye and the United States. This shows that employer involvement in the provision of asset-backed pension plans and the long-term commitment from employers are important in many countries.

Figure 2.1. Split of pension assets by type of plan in selected OECD countries, 2020

As a percentage of total assets

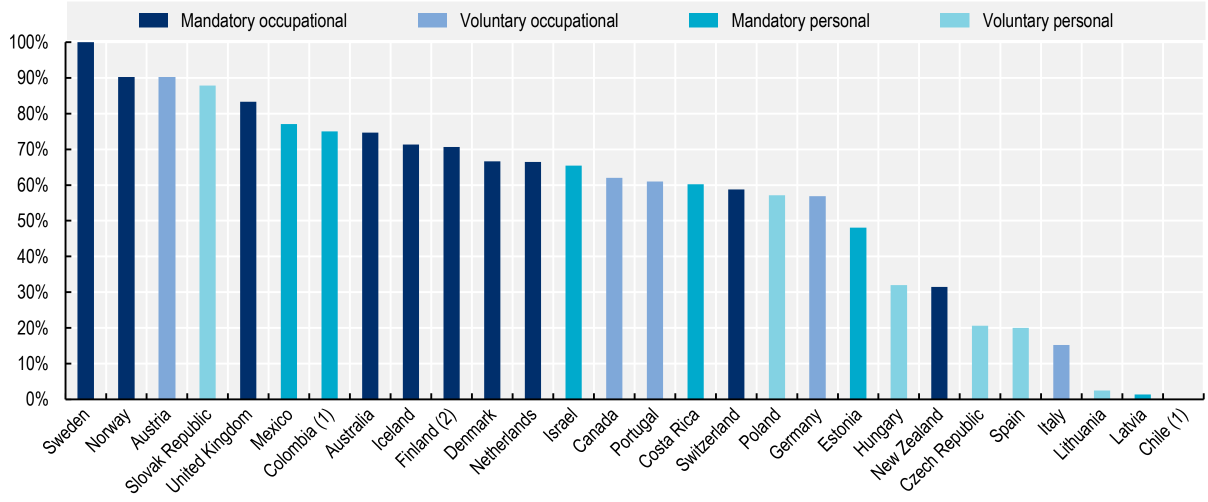


Notes: 1. Data do not include the assets in the only voluntary occupational DC pension fund operating in Finland. Its market share is negligible. 2. Corporate, industry and public sector superannuation funds are included as DC occupational plans, even though a minority of plans are DB. Retail and small funds are included as personal plans. 3. Data for Collective Voluntary Pension Savings managed by AFPs are included in personal plans, although these plans are occupational. 4. Data do not include the assets in the only institution for occupational retirement provision operating in Hungary. Its market share is negligible.
Source: OECD Global Pension Statistics.

Employers significantly contribute to asset-backed pension plans on behalf of their employees in most OECD countries. Figure 2.2 shows that, except in Chile, part of the total contributions paid in 2020 in asset-backed pension arrangements came from employers. In most countries, including those relying on personal pension systems, the share of employer contributions exceeded 50% of total contributions. It even exceeded 70% in ten OECD countries, seven of which having occupational pension systems. Employer contributions tend to represent a bigger share of the total in countries with mandatory occupational pension systems. By contrast, countries where employer contributions represent less than 50% of the total tend to rely more on personal pension schemes.

Figure 2.2. Employer contributions to asset-backed pension plans in selected OECD countries, 2020

As a percentage of total contributions

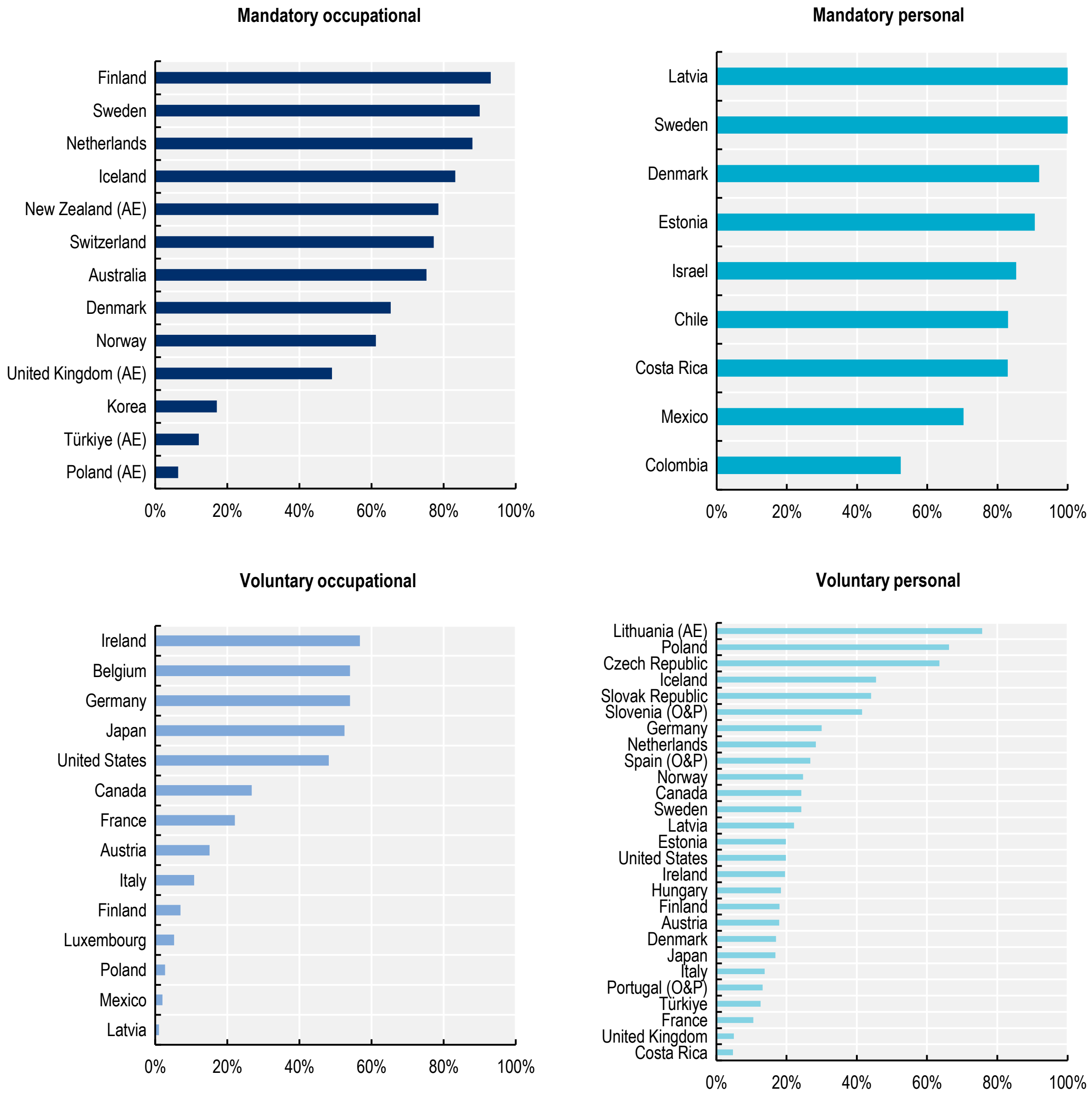


Notes: Countries are classified according to the dominant type of asset-backed pension plan. When both occupational and personal plans have a similar importance, the country is classified as occupational. 1. Data refer to the mandatory personal pension scheme only. Although employers do not contribute to mandatory pension accounts, they do pay for the Disability and Survivor Insurance. 2. Data refer to the mandatory occupational pension scheme only.
Source: OECD Global Pension Statistics.

However, employer involvement in the provision of asset-backed pension arrangements does not necessarily translate into high participation rates. Participation is the largest in mandatory pension systems, whether the mandate to participate is on employers or on workers. In mandatory personal systems, the law requires workers to participate in a pension plan. By contrast, in mandatory occupational systems, the law requires employers to establish a plan and enrol all their eligible employees into it. In addition, in most countries with a national automatic enrolment policy, employers also have a mandate to enrol all their eligible employees into a plan. Participation remains voluntary for employees, as they can decide to opt out of the plan. As shown in the top panels of Figure 2.3, participation rates in countries with some form of compulsion are usually high, reaching 80% of the working-age population or more in ten OECD countries. However, participation is not universal in several countries, as the mandate does not cover all workers. In particular, occupational pension systems rarely cover self-employed workers and may not cover all sectors. Moreover, opt outs reduce participation rates in the case of automatic enrolment.

Figure 2.3. Participation rates in asset-backed pension plans according to the type of plan, selected OECD countries, 2020 or latest year available

As a percentage of the working-age population



Notes: Participation rates are provided with respect to the total working-age population (i.e. individuals aged 15 to 64), except for Germany (employees aged 25 to 64 subject to social insurance contributions), Iceland (Icelandic citizens and foreign workers in Iceland aged 16 to 64) and Ireland (workers aged 20 to 69). For Portugal, Slovenia and Spain, data for voluntary personal plans actually refer to occupational and personal plans (O&P). Plans with a national automatic enrolment (AE) policy are classified here as mandatory occupational when the employer has the obligation to enrol eligible employees into a pension plan.
Source: OECD Global Pension Statistics.

Participation rates are much lower in voluntary systems. In particular, participation in voluntary occupational systems usually requires two steps, i) that the employer establishes a plan and ii) that the employee joins that plan.[2] The bottom left panel of Figure 2.3 shows that participation rates in voluntary occupational systems are around 50-55% of the working-age population in Ireland, Belgium, Germany, Japan and the United States, but they fall to 25% and below in other countries. Similarly, participation rates in voluntary personal plans tend to be below 30% of the working-age population in most countries.

2.2. Motivations for employers to be involved in the provision of asset-backed pension arrangements

This section discusses the motivations that employers may have to provide access to, and sponsor asset-backed pension plans for their employees. This is mostly relevant in the context of voluntary pension schemes, where employers can decide on their degree of involvement. However, even in mandatory pension schemes, employers may have some discretion to go beyond the legal requirements. It is also interesting to understand their motivations in this context.

Employers would like to recruit and keep the best employees to ensure that the business works well and achieves its objectives. The simplest way to compensate employees is to pay a direct salary for the work performed. However, other forms of remuneration may be useful to attract and retain good employees. These include benefit packages such as health care coverage and pension plans.

There are various reasons why employees may value pensions as part of the remuneration package. First, they may value the favourable tax treatment that retirement savings receive in most OECD countries, in particular when contributions can be deducted from their taxable income (OECD, 2018[1]). Employees may also value the benefits of pooling investments and the economies of scale achieved with occupational pension plans, as compared to personal pension plans (Brady and Bogdan, 2011[2]). Employees with a DB plan may also appreciate the lower uncertainty associated with the level of their future retirement income.

Evidence confirms that employees value the presence of occupational pension plans when making job decisions. For example, Oakley and Kenneally (2019[3]) show that, when thinking about what drives their job decisions, public-sector employees in the United States place more importance on retirement benefits (which, in the public sector, are usually through DB plans) than on salary. Fifty-nine percent of these workers consider retirement benefits as extremely important, against 50% for salary. Similarly, in the United Kingdom, employees of a financial services firm considered the availability of an occupational plan as an important factor influencing or likely to influence their job choice, ranking this factor in the fifth position out of 20 items (Loretto, White and Duncan, 2000[4]).

Offering occupational pensions to employees may bring various benefits to employers (McCarthy, 2006[5]). Pensions may reduce employee turnover by encouraging workers to stay longer with the employer, thereby reducing hiring and training costs. Employers may also use pensions to attract employees with specific characteristics that match the needs of the company. For example, employees who intend to stay at their job for a long time may be more likely to apply for a job with a DB plan than workers who intend to change jobs quickly. A survey in the United States finds that 74% of employers believe that offering an asset-backed pension plan is important for attracting and retaining employees. It is even above 90% among medium (100 to 499 employees) and large (500+ employees) employers (Collinson, Rowey and Cho, 2021[6]).

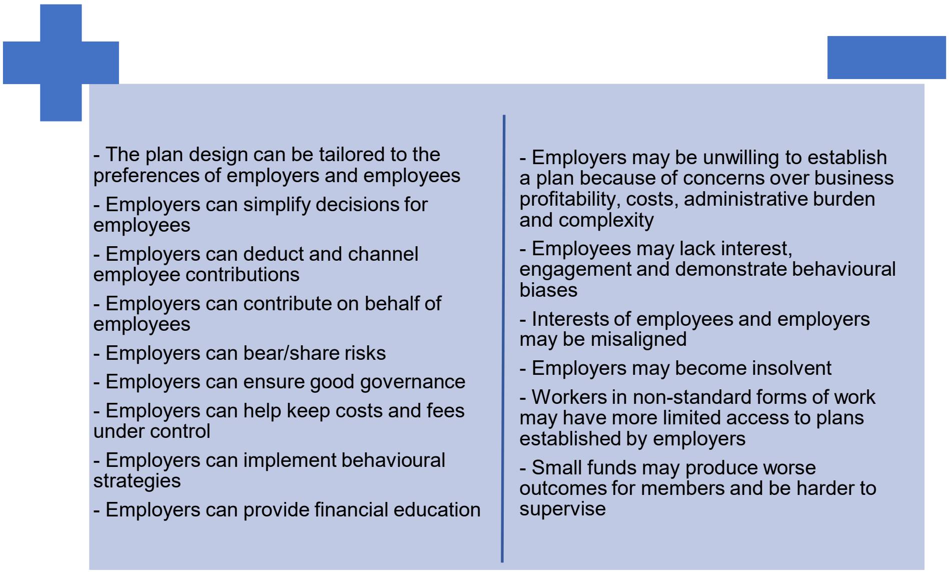
Empirical evidence confirms that firms with an occupational pension plan experience a longer average employee tenure than those without. Examples of studies finding a link between pension plans and retention rate or job tenure are those by Mitchell (1983[7]); Ippolito (1991[8]); Allen, Clark and McDermed (1993[9]); and Hernæs et al. (2006[10]).[3] In line with these results, a recent study in Canada shows that firms without a pension plan have a rate of voluntary job separation 1.5 percentage points higher than firms offering a traditional DB plan (Fang and Messacar, 2019[11]).[4]

Finally, in the context of mandatory pension schemes, higher employer contributions may increase job satisfaction and reduce job turnover intentions. For instance, in the Netherlands, contributions to DB pension funds and the share of these contributions paid by the employer vary across funds. Augustus, Costello and Ponds (2021[12]) show that individuals in funds where the employer contribution is higher are more satisfied with their pension conditions, less willing to search for a new job and more willing to stay in their job. The authors suggest that employees may value a higher employer contribution positively, as it signals the employer's commitment to pension funding.

2.3. Advantages and challenges associated with involving employers in the provision of asset-backed pension arrangements

There are advantages and challenges associated with the involvement of employers in the provision of asset-backed pension arrangements. Some of the advantages may be particularly relevant either for employers, employees or the pension system as a whole. However, the involvement of employers also poses challenges. Figure 2.4 summarises the main advantages and challenges, while the rest of the section goes into more details.

Figure 2.4. Advantages and challenges associated with involving employers in the provision of asset-backed pension arrangements



- The plan design can be tailored to the preferences of employers and employees

- Employers can simplify decisions for employees

- Employers can deduct and channel employee contributions

- Employers can contribute on behalf of employees

- Employers can bear/share risks

- Employers can ensure good governance

- Employers can help keep costs and fees under control

- Employers can implement behavioural strategies

- Employers can provide financial education

- Employers may be unwilling to establish a plan because of concerns over business profitability, costs, administrative burden and complexity

- Employees may lack interest, engagement and demonstrate behavioural biases

- Interests of employees and employers may be misaligned

- Employers may become insolvent

- Workers in non-standard forms of work may have more limited access to plans established by employers

- Small funds may produce worse outcomes for members and be harder to supervise

2.3.1. Advantages

When employers set up an occupational pension plan for their employees, they can usually design it so that it fits the preferences of both parties. Regulation may provide flexibility for the design of the plan with respect to the conditions to join the plan, the type of plan (e.g. DB or DC), the level of contributions, the conditions for early withdrawals, the age of retirement and the coverage of additional risks (e.g. disability). Although potentially increasing complexity, having multiple options allows employers to tailor some of the plan features to the needs of the company and of the employees. The design of the plan may also be the result of a social dialogue between the employer and the representatives of the employees, or at a higher level between business associations and unions for an entire sector or industry. These collective agreements allow, for example, having a pension plan for nurses different from the one for banking employees, each of these plans being tailored to the needs of their members (e.g. in terms of contributions). They also allow a level playing field within the sector or industry.

Employers can also simplify some of the decisions related to saving for retirement that employees have to make. For example, employers can make some of the decisions on behalf of employees, such as the selection of the financial services providers who administer and manage the pension plan. Employers may also select the menu of investment options that members can choose from in their occupational DC plan, such as in Canada and the United States. In that respect, a reduced set of options is likely to simplify member selection, given that individuals can be prone to choice overload (OECD, 2018[13]). Keim and Mitchell (2017[14]) show that, when the employer reduces and streamlines fund options, participants adjust their portfolio, ending up with fewer funds, less frequent fund switches, and lower expense ratios.

Employers are in an ideal position to deduct and channel employee contributions to the pension provider through payroll deductions. Payroll deductions are already in place in all countries for different social insurance schemes (e.g. health, unemployment, pensions, and disability). Employers can use the same mechanism for retirement savings. Moreover, payroll deductions reduce the feeling of loss aversion, since contributions are taken before employees receive their take-home pay.

Employers may also contribute on behalf of their employees. The main objective of employer contributions in general is to provide savings, helping employees to accumulate enough resources to finance retirement. While, eventually, employees bear most of the cost of employer-provided benefits (through reduced wages),[5] employer contributions into an asset-backed pension plan complement the money that employees set aside to finance their future retirement income. They are akin to forced savings, justified by the fact that individuals tend to procrastinate and not to save enough for retirement. Employer matching contributions can fulfil an additional objective, which is to induce employees to save for retirement. This is because only individuals contributing themselves to their asset-backed pension plan receive the employer matching contribution.

Additionally, employers can bear some of the risks related to saving for retirement. In DB plans, employers bear alone all investment and longevity risks, as well as the inflation risk when benefits are indexed to inflation. By contrast, in DC plans, all the risks are shifted to individuals. In-between these two extremes, some arrangements allow employees and employers to share risks (OECD, 2020[15]). For example, employers may only guarantee a minimum level of assets accumulated at retirement, thereby sharing the investment risk during the accumulation phase. This minimum level can be based on a minimum return on investment (e.g. Belgium), a return linked to a specific index (e.g. cash balance plans), or a formula based on salary (e.g. DB underpin plans). Other arrangements additionally allow employees and employers to share longevity risk. These plans define expected benefits in advance, but the level of these benefits is conditional on funding levels, although a floor is guaranteed until the death of the retired member. This is for example the case with DB plans providing conditional indexation (e.g. the Netherlands).

Employers can be involved in the governance of the pension plan, thereby ensuring that it provides good value to members. When retirement savings are an important component of the total compensation, employers have an incentive to ensure the soundness of the plan for their employees. Employers may be involved in the governance by being fiduciaries of the plan, such as in the United States. Fiduciary responsibilities include for instance the prudent selection of investment options for 401(k) plans, taking into account the needs of different members. Employers may also be able to nominate representatives in the governing body of the pension fund.[6] The governing body is then responsible for the operation and oversight of the pension fund, and is the ultimate decision-maker with the overarching goal of acting in the best interest of plan members and beneficiaries (OECD, 2016[16]). Governance can also be joint with employees. For example, Iceland, Japan and the Netherlands require equal representation of employee and employer representatives in the governing body (Stewart and Yermo, 2008[17]). Employee or member representation can ensure a better alignment of the interest of the governing body with those of the fund's beneficiaries.

Employers can also help keep costs under control. Employers have an interest to make sure that the plans they offer to their employees are cost-effective, as otherwise, both employers and employees would prefer other kinds of remuneration. Additionally, group purchases give members more negotiating power with financial services providers, both in terms of costs and of availability of suitable options, while multi-employer plans can help achieve economies of scale. Occupational plans may also reduce transaction costs, allowing employees easier access to capital markets (McCarthy, 2006[5]). Moreover, employers may bear directly some of the costs. For example, in the United Kingdom, employers can agree to pay a fee to pension providers to reduce the charges paid by their employees (Department for Work and Pensions, 2021[18]). Finally, employers may have a fiduciary duty to keep fees at reasonable levels. This is the case in the United States for instance. Hence, in several countries, members enjoy lower fees in occupational pension plans than in personal pension plans. For example, in Spain, the management and custodian fees charged to members in 2020 reached 0.1% of assets under management for occupational DC plans, as opposed to 1.0% of assets under management for personal plans.[7]

Employers have been at the forefront of the implementation of innovative behavioural strategies in several countries. Behavioural strategies are policies that take into account the behavioural biases of individuals when they make decisions, in order to nudge them in the direction most beneficial for their retirement outcomes. Policies that improve the design of asset-backed pension plans while adjusting for the observed patterns of behaviours include automatic features (e.g. automatic enrolment and automatic escalation of contributions), default options (e.g. for the contribution rate or the investment strategy), simple information and choice, financial incentives and financial education (OECD, 2018[13]). A number of these policies rely on the involvement of employers, in particular automatic enrolment, matching contributions, automatic escalation of contributions and default options.

Finally, employers can help their employees improve their financial literacy about pension issues and personal finance more generally. Many employers actively provide financial education in the workplace (OECD, 2022[19]). Several studies provide evidence of the effectiveness of workplace financial education on enrolment into an asset-backed pension plan and/or on contributions to such a plan (Atkinson et al., 2015[20]). Beyond the benefits of improving financial literacy for the sake of employees' financial well-being, there is also a business case for employers to provide financial education in the workplace. Employers may indeed benefit from increased employee satisfaction, a better reputation as an employer of choice, lower employee financial stress, lower absenteeism, and in turn greater productivity (Vitt, 2014[21]; OECD, 2022[19]).

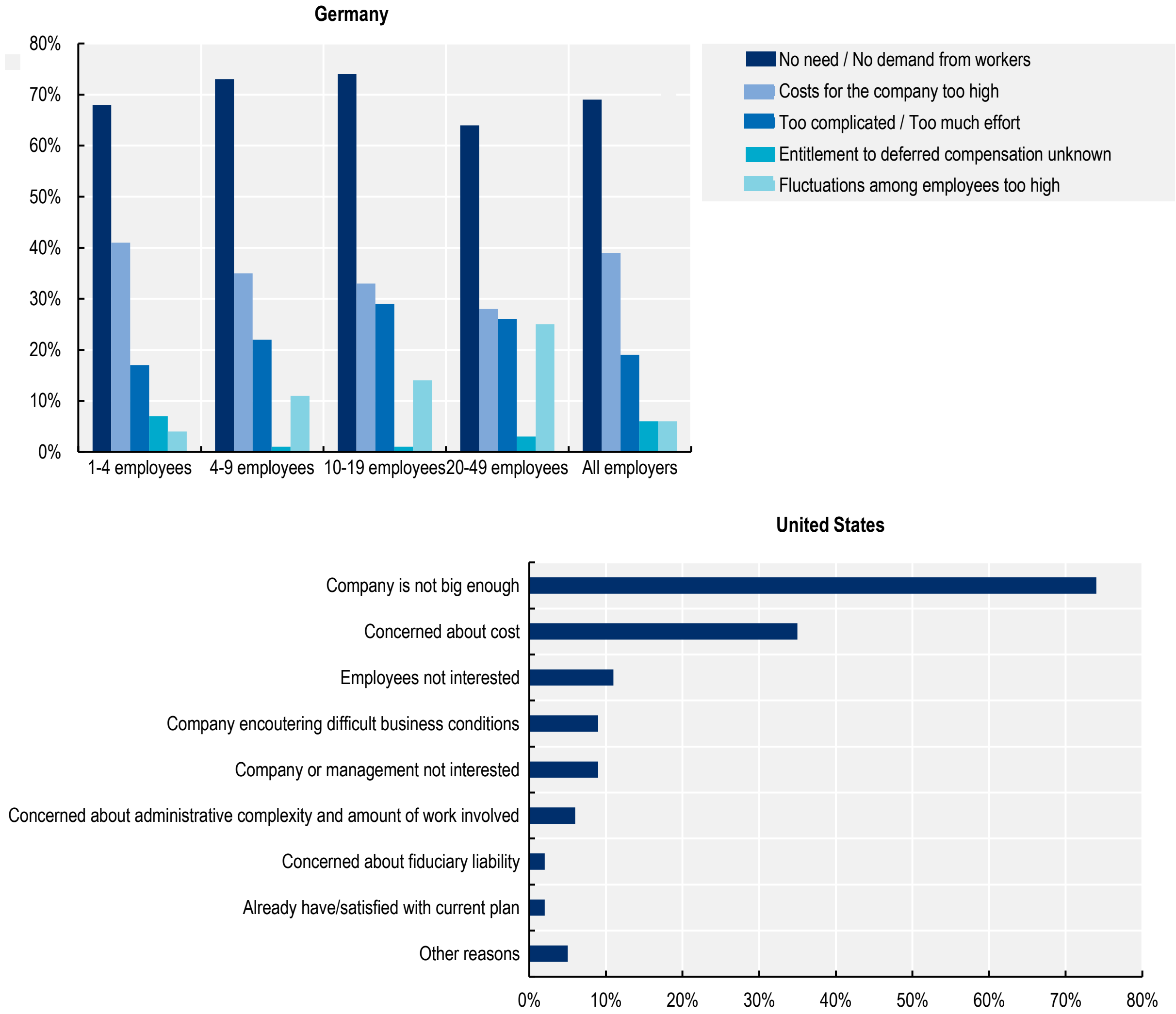
2.3.2. Challenges

The main challenge when employers are involved in the provision of asset-backed pension arrangements is to achieve high participation rates. Indeed, when the establishment of an occupational pension plan by employers is voluntary, employers may face several barriers preventing them from establishing a plan. In addition, even when the employer establishes a plan, employees may be unwilling to participate. Moreover, relying on employers for the provision of asset-backed pension arrangements means that the self-employed and other non-standard workers may be disadvantaged. Additionally, some of the advantages discussed previously only materialise if employers have a certain size.

There are several reasons why employers may be unwilling to establish a pension plan for their employees in voluntary occupational systems. Figure 2.5 illustrates these reasons for Germany and the United States. First, concerns over business profitability may be an impediment for some employers to establish a plan for their employees. Employers may not want to commit to establish a pension plan for their employees if they are not sure how business profitability will evolve. This could be particularly the case for small employers, those just starting a business, or those with low business income.

Figure 2.5. Reasons for not offering an asset-backed pension plan in Germany and the United States

Percentage of employers



Source: Kantar (2021[22]) for Germany; Collinson, Rowey and Cho (2021[6]) for the United States.

Second, costs and administrative burden may deter employers, in particular smaller ones, from establishing a pension plan. Employers may need to cover a wide range of costs during the lifetime of the plan, including set-up costs, employer contributions, administration costs, as well as compliance costs. Administration and compliance costs include the time spent on tasks such as keeping records for current and former employees, assessing employee eligibility, enrolling members, collecting information, channelling employee contributions to the pension provider, processing opt-in and opt-out requests, or communicating with plan members.

Third, complexity may discourage some employers, particularly smaller ones, from establishing an occupational pension plan. In particular, some employers may believe that administering an asset-backed pension plan may distract them from running their business. Some employers may lack the skills to make appropriate choices regarding plan administration and may be worried about the threat of litigation (fiduciary risk).

Some of the barriers to establish a pension plan are likely to affect small employers more. In particular, small employers may hesitate to commit to establish a pension plan for their employees, as their sources of revenue are usually less diversified and predictable than for large employers. Small employers may also lack the resources, knowledge and skills to develop, implement and administer a pension plan, as well as to oversee the different providers servicing the plan. The lack of in-house expertise may expose them to fiduciary errors and regulatory sanctions. Additionally, set-up and ongoing costs are proportionally higher for smaller employers, because they cannot spread the costs over a large base of employees and are more likely to rely on external providers to handle plan operation and administration.

As a result, provision of an occupational pension plan tends to decrease with employer size in voluntary systems. For example, in the United States, 53% of workers in firms with less than 50 employees have access to an occupational pension plan. This proportion increases to 73% for firms with 50 to 99 employees, 82% for firms with 100 to 499 employees and 92% for firms with 500+ employees (U.S. Bureau of Labor Statistics, 2021[23]).

Employers may also decide against establishing a pension plan because of a lack of interest from employees. Lack of interest for pension plans may have several causes. Young employees for example may feel that retirement is far away and prioritise savings for other motives, such as buying a first home. Employees close to retirement may feel it is too late for them to start saving for retirement. The size of the expected public pension may also drive workers' preferences for saving in complementary pension schemes. If workers expect, correctly or wrongly, high public pension benefits, they may not see the need to save additionally for retirement. Finally, employees with low earnings may prefer higher wages rather than an employer contribution into a pension plan and they may have difficulties to contribute themselves.[8]

Relying on employers to provide access to asset-backed pension arrangements also means that self-employed workers may be excluded. In most countries, the self-employed are not required to participate in an asset-backed pension plan, even when employers have the obligation to set up a plan and enrol all their eligible employees into it. Similarly, the self-employed tend to be excluded from the target population of automatic enrolment schemes. As a result, self-employed workers tend to participate less in asset-backed pension plans than employees do in pension systems organised mostly through occupational plans (OECD, 2019[24]).

Moreover, a lack of portability of pension rights and assets disadvantages temporary workers. In occupational pension systems, retirement savings do not necessarily follow workers automatically when they change employers. Because the design of occupational plans can be diverse depending on the needs and preferences of employers, the portability of pension rights and assets is not always straightforward (e.g. between DB and DC plans). In general, upon job changes, workers have the option of keeping their accrued rights and assets in the occupational plan of their former employer, or transferring them to their new employer's occupational plan (OECD, 2019[24]). However, the lack of consolidation of pension rights and assets implies that employees may cumulate multiple inactive accounts over their career. They may pay fixed fees on these inactive accounts and they may also lose track of them.

Meanwhile, employees may be unwilling to join a plan established by their employer. Indeed, behavioural biases such as present bias, inertia, procrastination and over-confidence may result in situations where employees never join a pension plan or delay enrolment for a long period, even when this would be beneficial for them (OECD, 2018[13]). Additionally, employees may not join a plan because their interests are not aligned with those of the employer and the plan design does not fit their needs. For example, employers may select service providers that charge low fees to employers but high fees to members. Employer contributions may be too low to attract employees. Employers may also want to restrict plan membership (e.g. based on earnings, working hours or type of contract) and impose vesting periods, thereby disadvantaging certain categories of workers, such as part-time and temporary employees (OECD, 2019[24]). Employers and employees may also have different risk appetites, in particular in DB schemes, leading to different asset allocations depending on the balance between employee and employer representatives in the governing body of the scheme (Bauer et al., 2020[25]).

Employees may also fear to lose their accumulated pension rights or assets if the employer goes bankrupt and the plan winds up. This may be particularly the case for DB plans. Even when there is an insurance mechanism against the risk of insolvency, a cut may apply on the expected benefits depending on the financial situation of the fund when the employer becomes insolvent.

Lack of employee engagement may also lead to sub-optimal decisions. As employers play a key role in the design of occupational pension plans, some employees may just be sleepwalking into asset-backed pension arrangements and not engage with the product. Employers can make a number of decisions on behalf of employees, for example by selecting the pension provider, enrolling employees automatically and offering default options for the contribution rate and the investment strategy. This reduces choice overload and simplifies decision-making by employees (OECD, 2018[13]). As employees join the plan following the path of least resistance, however, they are less likely to make active decisions, even though the default options do not fully align with their needs and preferences (Madrian and Shea, 2001[26]; Choi et al., 2004[27]).

Finally, when small employers offer an occupational pension plan, the characteristics of the plan may lead to worse outcomes because small plans cannot benefit from economies of scale. Small funds may also be harder to supervise. In particular, members in small plans may face higher fees and charges than those in large plans (Rekenthaler, Spiegel and Szapiro, 2017[28]). Additionally, small employers may lack the resources to use innovative design features that help drive participation and savings. For example, in the United States, adoption of automatic enrolment increases with plan size, from 36% for plans with fewer than 500 members to 72% for plans with 5 000 members or more (Vanguard, 2021[29]). Occupational pension systems composed of a myriad of small funds may also represent a challenge for pension supervisors. When each small employer potentially establishes its own pension fund, the number of pension funds in the country may become problematic. One of the issues from a supervisory perspective is that it may not be feasible to undertake individual risk assessments of each pension fund.

2.4. How best to involve employers in the provision of asset-backed pension arrangements

This section provides policy guidance on how to optimise employer involvement in the provision of asset-backed pension arrangements, based on OECD countries' experiences. It presents options to make the best use of the advantages of involving employers and their motivations, while addressing to the extent possible the challenges associated with the involvement of employers.

2.4.1. Select the appropriate degree of employer involvement

The first issue when discussing employer involvement in the provision of asset-backed pension arrangements is to consider the degree of employer involvement and thus the type of plan given the role that employers may play. As shown in Table 2.1, the degree of employer involvement is minimal for statutory personal pension plans and the largest for occupational pension plans. Several factors may guide policy makers when deciding the type of plan to develop and the degree of employer involvement.

The appropriate degree of employer involvement in the provision of asset-backed pension arrangements may depend on the structure of the labour market. For example, in countries with a high level of labour informality, a large share of the workforce may have loose connections with employers. Relying on employers to establish occupational pension plans and enrol their employees into them may exclude, therefore, a large share of the population. Similarly, if self-employed workers represent a large share of the labour force, an occupational pension system may not be ideal to provide asset-backed pension arrangements to the entire workforce, and a personal pension system may be more appropriate. By contrast, occupational pension plans are well adapted when most of the labour force is in a formal full-time employment relationship.

When relying on occupational pension plans for employees, separate personal pension schemes may fill the gap for the self-employed. Several countries offer dedicated personal pension plans for the self-employed, such as Belgium, France and Japan. Other countries allow the self-employed to use part of business profits or sale proceeds to save for retirement in dedicated pension products. This is the case for example in Australia, Denmark and the Netherlands (OECD, 2020[30]).

However, dedicated pension arrangements for different categories of workers may not facilitate saving for retirement for a mobile workforce. Labour force mobility has increased in recent years as new forms of employment have emerged. When workers change jobs frequently, including between employment and self-employment, having different schemes for employees and the self-employed may lead to multiple inactive accounts, which could be lost or depleted by fees. In that case, personal pension systems may be better adapted to mobile workforces, as the pension account is linked to the worker, irrespective of the employment status.

Alternatively, occupational pension systems could be extended to the self-employed. For example, multi-employer occupational pension plans established at the level of a profession, industry or sector, rather than for single employers, allow self-employed workers to join the plan corresponding to their profession, industry or sector. For example, in the Netherlands, certain self-employed workers have a professional pension fund (e.g. doctors, dentists), while others are covered by an industry pension fund together with employees (e.g. painters). Moreover, countries could promote multi-employer plans for unrelated employers of all sizes, as the United States did in 2019. Finally, self-employed workers in the gig economy may also be considered as employees of the platform provider and be entitled to occupational pensions. For example, in the United Kingdom, Uber announced in September 2021 that it would automatically enrol its eligible drivers into a pension scheme. The Pensions Regulator is encouraging all employers in the gig economy to do the same.[9]

Workplace personal pension plans are not a substitute for occupational pension plans but can harness some of the advantages associated with employer involvement. With workplace personal plans, the customisation of the plan design is much more limited than with occupational plans. Employers are also less engaged, as once the pension provider has been selected, their ongoing responsibilities, including with respect to contributions, are minor. However, if the employer makes a thorough assessment of the market before selecting the pension provider, a workplace personal plan has advantages for employees compared to other personal plans. The pension provider may offer plans at more competitive prices because of employers' ability to negotiate discounts and the prospect of enrolling many individuals at the same time. In addition, employees having access to an asset-backed pension plan in the workplace are more likely to save for retirement than if they need to arrange a personal plan by themselves. Paying contributions through payroll deductions also makes it easier to save.

Whether the provision of an asset-backed pension plan by employers should be mandatory or voluntary depends on the expected role of the scheme in the overall retirement income provision. Mandatory employer provision ensures that all eligible employees have access to a plan and can diversify their sources to finance retirement. Voluntary employer provision implies that some employees will have access to a plan but not others. This allows employers offering a plan to distinguish themselves in order to attract and retain employees.

Some countries alleviate pension obligations for small employers, acknowledging that there may be a size under which mandating employers to set up and contribute to a pension plan for their employees may be difficult. For example, in Quebec (Canada) and Türkiye, automatic enrolment duties start for employers with more than five employees. In Norway, only firms with at least two employees must set up an occupational pension plan. This, however, may encourage small employers to remain small to avoid the obligation to set up or to contribute to a pension plan.

2.4.2. Ensure good conditions for the provision of asset-backed pension arrangements

The legal, regulatory and tax framework that applies to asset-backed pension arrangements should be stable over time. Given the long-term nature of retirement savings, employers may value having some certainty over the role that they are expected to play in the short, medium and long term. This would give them the opportunity to assess the commitments that lie ahead and to plan appropriately to be able to fulfil the different requirements. For example, stability of tax rules allows keeping constant the incentive for employers to contribute to their employees' pension plans. Stable funding and solvency rules for DB plans also allow employers to assess the likelihood of a funding shortfall and plan accordingly.

Another necessary condition for employers to be involved in the provision of asset-backed pension arrangements is to ensure that well-functioning capital markets and financial institutions are in place (see also Chapter 1). Employers need to be sure that the plan they offer will be cost-effective, as otherwise, they may favour other types of remunerations. In this context, well-functioning capital markets and financial institutions are important to ensure productive and diversified investment of retirement savings and the efficient management of risks.

2.4.3. Reduce barriers that prevent employers from establishing pension plans

Policy makers could reduce some of the barriers that prevent employers from establishing occupational pension plans in voluntary systems. Such barriers refer to costs, administrative burden and difficulties to fulfil requirements in times of large aggregate economic shocks. Reducing these barriers may also help alleviate employers' concerns and lower employer opposition when discussing the establishment of a mandatory occupational pension system. Some of the measures may target small employers specifically, as they are likely to face bigger challenges to establish asset-backed pension arrangements.

Reduce costs

Countries could provide financial support to help employers, in particular smaller ones, to set up an occupational pension plan. For example, in the United States, employers with up to 100 employees can qualify for a tax credit to cover part of their set-up costs.[10] The tax credit is 50% of the employer's start-up costs, up to the greater of USD 500 or USD 250 multiplied by the number of non-highly compensated employees who are eligible to participate in the plan, up to USD 5 000. The employer can claim the tax credit for three years to cover costs to set up and administer the plan, as well as to educate employees about the plan. As another example, in the United Kingdom, employers using Nest, the workplace pension scheme set up by the government, to implement automatic enrolment do not have to pay set-up charges for the scheme.

Another way to reduce costs for employers is to provide financial incentives to contribute to an asset-backed pension plan. In some countries, employer contributions to asset-backed pension plans enjoy a beneficial treatment regarding social contributions, thereby providing an incentive for employers to compensate employees in the form of pension contributions instead of wages.[11] This is the case for example in Australia, Austria, Belgium, France, Germany, Italy and Portugal, where employer pension contributions are not subject to social contributions or benefit from a reduced rate (OECD, 2021[31]). This lowers the amount of social contributions that employers have to pay on behalf of the employee, compared to a situation where the employer would pay a higher salary, as salaries are fully subject to social contributions. Employers may also get tax incentives. For example, in Germany, employers contributing at least EUR 240 per year to an occupational pension scheme on behalf of a low-income employee (i.e. earning less than EUR 2 575 per month), in addition to the regular wage payment, can get a tax allowance of 30% of the contribution, up to a maximum contribution of EUR 960 (OECD, 2021[31]).

Multi-employer plans can also offer a solution to achieve scale and reduce costs for employers, in particular smaller ones. Multi-employer plans established by social partners in the context of collective agreements (e.g. Belgium, Germany, Iceland, Italy and the Netherlands) allow the plan to achieve scale by covering many employees from the same sector or industry. In Belgium, for example, sector plans are encouraged through the exemption of the 4.4% premium tax on contributions. Alternatively, multi-employer plans may be open to any employer. For example, the SECURE Act in the United States introduced pooled employer plans in 2019. These plans provide a way for unrelated employers with no common interest or other organisational relationship to set up a common plan for their employees. Similarly, master trust schemes, such as in Ireland and the United Kingdom, are financial institutions in charge of administering several pension plans for distinct unrelated employers.

Alleviate the administrative burden

Asset-backed pension arrangements can be designed to minimise the burden on employers related to plan set up and administration. For example, OregonSaves in the United States is a state-backed programme where employers have to enrol automatically their employees into an individual retirement account (IRA), when these employees are not already covered by an occupational pension plan. Sign-up to the programme by employers is quick, easy and free. Employers do not have to pay any fees, they do not have fiduciary responsibility, and they have minimal ongoing responsibilities. These responsibilities are mostly to enrol employees and submit employee contributions through payroll deductions. According to a survey run by The Pew Charitable Trusts in 2019 and 2020, 73% of employers had a positive or neutral experience with OregonSaves when asked about both the registration and ongoing facilitation of the programme.[12] Overall, smaller companies expressed higher satisfaction with OregonSaves than larger ones, maybe because they are more receptive to the opportunity of having an alternative to traditional occupational pension plans.[13]

Countries can also remove some of the complexity and administrative burden for selected asset-backed pension plans as long as certain criteria are met. For example, in the United States, there are three types of 401(k) plans available to employers, traditional, SIMPLE[14] and safe harbour plans. Employer and employee contributions are subject to complex non-discrimination rules in traditional 401(k) plans. In particular, the employer must perform annual tests, known as the Actual Deferral Percentage (ADP) and Actual Contribution Percentage (ACP) tests, to verify that contributions made by and on behalf of lower-earning employees are proportional to the contributions for higher-earning employees. By contrast, safe harbour and SIMPLE 401(k) plans are not subject to the complex annual non-discrimination tests. In exchange, immediate vesting of employer contributions is required.

To limit the administrative burden on employers, countries may also set up a clearinghouse institution to channel contributions to the different pension providers when these are selected by employees. When employees select their own pension provider, it may be cumbersome for employers to identify the amount of contributions that they must remit to each pension provider. The use of an institution acting as a clearinghouse greatly simplifies the task for employers, as their role is limited to remit the contributions to that institution, which then remits the contributions to the pension provider selected by each employee. The clearinghouse can be the social security institute (e.g. Lithuania), the tax authority (e.g. New Zealand), the Central Bank (e.g. Mexico), or an institution established by the market participants (e.g. Chile and Colombia). In Australia, there is a clearinghouse just for small employers. The Small Business Superannuation Clearing House (SBSCH) is a free service for employers with 19 or fewer employees or an annual aggregated turnover of less than AUD 10 million. Using the SBSCH is an easy way for small employers to comply with their mandatory pension contributions requirement.

Some countries have also implemented measures to streamline contributions made by employers. For example, Australia introduced SuperStream in 2014 to improve the efficiency of superannuation payments by employers. Before this reform, many employers had to process contributions to numerous funds in different formats. SuperStream is a mechanism to transmit money and standardised information consistently across all stakeholders (i.e. employers, pension funds, service providers and the tax authority). A unique identifier links employee information to the contribution payment. This allows employers to make all of their contributions in a single transaction, even if the payments go to multiple pension funds. To meet SuperStream requirements, employers may use their payroll system, a clearinghouse, a superannuation fund, or an electronic fund transfer facility.

Multi-employer plans can also reduce the administrative burden on employers. These plans allow many of the administrative and fiduciary responsibilities of sponsoring an asset-backed pension plan to be transferred to a third party, such as social partners or pension providers. This reduces the burden on participating employers, compared to sponsoring their own occupational pension plan.

Alternatively, policy makers could promote workplace personal pension plans as a complement to occupational pension plans. The role of the employer in a workplace personal plan is reduced compared to an occupational plan (Table 2.1), thereby reducing the cost and administrative burden. Meanwhile, search costs are reduced for employees as the employer selects the pension provider. Employers may also be able to negotiate better terms (e.g. lower fees) than what employees may be able to find in the retail market. Finally, workplace personal plans allow contributions to be directly deducted from payroll, making it easier for employees to save. Examples of workplace personal plans can be found in Ireland, the United Kingdom and the United States.

Finally, countries could establish a public pension provider to facilitate the selection of the provider for small employers. For example, Nest in the United Kingdom is a workplace pension scheme run by a not-for-profit public corporation. Nest must accept all employers, no matter what size, that apply to use it for their automatic enrolment duties. This is particularly important for small employers, as they may find it harder to find pension providers at competitive prices. Indeed, research shows around 35% of employers who selected Nest as a provider had been turned away from another provider first (Nest Corporation, 2015[32]). Moreover, Nest does not charge fees on employers and, thanks to its large scale, charges low fees to members to cover for plan administration, asset management and transaction costs.[15]

Provide flexibility in times of large aggregate economic shocks

More employers may feel comfortable setting up a plan if they know that governments will implement temporary relief measures in times of large aggregate economic shocks. For example, during the COVID-19 crisis, several countries provided temporary relief to employers with respect to their pension obligations (OECD, 2020[33]). Relief measures included flexibility towards funding and solvency rules for DB plans (e.g. Germany and the United Kingdom), subsidising employer contributions through job-retention schemes (e.g. Iceland and the Netherlands), allowing employers to defer, reduce or suspend their contributions (e.g. Belgium, Finland and Poland), or postponing the introduction of reforms (e.g. Poland). However, some of these measures come at the cost of reduced future retirement income and potential adequacy problems. It is, therefore, important to revert to normal rules once the emergency is over (OECD, 2020[33]).

2.4.4. Allow employers to tailor the design of the plan while ensuring non-discriminatory treatment across different categories of workers

Employers should have some discretion regarding the design of the plan they establish. This can help to tailor plan characteristics to the needs of their workforce and to their objectives in terms of worker recruitment and retention. Regulation should provide flexibility and give the opportunity to employers to choose the most suitable model for retirement savings. Employer options could refer to various design features, such as:

- The type of plan (e.g. DB or DC);
- The eligibility criteria for joining the plan;
- Whether participation for eligible employees is voluntary, mandatory or automatic with an opt-out option;
- The level of employer and employee contributions, as well as the vesting rules;
- The investment options offered to members (in DC plans);
- Whether the plan offers survivor and disability coverage;
- The portability rules when employees leave the employer before retirement;
- The normal and early retirement ages, as well as the retirement benefit options;
- Whether members can access funds before retirement or can take loans.

However, employer choice should take place within the constraints of a legal framework to ensure a minimum level of harmonisation. Employers do not make their choices in a vacuum as social, labour and tax laws and regulations already define some boundaries for selected design features. Such laws and regulations should address situations where employers and employees may have diverging interests regarding plan design.[16]

Policy makers should ensure that employees have non-discriminatory access to occupational pension plans, in line with the OECD Recommendation on Core Principles of Private Pension Regulation. This is what most countries do. For example, in Canada, employers may cover selected classes of employees only rather than all employees. The classes of employees are determined objectively by the terms and nature of employment (e.g. salaried employees; hourly employees; unionised employees; non-unionised employees; supervisors; managers; executives/corporate officers; employees at a specific location or in a specific division). In addition, exclusions from plan participation based on age, gender, marital status and nationality should be avoided.

In addition, when occupational pensions are expected to play a key role in retirement income provision, the use of economic eligibility criteria should be limited or even eliminated. In particular, countries should limit the use of eligibility criteria based on salary, working hours, length of employment and type of contract (OECD, 2019[24]). For example, employers in Belgium cannot discriminate plan access based on contract type (fixed or temporary contract) or working time (full time or part time). The SECURE Act of 2019 in the United States requires plan sponsors to extend eligibility to part-time employees with at least three years of service.[17] Such rules improve access to occupational pension plans for part-time and temporary employees.

Regulations may also encourage employers to offer access to a broad base of their employees. For example, in the United States, non-discrimination tests in traditional 401(k) plans may induce employers to implement automatic enrolment and automatic escalation of contributions to make sure lower-earning employees participate in the plan. Indeed, if contributions made by and on behalf of higher-earning employees exceed certain thresholds, the employer needs to take corrective action, such as distributing the excess contributions to the higher-earning employees[18] or making a contribution to all lower-earning employees. To avoid this problem, employers should target a high participation rate and sufficient contributions among lower-earning employees. Automatic enrolment and automatic escalation of contributions can contribute to reaching that objective.

Policy makers should also limit vesting periods to avoid disadvantaging employees switching jobs frequently. Immediate vesting of employer contributions is the norm for mandatory and quasi-mandatory occupational pension systems. In voluntary systems, immediate vesting also applies in Belgium, Canada, Italy, New Zealand, Spain and the United Kingdom, for instance. Otherwise, the maximum vesting period is usually up to three years (OECD, 2019[24]). In the United States, the vesting period may be stretched over six years as long as part of the employer contributions start vesting after two years.

Portability rules should also facilitate the consolidation of workers' pension rights and assets, in particular for those changing jobs frequently. The vast majority of countries allow individuals who are changing jobs to move their savings from their former employer's occupational DC pension plan to the plan of their current employer or to a similar alternative financial instrument or institution (OECD, 2019[24]). However, this is usually not automatic and many people just leave their assets in the plan of their former employer. Australia recently introduced "stapling", where employees will take their existing superannuation account with them when they change employment, instead of being defaulted into an employer's nominated fund. This stops the creation of multiple accounts. However, it does not prevent situations where individuals would remain with a pension provider charging high fees. The Pensions Policy Institute (2020[34]) presents different options to consolidate pension accounts as well as their trade-offs.

2.4.5. Encourage the use of behavioural strategies and facilitate the provision of financial education

Employers can implement behavioural strategies to foster participation and contributions from their employees. These strategies include automatic enrolment, matching contributions and automatic escalation of contributions. Moreover, behavioural strategies may need to be complemented by financial education programmes to help employees to improve their financial literacy and engage with their retirement savings.

Automatic enrolment

The role of the employer is essential in most countries with schemes using automatic enrolment. In nine OECD countries out of ten allowing schemes with automatic enrolment, the entity in charge of enrolling eligible workers is the employer (OECD, 2019[35]).[19] National or sub-national laws require employers to offer access to a pension plan and to enrol eligible employees automatically into it in seven countries.[20] By contrast, in four countries,[21] plan access and automatic enrolment are voluntary for employers.[22] Evidence from Canada, where employer obligation varies by province, shows that mandatory employer participation results in a greater number of enrolled members than voluntary employer participation (OECD, 2019[35]).

Different aspects need to be considered to increase the chances of success of automatic enrolment at increasing participation. This depends on whether employers' implementation of automatic enrolment is voluntary or mandatory.

Regulation can encourage employers' adoption of automatic enrolment when this is a voluntary feature. For example, in the United States, employers offering a DC plan may have difficulties passing the non-discrimination tests as low-income employees are less likely to join the plan than high-income employees. By increasing participation among low-income employees, automatic enrolment improves the results of non-discrimination tests. Between 2003 and 2017, the proportion of large DC plans using automatic enrolment increased from 2% to 41% (Arnoud et al., 2021[36]). The motivation to pass the non-discrimination tests is likely to be one of the factors behind the wider adoption of automatic enrolment in US occupational plans (Butrica and Karamcheva, 2015[37]).

Financial support to employers can also be tied to the implementation of automatic enrolment. For example, in the United States, the SECURE Act introduced in December 2019 a tax credit of USD 500 per year for three years for employers with up to 100 employees implementing automatic enrolment. This comes in addition to the start-up costs tax credit.

When regulation imposes automatic enrolment to employers, gradual introduction and use of already existing payroll-deduction systems are likely to facilitate employer implementation of the policy. A gradual introduction allows employers, in particular smaller ones, to adjust to the change. In most countries, larger employers were the first to be required to implement the policy, with smaller employers joining in stages over several months or years (OECD, 2019[35]).[23] Using existing payroll-deduction systems to channel contributions can also reduce the administrative burden for employers. This is what New Zealand did for example, and employers reported that the impact of implementing KiwiSaver on their workload had been minimal (Inland Revenue, 2015[38]).

Matching contributions

Employers may use different designs for matching contributions. The matching contribution may be expressed as a percentage of the employee's own contribution. For example, in the United States, among Vanguard DC plans offering a matching contribution in 2020, 72% used a single-tier match, such as 50% of the employee contribution up to 6% of salary (i.e. a maximum employer contribution of 3% of salary). The second most popular type of formula, used by 21% of plans, was a multi-tier match, for example 100% of the employee contribution up to 3% of salary and 50% of the employee contribution on the next 2% of salary (i.e. a maximum employer contribution of 4% of salary) (Vanguard, 2021[39]). Alternatively, the employer matching contribution may be expressed as a percentage of the employee's salary. For example, in New Zealand, employers must contribute at least 3% of wages for employees contributing into a KiwiSaver plan. In some countries, such as Iceland and Italy, collective agreements define the level of employer matching contribution.[24]

Regulation can play a role in guiding employers' choice over the design of the matching formula. For example, in the United States, employers can adopt alternative safe-harbour plans to get certain exemptions under the non-discrimination rules. The first alternative is to offer all non-highly compensated employees (NHCEs) an employer contribution equal to at least 3% of pay. The second alternative is to offer NHCEs an employer matching contribution. When the employer enrols eligible employees automatically into the plan, the matching formula must be 100% match on contributions up to 1% of salary and 50% match on the next 4% of salary. Otherwise, the matching formula must be 100% match on contributions up to 3% of salary and 50% match on the next 2% of salary.[25] According to Arnoud et al. (2021[36]), in 2017, more than 40% of large DC plans offering an employer matching contribution satisfied one of the safe-harbour matching formulas.

The different matching formulas have distinct consequences for workers in different income groups. A single-tier match tends to favour higher-income earners because they are more likely to have the financial capacity to contribute a higher percentage of their earnings. For example, with a 50% match rate up to 6% of salary, an employee contributing 6% of salary will receive the maximum employer matching contribution of 3% of salary. By contrast, an employee who can only afford to contribute 3% of salary will receive an employer matching contribution of 1.5% of salary. A multi-tier match can address this regressive feature to some extent, while keeping an incentive to contribute more. Such formulas provide a higher match rate for the first units of contributions and reduce the match rate for contributions beyond a certain level. Assuming a 100% match rate on the first 3% of salary and 50% on the next 2% of salary, an employee contributing 6% of salary will receive 4% of salary from the employer, while an employee contributing 3% of salary will receive 3% of salary. The gap between the two employees is therefore reduced compared to the single-tier match. When the match is directly expressed as a percentage of salary, all contributing employees receive the same percentage employer matching contribution, irrespective of their own level of contribution. Matching formulas may also include a floor in nominal terms to provide additional support to lower-income employees.[26] For example, the employer may contribute the greater of 100% on the first 4% of salary or USD 1 000. This means that employees earning less than USD 25 000 annually and contributing to their pension plan 4% of salary would get an extra boost in relative terms compared to higher earners.

Different individuals may also react differently to the level of the match threshold. The match threshold is the maximum employee contribution that the employer matches. This threshold may reduce the contribution by those who might otherwise contribute more, as it serves as an anchor or employer recommendation for some individuals (Huberman, Iyengar and Jiang, 2007[40]). For low-income earners, a higher match threshold may discourage participation (Young and Young, 2018[41]) because they feel the effort to get the full employer matching contribution is beyond their financial capacity.[27] Still, Choi et al. (2002[42]) show that in a company that increased the match threshold, without changing the match rate, the proportion of employees contributing at higher rates increased.

There is also the practice of "stretching the match", which consists in lowering the match rate while increasing the match threshold once a matching contribution is in place. However, stretching the match may have a negative impact on participation and employee contributions. For example, instead of offering a 100% match on contributions up to 6% of salary, the employer can offer a 75% match on the first 8% of salary. The maximum employer contribution is still 6% of salary, but the employee needs to contribute an additional 2% of salary to get it. It is intended to motivate participants to contribute at higher rates without increasing employer costs. However, given individuals' tendency for inertia, some may not increase their contribution rate in response to the change, and thereby receive a lower employer matching contribution. In addition, lower-income earners may be unable or unwilling to contribute a higher percentage. Absent an analysis of plans that actually implemented this strategy, Young and Young (2018[41]) compared pension plans with an equivalent maximum employer contribution but different match thresholds that mimic a stretched match. They find that stretched formulas (lower match rates and higher match thresholds) are associated with lower employee and employer contribution rates than non-stretched formulas.[28]

Finally, employers may have the choice between offering matching contributions on top of the employee's basic salary, and including matching contributions in the total remuneration package. This determines whether employees contributing to the pension plan will receive a higher net remuneration than those who do not contribute. For example, in New Zealand, the default approach is for employer matching contributions to KiwiSaver to be made on top of gross salary. Hence, a KiwiSaver member earns effectively 3% more than a non-member, creating an incentive to join and contribute to the scheme. The alternative solution is for employers to incorporate their contributions to KiwiSaver in the total remuneration package. This allows everyone in the company who does the same job to be paid the same gross remuneration regardless of whether they are members of KiwiSaver. Each employee then decides how to allocate their gross income (e.g. employer KiwiSaver contribution versus higher take-home pay). While paying matching contributions on top of the basic salary provides an incentive for employees to contribute, this may raise equity issues (Retirement Policy and Research Centre, 2020[43]). Indeed, workers who cannot afford to pay the minimum KiwiSaver employee contribution or those who are not eligible for employer contributions (e.g. those aged 65 and older) are paid less than the others, even though they perform the same job. Moreover, if employer contributions slow the pace of wage growth, non-members eventually subsidise the savings of the others through lower wage growth.

Automatic escalation of contributions

Another behavioural strategy that employers have been experimenting and implementing in occupational DC pension plans is the automatic escalation of contributions. The initial idea developed by Thaler and Benartzi (2004[44]) was to ask employees to commit to future increases in their contribution rate each time they get a pay raise. This feature reduces the feeling of loss of a cut in take-home pay and mitigates the affordability issue of increased contributions for low-income earners. Similarly to automatic enrolment, the employee can opt out of automatic escalation at any time. US companies have tried this strategy first, as employers were willing to increase the contribution rate of low-income earners to improve non-discrimination performance results (Thaler and Benartzi, 2004[44]).

Automatic escalation is often a default option associated with automatic enrolment. This is because default contribution rates in schemes using automatic enrolment tend to be low to minimise opt-out rates.[29] Among the DC plans managed by Vanguard in the United States, 69% of plans using automatic enrolment had automatic annual contribution rate increases in 2020, most often by 1% of salary (Vanguard, 2021[39]). Among these plans, 46% capped the increase at 10% of salary. Among plans not using automatic enrolment, the use of automatic escalation raised from 16% of plans in 2011 to 34% in 2020 (Vanguard, 2021[39]).

Automatic escalation may not work for workers changing jobs frequently, such as temporary employees. When workers change employers, if they join the plan of the new employer (provided one is offered), the new plan may not have automatic escalation in place. Even if there is automatic escalation, workers may start all over again from a low default contribution rate. Workers may never reach the maximum contribution rate and therefore under-save for retirement during their entire career.

Alternatively, employers may use higher default contribution rates. Beshears et al. (2017[45]) show that selecting a higher default contribution rate (between 7% and 11% of salary instead of 6%) can increase contribution rates without reducing participation rates, except for the highest default (11%). According to Vanguard (2021[39]), the proportion of plans with automatic enrolment choosing a default contribution rate of 6% or more increased significantly between 2011 and 2020, from 11% to 26%.

Financial education

Policy makers should encourage employers to provide financial education programmes about retirement savings to their employees. However, it is important to find the right balance between the need to improve the financial literacy of employees and the implications for employers. In voluntary systems, adding requirements to provide financial education programmes should account for the potential discouragement to employers from establishing asset-backed pension arrangements, as well as the potentially unsurmountable burden on small employers.

Delivering financial education in the workplace is not without challenges for employers. First, providing financial education involves additional costs, which may be more difficult to bear for small employers.[30] Second, employers may lack the expertise to organise financial education programmes. Third, employers may be reluctant to allocate a lot of time to communicate about matters not directly related to their business, especially for short-tenure employees or when there is high employee turnover. Moreover, employees themselves may have limited appetite to participate in financial education programmes (Bailey and Winkelmann, 2021[46]). Indeed, employees may face competing priorities with work tasks, they may have limited willingness to discuss their personal financial situation with other colleagues, and they may have limited interest to invest their time in financial education programmes not suited to their needs, in particular if they feel that thinking about retirement savings is not relevant to them right now.

Policy makers can provide support to employers to facilitate the delivery of workplace financial education programmes. Employers willing to organise and finance financial education programmes may lack the expertise and may not know where to start. Several countries, such as Canada, the Netherlands, New Zealand and the United Kingdom provide tips and resources to help employers build financial wellness programmes (OECD, 2022[19]). In the case of New Zealand for example, the government's "Sorted at Work" programme includes a series of courses and seminars, which are delivered by affiliated facilitators. Employers only need to choose the programmes they want to offer to their employees based on their budget (prices are fixed per group of participants) and the needs of their employees. The OECD/INFE's policy handbook on financial education in the workplace (OECD, 2022[19]) provides policy makers with suggestions of approaches and case studies to developing and implementing financial education in the workplace (Box 2.1).

Box 2.1. Suggested policy approaches to developing and implementing financial education in the workplace

The OECD Recommendation on Financial Literacy recommends policy makers to establish transparent co-ordination and governance mechanisms when establishing and implementing their national strategies for financial literacy. This includes involving relevant private and non-for-profit stakeholders to the extent possible, for example employers. Additionally, it recognises that workplaces are environments that can be conducive to learning and are likely to support effective delivery of financial literacy programmes.

In line with this, the OECD International Network on Financial Education (OECD/INFE) developed the policy handbook on financial education in the workplace. The policy handbook discusses the motivations for implementing financial education programmes in the workplace and shares relevant case studies, challenges and lessons learnt from OECD/INFE members. Based on this evidence and experience, it sets out four groups of policy suggestions for policy makers and other stakeholders interested in the design and implementation of financial education in the workplace:

Promote a strategic and co-ordinated approach to financial education in the workplace

- Consider including employees among the target groups of co-ordinated and strategic financial literacy frameworks
- Create co-ordination mechanisms that support the development of financial education for employees or in the workplace
- Integrate the views of multiple stakeholders to ensure that the preferences and needs of employers and employees are taken into account in policy making and programme design

Support the engagement of employers

- Highlight the business case to employers for providing financial education to employees
- Leverage social recognition through public champions and corporate responsibility
- Assist employers by providing guidance and tools
- Lead by example by implementing programmes for public institutions employees

Encourage the participation of employees

- Design a good communication plan to increase awareness and motivation
- Propose incentives such as rewards and certificates
- Create a safe environment to discuss about financial issues and emphasise peer-to-peer support

Programme design and implementation

- Create a full circle, evidence-based approach
  - Conduct needs' assessment diagnosis to identify financial education needs and vulnerable groups among employees
  - Make pilots and tests before full scale implementation
  - Assess the impact and effectiveness of the programmes
- Propose a combination of programmes prioritising behavioural change
  - Using a variety of financial education solutions
  - Applying behavioural insights to financial education to support behavioural change

Source: OECD (2022[19]), *Policy handbook on financial education in the workplace*, https://doi.org/10.1787/b211112e-en

Alternatively, or as a complement to employers providing financial education, pension providers themselves could conduct financial education programmes. For example, since July 2014, KiwiSaver default providers in New Zealand are responsible for addressing the financial literacy of their members, in particular those in default funds. The Financial Markets Authority requires default providers to report quarterly about how they engaged with their default members to encourage them to choose an investment; and the number of default members making an active fund choice.[31] This strategy has led to higher member engagement.[32] Overall, the proportion of default members making an active investment choice increased from 6% in 2016 to 11% in 2021.[33] While some default providers engage with their members using mostly written generic advice, others call their members on the phone to help them make an active choice. Good practices to engage with default members include making several follow-up calls if the first one is not successful, tailoring the conversation to the individual, taking the member through a risk profile questionnaire, and arranging the fund switch while the member is still on the phone.[34] As a result of the financial education efforts, the proportion of members in default funds has declined, from 17.1% in March 2016 to 11.5% in March 2021.[35] Since 1 December 2021, six new default providers have been appointed. They must now engage with members at key milestones, such as when they first join, and ten years and one year before they turn 65; after a first home withdrawal; when annual statements are sent out; during significant market volatility; and after 18 months without contributing.

2.4.6. Provide the necessary framework for good governance

The identification and management of conflicts of interest can help to reduce any misalignment of interest between employers, as plan sponsors, and employees, as plan members. The OECD Recommendation on Core Principles of Private Pension Regulation states that pension entities should have adequate internal controls in place, including a conflict of interest policy for the members of the governing body and the staff of the pension entity. Conflicts of interest may arise for employer representatives in the governing body of the pension entity. For example, the employer may seek to reduce the costs related to scheme administration, which may lead to poorer administration of the members' pension accounts. This situation constitutes a conflict of interest for the employer's representatives.[36] Regulators and supervisors can provide guidance to manage this type of situation. For example, The Pensions Regulator (TPR) in the United Kingdom provides guidance to trustees to effectively identify, monitor and manage conflicts of interest. It provides a set of principles of sound conflict management arrangements and examples to illustrate specific cases.[37]

Different approaches are possible to address the issue of skill deficit in the governing body of occupational pension funds. The members of the governing body should collectively reach a balance between expertise, representativeness and independence from the sponsor. Member and employer representatives are important to ensure that the interests of both parties are accounted for. However, membership in the governing body should be subject to minimum fit and proper standards (OECD, 2016[16]) and it may be difficult to appoint representatives with the appropriate set of skills. One way to address this issue is to require the presence of independent external experts in the governing body. For example, the Pension Fund Governance Reinforcement Act of 2014 increased the representation of independent expertise on the governing bodies of Dutch pension funds. Training programmes for the members of the governing body are also useful to increase skills. For example, TPR in the United Kingdom offers a trustee toolkit online learning programme. New trustees must acquire the appropriate knowledge and understanding within six months of being appointed, and this toolkit helps them achieve this without incurring any additional cost.

When employers have to enrol their eligible employees into a pension plan, regulation should prevent employers from persuading employees to opt out. For example, in the United Kingdom, employers must not take any action with the sole or main purpose to encourage or influence employees to opt out or cease membership. Similarly, they cannot try to screen out job applicants on grounds relating to potential pension scheme membership. Individuals can make a complaint to TPR about an alleged inducement or prohibited recruitment conduct. TPR then investigates and follows a gradual approach in case of breach.[38] The number of whistleblowing reports about employers allegedly inducing employees to opt out has increased between April 2015 and April 2018, from 12 complaints in 2015/16, to 38 in 2016/17, and 64 in 2017/18, showing that individuals use this mechanism.[39]

Finally, consolidation can achieve the dual goal of achieving economies of scale and improving governance. Consolidation increases pension funds' ability to negotiate discounts with service providers, access a wider range of investments and spread operational costs over a larger membership base. Several countries are encouraging pension funds to consolidate by raising governance requirements. For example, there has been a significant reduction in the number of superannuation funds in Australia over the past years, from 279 in June 2013 to 145 in March 2022.[40] According to the Australian Prudential Regulation Authority (APRA), this consolidation is mainly the result of the introduction of the prudential framework for superannuation in 2013 and their continued effort to raise the bar that trustees need to pass, so that all trustees are better equipped to deliver good outcomes for members.[41] Similarly, in the United Kingdom, the occupational DC pension market has consolidated by nearly 40% between 2011 and 2021.[42] The government calls for more consolidation and introduced in 2020 a more detailed value for member assessment for schemes below GBP 100 million. This aims to improve governance and better serve members whilst accelerating the pace of consolidation.[43] The development of multi-employer arrangements and master trusts also favours consolidation. However, consolidation should not go too far so that oligopolistic behaviour develops instead.[44]

2.5. Conclusion

This chapter has provided policy guidance on how best to involve employers in the provision of asset-backed pension arrangements. It has shown that employers are involved to various degrees in OECD countries, depending on the type of plan developed at the national level. One of the key roles that employers currently play in most OECD countries is to pay a share of the total contributions to asset-backed pension plans.

Understanding the motivations for employers to be involved in the provision of asset-backed pension arrangements, as well as the advantages and potential challenges associated with employer involvement is essential to derive policy guidance for countries willing to develop the role of employers.

The main motivation for employers to establish an occupational pension plan is to attract and retain employees. On top of salaries, employers need other forms of remuneration to attract and retain the best employees for their business. As employees value pensions as part of their remuneration package, offering access to an asset-backed pension plan or contributing beyond the legal requirements can increase employee satisfaction and reduce turnover, thereby reducing hiring and training costs.

There is a wide range of advantages associated with employer involvement in the provision of asset-backed pension arrangements. Employers can use payroll deductions to channel employee contributions to the pension provider and they can also contribute themselves on behalf of their employees. When offering an occupational pension plan, employers can tailor the design of the plan to match the preferences of their employees, select features that can facilitate decision-making for employees, and bear some of the investment and longevity risks, as well as some of the costs associated with operating the plan. Employers can also be involved in the governance of the scheme, implement behavioural strategies to increase savings, and provide financial education to their employees.

However, employer involvement is not without challenges. In particular, participation rates may be lower, as employers may be unwilling or unable (e.g. small employers) to establish pension plans, employees may be unwilling to participate in plans established by their employer, and workers in non-standard forms of work may have more limited access to employer-sponsored plans. The barriers preventing employers from establishing pension plans may be especially high for small employers who lack the resources, knowledge and skills to develop, implement and administer a pension plan. Moreover, relying on employers may result in the proliferation of small plans, which may lead to higher fees for members, worse governance and less innovative plan designs.

Countries willing to develop the role of employers in their asset-backed pension systems could consider the following policy guidance:

- Select the most appropriate degree of employer involvement by taking into account the structure of the labour market and the labour force mobility.
- Ensure good conditions for the provision of asset-backed pension arrangements by employers by providing a stable legal, regulatory and tax framework applying to asset-backed pension arrangements, and developing well-functioning capital markets and financial institutions.
- Reduce the barriers that prevent employers from establishing pension plans by reducing costs and alleviating the administrative burden, in particular for small employers, developing multi-employer arrangements, and providing flexibility in times of large aggregate economic shocks.
- Allow employers to tailor the design of the plan, while ensuring non-discriminatory treatment across different categories of workers.
- Encourage employers to use behavioural strategies to foster participation and savings, and facilitate the provision of financial education in the workplace in line with the OECD/INFE's policy handbook on financial education in the workplace (OECD, 2022[19]).
- Provide the necessary framework for good governance.

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Notes

[1] In addition, employers in some countries have to enrol eligible employees automatically into a personal pension plan and select the pension provider (e.g. Türkiye and certain state-backed programmes in the United States).

[2] In some cases, employee participation is mandatory once the employer establishes a plan, such as in Belgium.

[3] However, pensions may not be the most powerful tool to retain employees. For example, Falk and Karamcheva (2018[47]) show that salaries have a larger effect on job tenure than DB pensions. A 2% cut in current pay would decrease average job tenure by 2.3 quarters, as compared to 0.9 quarter for an equivalent 10% cut to pension benefits.

[4] Job separation was measured over intervals of two years.

[5] For example, the Australian 2020 Retirement Income Review identifies several studies showing that the majority of increases in the employer mandatory contribution rate come at the expense of growth in wages (The Australian Government the Treasury, 2020[48]).

[6] In some countries, employers nominate representatives in a supervisory board, which supervises the governing body.

[7] Source: OECD Global Pension Statistics.

[8] Brady and Bogdan (2014[49]) suggest that, in the United States, workforce composition may also partially explain why smaller employers are less likely to offer an occupational pension plan.

[9] A pension revolution, but more work to do | The Pensions Regulator Blog

[10] Eligible plans are SEP, SIMPLE IRA and qualified plans, such as 401(k) plans.

[11] Social contributions are usually levied on gross salaries and wages to finance among other things, health insurance, unemployment insurance, public pensions and disability pensions.

[12] See Employers Express Satisfaction With New Oregon Retirement Savings Program | The Pew Charitable Trusts (pewtrusts.org) and Is the OregonSaves Retirement Program Expensive for Employers? | The Pew Charitable Trusts (pewtrusts.org)

[13] OregonSaves Auto-IRA Program Works for Employers | The Pew Charitable Trusts (pewtrusts.org)

[14] SIMPLE stands for “Savings Incentive Match PLan for Employees”.

[15] Members pay a 1.8% charge on contributions plus a 0.3% charge on assets. In addition, there are no fees when members switch their investment fund, change their retirement date or transfer to another pension provider.

[16] In addition, publishing statistics on plans established by employers increases transparency towards individuals. For example, CONSAR in Mexico publishes statistics from the electronic register of occupational pension plans, see https://www.consar.gob.mx/gobmx/aplicativo/sirepp/(S(rhjpjeoha0yrinu03alfnsmh))/Estadisticas.aspx.

[17] Employers have been required to track years of service since 2021, thus long-term, part-time workers will first be eligible in 2024. Recent legislative proposals would reduce the length of service for part-time employees to two years.

[18] This distribution is taxable for the employee.

[19] The ten OECD countries allowing schemes with automatic enrolment are Canada, France, Germany, Italy, Lithuania, New Zealand, Poland, Türkiye, the United Kingdom and the United States. In Lithuania, the State Social Insurance Fund Board (Sodra), which is responsible for collecting all social insurance contributions, enrols automatically workers aged under 40, both employees and the self-employed, into one of the pension funds.

[20] Canada (in the province of Quebec), Italy, New Zealand, Poland, Türkiye, the United Kingdom and the United States (for state-based auto-IRAs).

[21] Canada (in the provinces of British Columbia, Ontario, Manitoba, Nova Scotia and Saskatchewan, and at the federal level), France, Germany and the United States (for occupational plans).

[22] Except in Canada, where, once the employer sets up a pooled registered pension plan, the enrolment of eligible employees into it has to be automatic.

[23] This was not the case in New Zealand were all employers were required to implement automatic enrolment at the same time. However, as the target population only refers to newly hired employees, the initial burden was manageable.

[24] In Iceland, the employer must contribute at least 2% of wages for all employees contributing themselves at least 2% of wages into a voluntary personal pension plan.

[25] Any other matching formula that is at least as generous is also possible. This means that the maximum aggregate matching contribution must be at least 4% of salary and aggregate matching contributions are at least equal to the first formula at all percentages of salary an employee could contribute. For example, a 100% match up to 4% of salary also qualifies.

[26] DC 2.0: Three Paths To More Equitable Retirement Programs | Seeking Alpha

[27] Young and Young (2018[41]) show that, on a sample of 328 plans with voluntary opt-in enrolment, a higher match threshold reduces the employee contribution rate when considering all eligible non-highly compensated employees (i.e. including non-participants with a 0% contribution rate). When running the regression on plan participants only, the opposite effect is found.

[28] The authors compare three pairs of matching formulas: 100% on 3% of salary paired with 50% on 6% of salary; 100% on 4% of salary paired with 50% on 8% of salary; and 100% on 5% of salary paired with 50% on 10% of salary. The analysis includes both participants and eligible non-participants with a 0% contribution rate. The impact of stretched formulas on employee contribution rates therefore also includes the effect on participation.

[29] In 2020, 43% of Vanguard DC plans with automatic enrolment had a default contribution rate of 3% or less (Vanguard, 2021[39]).

[30] For example, in Mexico, financial wellness programmes are mostly implemented by large corporations.

[31] An active fund choice includes when members switch out of their provider's default fund into another of the provider's funds, and when members decide to remain in the default fund.

[32] Although increased engagement is positive, active fund choice may result in poor fund performance, especially if fund switching is motivated by market timing or driven by misleading advice.

[33] OECD calculation based on past KiwiSaver reports: KiwiSaver Report | Reports and papers | FMA.

[34] 161004-FMA-KiwiSaver-Report-2016.pdf

[35] Kiwisaver-AR-2021.pdf (fma.govt.nz)

[36] This type of conflict may be less likely to apply to employers who choose to be involved in the provision of asset-backed pension arrangements and want good value for the money they invest in the plan on behalf of their employees.

[37] Conflicts of interest | The Pensions Regulator

[38] Safeguarding individuals - automatic enrolment detailed guidance for employers | The Pensions Regulator

[39] [ARCHIVED CONTENT] Reports received of employers encouraging employees to opt out | The Pensions Regulator (nationalarchives.gov.uk)

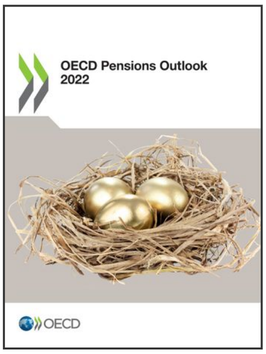
[40] Myths and misconceptions should be no barrier to super consolidation | APRA and Quarterly superannuation statistics | APRA

[41] Data find: Number of APRA-regulated superannuation funds from 2008 to 2018 | APRA

[42] Defined contribution pension market consolidation continues, TPR’s latest figures show | The Pensions Regulator

[43] Future of the defined contribution pension market: the case for greater consolidation - GOV.UK (www.gov.uk)

[44] In addition, even small pension funds may be able to achieve economies of scale and efficiency when they have close organisational links with the company sponsoring the plan and can benefit from this company’s resources and processes through outsourcing agreements.



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