

Submission to the Minister of Finance

in respect of the

Report of the Savings Product Working Group

“A Future for Work-Based Savings in New Zealand”

from



The Association of Superannuation Funds of New Zealand Inc.

3 November 2004.

Executive Summary

ASFONZ is the representative body of employer-based superannuation schemes in New Zealand.

- i) ASFONZ strongly supports taking the first two steps along the SPWG's "pathway", being the establishment of an education and information programme and a streamlining of the regulatory regime and the removal of any existing tax disincentives.
- ii) We oppose the introduction of a mandatory generic workplace savings scheme and submit that consideration ought first to be given to other less risky and less costly means by which the desired lift in savings could be achieved.
- iii) We are concerned at the potential for the introduction of a generic savings scheme to cause a change in employer attitudes to workplace superannuation. We think this will result in the closure, rather than the expansion, of workplace superannuation schemes. ASFONZ recommends that the issue of how any generic savings scheme integrates with and complements employer-provided workplace superannuation schemes be further considered.
- iv) ASFONZ recommends that any initiatives that are taken are measured and well implemented - "measure twice, cut once".

Our submission addresses the questions posed in the press release from the Minister which accompanied the release of the report. We also address some other matters of concern.

Background

The report of the Periodic Report Group 2003 ("the PRG") was presented at the end of 2003. One of the recommendations of the PRG was that the government establish a Work-based Savings Group to develop an agreed approach to promoting work-based savings by the end of 2004.

In response to this, the Minister of Finance and Revenue established the Savings Product Working Group ("the SPWG"). The Terms of Reference for the Group were such that it was required to provide advice on the design and implementation issues to be resolved in delivering a widely adopted generic work-based savings product. In effect, the terms were based on the directive premise that increasing the level of savings via work-based arrangements was a desirable outcome and that a generic product was required to achieve this. The Group has complied with its terms and has produced a design that aims to achieve the objectives it was set.

It is important to interpret the report in light of the Terms of Reference.

Submission – Questions posed by the Minister

Question 1: Should the government seek to change existing personal financial behaviours and if so how great is the need for intervention?

We address the second question first.

The press release that accompanied the report contained the statement “It (the Working Group) has come up with some practical options for one of the country’s most serious long-term economic problems – our poor level of savings.”

Recent research suggests that New Zealanders may not in fact (on average) be poor savers. While aggregate data suggests that we are a nation of poor savers, a significant piece of research, “Saving for Retirement: New Evidence for New Zealand”¹, based on the Household Savings Survey and Household Expenditure Survey (and which looks at the position of individuals) suggests that things are not as bad as some commentators would have us believe, so long as New Zealand Superannuation continues. A further piece of research based on the same survey looked at the position of individuals with workplace retirement savings and found that these individuals had higher levels of savings.

The proposition that national savings are inadequate and therefore the government should take steps to increase savings for retirement is doubtful as there is no compelling evidence that aggregate savings are too low. The most exhaustive attempt to assemble evidence on New Zealand's savings level and trends is contained in a 2002 paper by Claus and Scobie². They highlight problems with the measurement of savings and the difficulty of drawing clear implications for policy. While "flows" measures, based on the national accounts, may indicate that New Zealanders have, for the last 11 years, consistently run down their wealth (by spending more than they earned), "stocks" measures present a very different picture. On average, New Zealanders have increased their wealth over that same period. The key measure of financial preparedness for retirement is wealth at, and in, retirement, not the difference between income and spending during work. There is no evidence of New Zealanders' lack of preparation in this area. The best conclusion at present is that, at a macro level, there may be doubt about whether New Zealanders are saving "enough" but, at a micro level, trends seem more positive.

ASFONZ is pleased to see that the Government acknowledges the need for better data in this area and supports the Survey of Family Income and Employment (SoFIE). SoFIE can reasonably be expected to provide us with a wealth of data with which we can better assess the extent of any savings problem. We understand that the first results will emerge from SoFIE in the next 12 months.

So, the answer is that we do not know the extent of the problem (if in fact there is one). If we do not understand those key issues, it is difficult to understand how the intervention of any generic scheme should occur now, if at all.

¹ *Saving for Retirement: New Evidence for New Zealand*, a research paper released by the New Zealand Treasury in September. www.treasury.govt.nz/workingpapers/2004/04-12.asp

² Claus, Iris and Scobie Grant (2002), *Saving in New Zealand: Measurement and Trends*, Working paper 02/02, The Treasury, Wellington. www.treasury.govt.nz/workingpapers/2002.

This leads to a further problem, in that if intervention occurs then there will be no means to measure the success of that intervention. Intervention, even at its most intrusive - i.e. compulsion - might not lead to an “improvement” (however measured) in overall financial behaviour. There is debate as to whether the heavy-handed intervention in Australia has improved the financial status of retirees. A report in March 2004 by the National Centre for Social and Economic Modelling (NATSEM) ¹ in Canberra suggests that Australians may be reaching retirement with higher levels of mortgage debt than was the case in the past, due to a reduction in the rate at which they are retiring debt. Latest statistics indicate that Australian households have now borrowed 160% of their net disposable incomes. The SPWG noted ² that New Zealanders’ equivalent borrowing level is about 130% of net disposable incomes.

There are valid arguments that, before any major “remedial” initiatives are progressed, we should be satisfied that there is a problem that needs to be remedied. There is a potential risk that “solving” a “problem” that does not, in fact, exist might lead to a misallocation of resources and harm economic growth (the only thing that really matters with an aging population) *and* then not achieve the objective of increasing savings.

Having said this, there are ways in which the government could (or does) seek to influence personal financial behaviours which come with a lower risk to economic growth and existing savings. These include the provision of adequate funding to the Retirement Commission to enable it to maintain (or, better still, to enhance) its programme to improve the financial literacy of New Zealanders. We see this as a component of the first step along the pathway and one that should be taken.

By introducing a scheme for its own employees, the government has further attempted to influence the savings patterns of a significant subset of New Zealand employees. Education of HR Managers and Chief Financial Officers on superannuation issues may further influence a resurgence in the provision of workplace savings arrangements, if they appreciate how simple it is to establish a scheme and the advantages it can afford to employees.

ASFONZ considers that initiatives that support and make it easier for employers to offer workplace superannuation schemes, such as greater education and streamlining of the regulatory regime, could result in the desired expansion of workplace superannuation and associated lift in savings. We submit that options (other than the introduction of a generic scheme), which make the most of existing workplace schemes, should be fully explored before a generic scheme option is adopted.

We think that intervention through introducing a generic scheme can at best be considered to be only a means of encouraging a savings habit. We think that, in the New Zealand environment, it will prove ineffectual in this role. The generic scheme should not be considered to be a replacement for employer-supported superannuation schemes which make a well-recognised positive contribution towards retirement savings provision. Indeed we submit that if a generic scheme were introduced it would be essential for this to be very carefully integrated with employer superannuation schemes.

¹ AMP.NATSEM Income and Wealth Report Issue 7. March 2004
www.amp.com.au/au/3column/0,2338,CH8799%25FSI56.00.html

² At page 22 of the report.

Question 2: Would the suggested reforms to regulation reflect a suitable balance between reducing compliance costs and providing protection to savers? If not, where, and in what way, should the balance be altered?

The suggested reforms include reviews of:

- i) the legislative definitions of “promoter” and “investment adviser”;
- ii) the “principal purpose” requirement for registered superannuation schemes;
- iii) the current requirements in respect of “bulk transfers” from one superannuation scheme to another;
- iv) the legislative restrictions on what amendments to superannuation schemes require the consent of members;
- v) the disclosure documents required to be supplied to members.

The Group also addresses some of the issues in relation to taxation of superannuation schemes, but makes no recommendations on these so as to avoid pre-empting the pending Stobo report.

ASFONZ thinks that significant improvements can be made in each of the areas highlighted in the report, without compromising in any significant way the protection afforded to savers. In fact, we hope that the reforms would have the effect of improving the position for savers who should benefit from a clearer understanding of their schemes and lower fees. The introduction of a “successor fund” approach to transfers of members could assist in the development of a more market-competitive environment.

ASFONZ also suggests that New Zealand needs research on the effectiveness of the current disclosure regime prescribed in the Securities legislation. Do the investment statement and prospectus actually work for superannuation schemes? As far as we are aware, there has been no work done on this, though we understand that the in-depth review of the Securities legislation to be conducted by the Ministry of Economic Development during 2005 will address related issues.

The extent to which savers remain protected will depend upon the extent of the reforms.

Question 3: What are your views on the key features of the suggested scheme, particularly: automatic enrolment; an opt-out period; collection of savings through the PAYE system; use of a central administrator to manage the allocation of funds; exemption from mandatory offer for certain employers; contribution levels; ability to access funds prior to retirement; and the form that retirement benefits can take?

As already stated, ASFONZ is unconvinced of the need for intervention of the kind which the report (reflecting its Terms of Reference) contemplates. However, if we are to have such a regime, here are our comments on the Group’s suggestions.

Automatic enrolment

The suggested scheme would require all new employees with earnings above a specified level to be members for the duration of the opt-out period.

The Group refers to research on the psychology of investor behaviour. The recommendations put forward suggest that the Group has some confidence that an automatic enrolment regime will improve the level of participation in a mandatory generic regime. It does issue a caution that the New Zealand environment is very different to the regimes in which much of the research has been conducted. Those regimes tend to have significant tax incentives and, in many cases, employer subsidies. As far as we know, there has been no equivalent work done on this in New Zealand. We think that this work needs to be done before we can rely on

overseas research on this subject. We submit that it is incorrect to assume that an opt-out regime will be effective where no incentives will apply to encourage a saver not to opt out.

For example, mandatory enrolment may work well in a regime where the saver has a high expectation of being better off financially as a result of his or her membership. That might make the saver favourably disposed to being a participant. It is also helpful in such an environment that the party enforcing the enrolment can demonstrate, empirically, that an employee will be better off in the short-term by participating rather than by not participating. That is almost certainly not the case in the New Zealand environment (this is the “saving versus repaying debt” issue that we cover later).

Mandatory enrolment may not lead to improved take-up where there is no clear evidence that the saver will be better off and where the member has no ability to opt out, or to access his or her savings, for some period.

For employees who have moved to a new employer at the same rate of earnings, the enforced drop in take-home pay may spoil the dynamics even further through a need to review current outgoings (and potentially reduce the level of debt repayment).

There is a real risk that employees will suffer an adverse (and lingering) reaction to having been forced to forgo income.

It would be useful to seek input from an expert on the psychological aspects of the proposed automatic enrolment process in the context of the proposed rules. The report’s observations about investor behaviour should be tested in the New Zealand environment.

If automatic enrolment comes with a day-one right to opt out, then employees who are favourably disposed to participation, but who may suffer from inertia when it comes to filling in forms, will have been catered for.

From the perspective of any central administration “clearing house”, the “reflection period” creates a significant additional administrative burden as the administrator is required to deal with the cash and the paperwork for what may be large numbers of employees who choose to opt out as soon as they are able to do so. In the Appendix to this submission, we have attempted to assess the possible magnitude of this task.

Opt-out period

The aim of the opt-out period is stated in the report as being to have the employee become accustomed to the deduction process and become accustomed to the habitual regular contributions. For a weekly paid worker, a 30 day opt-out will, at most, cover 5 pay days, for a fortnightly paid worker 3 and a monthly paid worker only 2. It is unlikely that periods of this brief length will create a savings habit.

We assume that, after the opt-out period, the employee can elect to cease participation at any time. If not then this is likely to further increase the rate of initial opt-out.

We also need to be clear what the process will be for employees who earn less than the prescribed “threshold” amount but whose pay increases to more than that. Again, we suggest that this has the potential to create an administrative burden for all parties involved in the proposed process.

Collection of contributions via the PAYE system

The big advantage of using the PAYE tax facility for determining the amount of contributions payable is that employers are not required to establish a relationship with an entity in addition to the IRD.

This is offset by the following disadvantages:

- i) It will be 2-7 weeks (depending on how, and how often, the employer remits PAYE payments) before the amounts deducted from employees' pay are remitted to the clearing house. (Note that this makes the clearing house administration function messy too, due to the delay required before the administrator is able to return contributions to employees who opt out.)
- ii) Fluctuations in earnings will mean that some employees will have spasmodic savings. This may necessitate a "de minimis" rule allowing providers to pay out trivial balances regardless of any lock-in provisions.
- iii) Under this mechanism there does not appear to be any means for the employee to make voluntary contributions, or for the employer to provide a subsidy, under the generic system. Those contributions, if possible, would need to be channelled separately to the provider.

Central Administrator

The graph on page 50 of the report and the description of the role of the clearing house begs the question – why not have the IRD undertake the matching role? As taxpayers, all contributors have a relationship with the IRD, so why create another link in the chain? This additional link will create further delays in the time between the deduction of contributions from members' earnings and when that money is invested. It will also effectively require all employed taxpayers to have a national identity number (unless there is a change of policy on the wider use of IRD numbers). The IRD already collects and distributes money for ACC premiums, family maintenance, student loans, court fines and the like. Adding the collection and specific distribution of superannuation payments seems a small step.

It has been rumoured that a carrot for the private provider that assumes the role of central administrator may be that it becomes the provider of the default fund for employees who don't select for themselves. This may be of dubious value depending upon the success of the generic product. We also see potential governance risks in the blurring of the national role of central administrator and the commercial role of private provider.

Exemption for certain employers

If there are exemptions (such as for small employers or employers with existing "qualified" schemes) then there will be transition issues as employers fall within or outside the exemption from time to time. This will be disruptive for employees, employers, the central administrator and the scheme providers. The exemptions and the transition rules need to be crafted with care. They will require detailed regulation.

Contribution levels

The proposal to use the PAYE system has the advantage of simplifying the process for payroll purposes but suffers from a lack of flexibility. We have already mentioned the fact it cannot seemingly accommodate additional voluntary contributions from employees or subsidies from an employer. Furthermore, it seemingly gives no flexibility to the employee to determine an appropriate level of savings above the minimum.

Contribution levels of the scale suggested for illustrative purposes in the report (5% of contributions in excess of \$16,712, with a minimum weekly contribution of \$10) would see an annual contribution (before the deduction of administration fees and assuming consistent earnings throughout the year) of a minimum of \$520. That would produce a low level of total savings, and in any event, at that level of income New Zealand Superannuation would alleviate the need to save a great deal to achieve consumption smoothing over the employee's lifetime. We are unclear as to the public policy justification for encouraging individual employees to accumulate small amounts of saving in this way and with this type of vehicle. Accordingly a higher threshold would be appropriate.

Inevitably, fees for such low levels of saving will become an issue. It costs as much to administer savings of \$100 a week as \$10 and approved providers (and the IRD and central administrator) will want to be paid by savers for the work that they do. We see regulations on maximum fees, especially for small amounts of saving, becoming inevitable.

Recognising that there are those on lower incomes and those with student loans who may still wish to make savings through the generic system, it would be useful if voluntary contributions could be accommodated. This may be problematic if "sweeteners" are to be offered as these will, presumably, apply only to the regulated levels of saving.

Access to funds

In the absence of significant sweeteners, it is hard to see that employees will embrace the generic scheme if access to savings is restricted. It would also be difficult to justify precluding the withdrawal of savings in the event of hardship. However, if hardship access were permitted, this would introduce a layer of costs for the provider (it is perhaps, harsh to apply the costs associated with assessing a hardship claim against the person requesting payment) and a need for further regulation.

We support the view of the Group that liberal access should be permitted. In supporting this approach, we recognise that the generic scheme is not a retirement savings scheme but instead is a device for encouraging a saving habit.

We also recommend that it be possible for savings accumulated in the generic scheme to be transferred to an employer-provided scheme. This will enable any small savings to be aggregated in the event an employee starts saving in the generic scheme and subsequently joins an employer-provided scheme.

Form of retirement benefits

There should be no restriction on the form in which benefits can be taken.

Default provider

In the recent ERMA survey, 80% of employer respondents indicated that they did not want to take responsibility for selecting the savings scheme for their employees.

In instances where the employer has not selected a provider, the Group suggested that a default provider be selected either:

- i) randomly by the central administrator, or
- ii) as a national default provider after a competitive tender process.

We note that individuals could then elect to transfer to a provider of their choosing. In practice, individuals would presumably override the employer-selected option from day one rather than needing to transfer.

Option i) imposes a further administrative burden on the central administrator which will now assume responsibility for providing disclosure material to the employee (the employer can no longer have a role in this for logistical reasons). This is likely to create confusion for employees – two employees with the same employer who join on the same day are most likely to be allocated to different providers.

The Group (indirectly) suggests that option ii) suffers from having the appearance of the provider being selected by the Government, with some form of implied guarantee. We assume that this is similar to the concern felt by the 80% of employers that did not want to make the choice for their employees.

For the generic scheme to operate effectively, we think it is important that employers are positively engaged in the process. Any reluctance to be involved may be overcome through education and by a well thought out approach that makes the generic scheme operate in a complementary manner alongside employer-provided schemes.

Question 4: Do you have any views on the need for sweeteners and their value? Do you have any views on the extent to which sweeteners should be funded, or on which type of sweetener would be the most equitable and/or effective? What specific considerations need to be taken into account to protect the existing occupational superannuation scheme base?

The recent State Sector Scheme included what was effectively a net 1.5% pay increase, rising to a net 3% increase (about 4.5% before tax) in a year for employees who joined. The published acceptance rate was only a little over 40%.

In Ireland, contributions to a PRSA¹ up to 25% of pay for those aged between 30 and 39 are tax-favoured. The percentage is higher for those over age 40. Despite this, take-up rates have been negligible (a total 16,000 members in a country with a workforce about the same size as New Zealand's).

For sweeteners to have any impact, it appears that they need to be significant. If they are significant then participants in existing and any new employer-provided workplace schemes need to also enjoy the sweeteners (and be subject to any restrictions that may come with them). An even-handed approach is in our view essential to ensure that workplace savings occur through both the generic scheme and other employer-provided schemes. In our view it will be the other employer-provided schemes which in the long-run achieve the greater contribution towards retirement savings than the generic scheme.

We must also not lose sight of the fact that there is no international evidence of “sweeteners”, in the form of tax incentives, actually increasing national saving.

Question 5: Do you have any views on the practicalities of implementing changes or on the feasibility of the timetable that the Group has outlined?

We strongly urge the Government to “measure twice, cut once”.

The timetable contemplated by the Group appears to suggest that it would be possible to have most of the generic scheme's implementation complete by April 2006. We believe that this is overly optimistic and would be surprised if all the requisite regulation and administrative processes could be put in place before 1 April 2007.

¹ Irish employers with more than five employees are obliged to give all employees access to a Personal Retirement Savings Account (similar to what is proposed for New Zealand).

Submission – Other comments

Issue 1: Protecting the current savings base

“Any new generic scheme would build...slowly, and those gains would be rapidly and materially counter-acted if the design features gave either incentive or excuse to close existing schemes and distribute fund balances.

Our first building block in any solution is therefore to protect the base of the pathway.”

– Page 25 of the SPWG report.

It will come as no surprise that we whole-heartedly endorse these remarks. It would be a tragedy if existing savings were “lost” as a result of an initiative which set out to increase savings. It is imperative that, at each stage along the pathway, provision is made to accommodate existing arrangements and ensure that employers who have embraced the current voluntary regime support any new regime.

Specific areas of concern include:

Eligibility: It is common practice for employers to have some restrictions on eligibility for membership of their scheme. For example, there may be a service-related eligibility period (commonly 1-6 months), or the scheme may not be available to casual or part-time employees. If it becomes mandatory to offer access to all employees then the employer will be faced with either:

- i) modifying the eligibility (and perhaps the benefit) rules of the existing scheme, or
- ii) arranging to offer a scheme that complies with the mandated rules alongside the existing scheme and deal with the complexities that accompany operating two arrangements, or
- iii) winding-up the existing scheme and offering only the generic scheme in future.

Sweeteners The report comments on “sweeteners” that might be incorporated into the design of any mandatory arrangement. These include meeting the costs of the central scheme administrator, offering kick-starts, top-ups, reward payments, and “free” life insurance cover.

Participants in (and sponsoring employers of) existing workplace schemes may be left with a sour taste in their mouths if sweeteners are limited to schemes established or offered under the new generic regime. Again, that could influence employers with existing schemes into closing their schemes.

Issue 2: Building on strong foundations

The proposed generic scheme design is based around a voluntary savings regime in which employees decide whether or not to opt-out. Accordingly, a key to success is creating demand from employees and support from their employers.

The first two steps along the pathway address education and streamlining the existing regulatory environment. Both of these initiatives would benefit existing schemes, and the two would seem to be necessary foundations for the success of any initiatives further up the pathway.

Education has been started through the Retirement Commission's various campaigns but could be expanded significantly with an increase in funding from Government and more specific targeting of workplace provision. Streamlining of regulation and, in particular, the easing of regulatory risks for employers in promoting workplace schemes would be very positive.

ASFONZ considers that a concerted effort at these two stages of the pathway would result in an increase in the demand from employees for access to savings vehicles. It would also improve understanding from employers and unions as to the ease with which they could establish a master trust vehicle for employees/members. In this way, they could help make available benefits which would not be possible with the generic scheme. These include voluntary, variable contributions, employer subsidies of different kinds, tax-effective savings through salary sacrifice, insurance options and other ancillary benefits (such as disability insurance).

We think that measures taken along the first two steps of the pathway will involve much less cost and less risk than the first-up adoption of the generic scheme. We think that they merit serious consideration before the intervention of a generic scheme can be justified.

Issue 3: Paying off debt versus saving for retirement.

Most employed New Zealanders have some form of debt, be it mortgages, student loans, hire purchase arrangements or credit card debt.

In the absence of an employer subsidy and under the current taxation regime, most will be worse off if they make superannuation savings rather than repay debt.

Someone should explain this issue to employees when they are deciding whether to opt-out.

Furthermore, if a "reflection period" that is too long is put in place and if access to accumulated funds is restricted, then deferral of debt repayment may (in effect) be compulsory for anyone who changes employer.

Our organisation

The Association of Superannuation Funds of New Zealand Inc. ("ASFONZ")

ASFONZ is an independent national, non-profit organisation founded in 1969. Its current membership comprises around 100 major workplace superannuation schemes and around 50 organisations and individuals representing the various product and service providers for workplace superannuation.

The mission of ASFONZ is to promote workplace superannuation in New Zealand.

ASFONZ seeks to achieve that mission through:

- 1 **Advocacy** – being the recognised voice for all employers and trustees involved in workplace superannuation, through:
 - (i) advocating legislative and public policy initiatives beneficial to the industry;
 - (ii) making submissions and commentary on existing legislative and public policy initiatives;
 - (iii) issuing regular press releases and other public commentary on matters of wider concern or interest to members; and
 - (iv) staying in regular contact with responsible Ministers, regulatory and industry bodies, the Retirement Commissioner and Government Departments to project, promote and advance members' interests.
- 2 **Education** – promoting trustee, employer and member education through dedicated training programmes, newsletters and special interest seminars.
- 3 **Networking** – providing trustees, employers and service providers involved in workplace superannuation with a regular forum for sharing ideas and information on industry matters.

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Appendix: Estimate of the processing required for opt-out process

We have attempted to estimate the volume and quantum of the refunds that the clearing house might need to process in the course of a year:

Assumptions:	Size of workforce:	2 million
	Workforce coverage:	80% (allowing for small employer exemption)
	Turnover:	Say 12.5% p.a. (employees changing jobs)
	Opt-out period:	30 days

On these assumptions, we can estimate the number of transactions required at various levels of opt-out for just the existing workforce.

Percentage of new employees opting out	Number of refunds processed in a year
75%	150,000 ¹
85%	170,000
95%	190,000

¹ $2,000,000 \times .80 \times .125 \times 0.75$

If we consider an employee on the national average wage of \$40,067 then 30 days of contributions will amount to \$97.31. For most, the amount collected will be less than this (most earn less than the national average).

In looking at the volume of opt-out transactions, we have not adjusted for those with earnings below the threshold or those with student loans. On the other hand, we have not allowed for new entrants to the workforce.

At first assessment, including the lower-paid may seem to result in an overstatement of the numbers. However, over the course of that person's employment, it may be the case that earnings increase above the threshold or that the student loan is repaid. The opt-out mechanism will then presumably come into play for these individuals and paperwork will need to be completed.

The opt-out rate

The Working Group did not attempt to estimate the number who would join the generic scheme and, therefore, the number who would opt-out. In our experience, an employer that offers access to a voluntary scheme where the only subsidy offered is the payment of fees (a sweetener of the kind discussed in the report) might expect about 5% of employees to join for retirement saving. Adding an employer subsidy in a voluntary environment might increase that take-up to about 50%. Restricting access to savings, such as the State Sector Retirement Savings Scheme provides (still in a voluntary environment), would produce a lower take up rate. So, the 40% recent uptake experience of the new scheme for state employees was within the expected range of our experience.

The opt-out process suggested for the generic scheme will produce a different outcome from the now typical "passive" voluntary arrangement so we would expect more than 5% to remain members after the reflection period, depending on the level of sweetener offered. Unless there is a substantial direct subsidy (such as the matching employer contribution used in the new State Sector Scheme) we think that the opt-out rate will probably exceed 75%.