MUFG
Time to turn the pension market upside down

MUFG Retirement Solutions
A division of MUFG Pension & Market Services

MUFG

Who should read this white paper and why?

Pension providers, policymakers, industry groups, plan sponsors and other responsible parties associated with driving policy for retirement savings in the UK seeking to understand how market changes based on Australian experience can be used to improve member outcomes, increase member choice and create a long-term strategy for the UK market.

This paper aims to:

- Inform readers on the impact that compulsion and increasing minimum contributions have had on the Australian market.
- Explain how a member-led approach to Fund selection has reduced the proliferation of small pots.
- Offer guidance on a future industry structure that enables a long-term strategy for UK pensions to be established and implemented.

“Fundamental change is needed now in order to build a pension industry fit for members, fit for purpose, and fit for the future.”

MUFG Retirement Solutions

Executive summary

This whitepaper examines the UK and Australian pensions sectors and proposes recommendations that MUFG Retirement Solutions believes will help UK members prepare for a healthier retirement outcome.

Today in the UK, millions of workers have multiple legacy employer-led schemes over which they have limited say on investment decisions. To them, pensions feel more like a tax, with money disappearing from payslips for some unknown future. Funds are left behind in fragmented pots instead of travelling alongside them as a modern pensions passport.

The industry itself is fragmented, with no single authority setting the strategic long-term direction of pensions. In addition, with the extraordinary economic pressures on households, how can we maintain our singular focus on retirement?

It's a different story in Australia, where MUFG Retirement Solutions has supported a progressive, member-led model over the last 20 years to help members plan for better retirement outcomes.

> "If it is happening in Australia, my starting point is that it should be happening in the UK."
>
> **Guy Opperman, UK Member of Parliament[1]**

Through the lens of this market comparison – and based on our deep understanding of member behaviour, we propose three pragmatic recommendations for discussion within the UK pensions sector:

1. Retirement readiness

Maintaining minimum contributions, despite economic pressures, to protect both member fund growth and the financial relationship with our future selves.

2. Members' choice

Give control back to employees and enable them to take their pensions with them by the creation of an industry clearing house.

3. Industry structure

Empowering a single industry body to represent the interests of the whole UK industry, driving long-term strategy for UK pensions.

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"We are making small steps towards better member outcomes but we need to accelerate change now if we are to create a pensions system that is future fit for all members."

Richard Wilson, General Manager - EMEA, Retirement Solutions

Introduction

Complexity, fragmentation and a perceived lack of value have plagued the UK pensions industry for decades. We are making small steps towards a better industry and outcomes for all but much more needs to be done before it is too late.

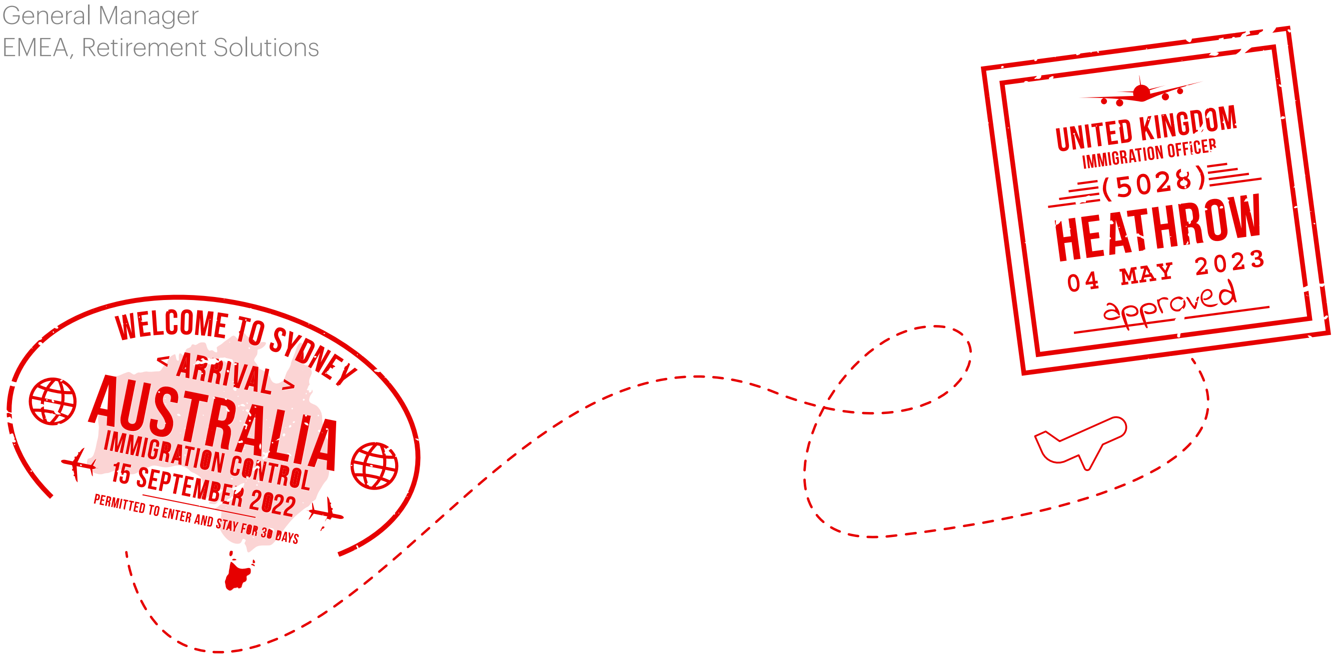
Australia's superannuation system was recently named the #1 market in the Global Pensions Assets Study by the Thinking Ahead Institute with 20-year pension asset growth of 11.3% pa. Totalling $3.5T AUD, the substantive growth and consistency of the industry has strengthened Australia's economy and bolstered a strong future for increasing waves of retirees as the system enters into full 30-year maturity.

The tenure of the Australian system, as it has navigated many ongoing challenges, poses intriguing lessons that we believe we can learn from. Pillars of its strength and success are its robust regulators, long-term focused reform, effective DC consolidation and efforts to re-centre members at the heart of its system.

As a leader in our category globally, we have supported the growth and scale of some of the industry's best and highest performing funds during our history. Because of this, we feel we are well placed to bring to light the most relevant insights and recommendations that could revolutionise the UK pensions market for the better.

We hope this whitepaper provides some insight and guidance, provoking discussion and accelerating change towards a more future fit UK pensions market.

Richard Wilson
General Manager
EMEA, Retirement Solutions



Background / differences

At a glance: The UK and Australian pension models

	UK	AU
Tax treatment	Pension payments are taxed with the exception of an element of tax free cash – contributions are not taxed.	Pension payments are tax-free after age 60: Any super benefits, either pension or lump sum, paid after age 60 are tax-free - contributions are taxed.
Maturity	Less mature, still in transition as more move to DC.	Mature, DC system firmly embedded driving results and scale.
Assets	DB 81%, DC 19% (DB majority) Total AUM £2.58trn[2]	DB 13% DC 87% (DC majority) Total AUM: $3.3trn[3]
Contribution burden and control	Recent reforms (Auto Enrolment from 2012) have positively boosted the number of people saving. However, it has perpetuated the high volume of small pots as employees change employer.	Moved to member choice as part of 2005 reforms.
Contributions	8% from employer and employee, employer must contribute 3% and employee may opt-out, impacting contributions from employer.	Employer must contribute 10.5%, moving to 12% by 2025. It is mandatory.
Asset weights[4]	29% Equity | 62% Bonds 7% Other | 2% Cash	53% Equity | 13% Bonds 22% Other | 12% Cash
Growth	4.5% 10-year CAGR[5]	7% 10-year CAGR[6]
Consolidation	40% since 2011 (45,150 to 27,700)[7]	50% since 2010 (389 to 179)[8]
Contribution entry	£192 week £833 month £10,000 year threshold	No threshold ($450 threshold eliminated in July 2022)
Engagement	Low	Low
Pension age qualification	65	65
State pension age	66 female – 68 male	66 female - 67 male
State pension qualification test	National insurance record	Residence, Income and Assets test
Retirement readiness	DC pension pots underfunded, state pension may run out by 2032, longevity risk.	Retirement planning complexity and literacy, poor products, longevity risk.
Regulators	Pension Regulator & Financial Conduct Authority, HMRC	APRA, ATO, ASIC

A history of difference

Occupational pensions have a long history in the UK, dating back to the 17th century. They rose in greater prominence in the 1950s, driven by post-war employment and rising adoption by employers. These were, however, mostly Defined Benefit (DB) schemes.

It wasn't until the early 1990s that the UK saw the advantage of a shift towards Defined Contribution (DC) schemes. Since then, employers have largely focussed on closure of DB schemes with DC used as the primary vehicle to replace them. This move was further accelerated over the last decade with the introduction of auto-enrolment introducing compulsory workplace pensions to all employers. The shift is accelerating with most employees since 2012 automatically enrolled into said schemes.

Comparatively, DC became the dominant model for pensions in Australia when they were made mandatory in 1992, driven by inflation set about by wage rises. The mandatory minimum contribution set by the Superannuation Guarantee. It was originally 3% and has risen in small increments to 10% today, with the aim of raising it to 12% by 2025. Contrast that with the UK, where contributions for the DC model are shared between employers and employees to a minimum of 8%.

Both systems follow a similar three-pillar structure of a state pension, occupational pension and voluntary contributions topped up at the member's discretion. However, the two systems have differed greatly in their evolution. The UK's long historical pensions history and frequent government adjustments have created one of the most complex systems in the world. Additionally, political tensions have overridden reform focused on the long-term which many believe would have helped it overcome the current pension crisis. It is fair to say that a long-term strategy for UK Pensions is long overdue.

Comparatively, Australia's later start has been surprisingly advantageous. The system benefited from movement by trade unions and Labour governments, beginning in the 1970s, which made strong recommendations for employee super contributions. Mandatory contributions have become strongly embedded within Australian culture as positive government intervention.
While there has always been a cohesive, long-term vision toward a certain system, some subsequent reforms have suffered from the same 'short-termism' that has beset the UK. However, a retained focus on a universal system has ensured the purpose and fabric of the system remains a foundation for better outcomes.

At the same time as superannuation began to thrive in Australia, social and political views of DC pensions in the UK faced strong headwinds - DC Schemes were perceived to weaken workers' pension provision as they started to replace DB schemes. These headwinds arguably caused massive reductions in worker and employer contributions over the next decade as DB schemes continued
to be underfunded and took up a disproportionate volume of contributions from employers.

The worker landscape began to shift globally but DB schemes remain a significant cost in the UK and no longer evolve to meet changing employee behaviours as they are now almost universally schemes with significant liabilities in respect of ex-members of staff rather than active current employees.

According to the World Health Organisation (WHO), life expectancies globally have lengthened by 6 years over the last two decades making DB schemes extremely costly for businesses to maintain. Employee loyalty too has changed dramatically. DB was built to support workers who maintain tenure at a company for 40+ years but this is no longer so. Nowadays employees are more likely to move between multiple employers, sectors and occupations during their lifetime. In fact, around 9% of UK employees on average have changed jobs between 2000 to 2018[9]. This trend looks likely to accelerate, with a recent 2021 survey of 6,000 workers by Randstad finding that

"It is fair to say that a long-term strategy for UK Pensions is long overdue."

69% of UK workers are ready to move job.[10] With a skills and labour shortage post-pandemic, it's an employees' market.[11] It no longer benefits employers to take on the majority of the burden in supporting their members when it comes to retirement.

In comparison, DC's dominance in Australia has removed the onus on employers and reliance on the government's state pension, by shifting it onto employees. While that may seem unfair to some, DC has helped drive automatic long-term savings behaviours by Australian citizens so much so that it has largely become a part of the culture and consciousness. With over 30 years under its belt, the Australian superannuation system has begun to reach maturity where many of its initial members are now moving into retirement.

As the UK pensions system continues its shift towards a DC model, we will examine three major lessons to be taken from the Australian system with useful recommendations on what the UK system can do now to overcome these future challenges.

Consolidation crunch

In both markets, there has been considerable desire and movement for the consolidation of DC pension schemes and funds. The nature of consolidation, after all, can be beneficial both operationally and in investments, offering better mechanisms for cost and return dynamics. However, this seems best for those who can realise the scale of consolidation, specifically Master Trusts in the UK.

According to UK Minister of State at the Department of Work and Pensions Guy Opperman, the occupational pension market's 'direction for travel' is towards consolidation, with 40% of the market having reduced within the last decade[11]. He believes that successful consolidation will drive more accountable governance, faster innovation, stronger national investment and ensure better outcomes for members in the long-term. This path forward has been shown to work in part because of Australia's success.

There is a theory that further consolidation will drive better outcomes for members through larger schemes, greater governance and innovative investment strategies such as the ability to invest more in illiquid assets. There are also fantastic opportunities for schemes to invest back in the country as many of Australia's top funds have done, strengthening the economy.

40%

reduction in schemes in UK

46%

schemes gone in last decade in Australia

Australia's superannuation industry has already gone through several phases of consolidation with the number of funds halving, from 389 to 179, in the last decade[12]. The history of consolidation over that period has been driven by funds combining to derive a better competitive advantage. An example is the creation of Australian Super who wanted to use scale to deliver better benefits to members and whose explosive growth enabled it to become the largest fund in Australia. Consolidation has accelerated again in more recent years but was driven on multiple fronts including competitive scrutiny, regulatory pressure, Australian Prudential Regulation Authority's (APRA's)
annual performance test and a larger industry desire for a healthier superannuation system.

MUFG Retirement Solutions recently conducted a study with Monash University on the impact of consolidation in the Australian market. The study measured the execution of consolidation and whether it had positive effects on both acquirer and successor, as well as the merged entity overall by looking at efficiency, performance and cost measures. Although it is too early to make any long-term conclusions about merger outcomes, mergers were seen to reduce operating expenses in the short-term allowing combined funds to take advantage of their relative economies of scale. The overall merged entity also saw no negative effects on their performance or efficiency and became more cost-efficient as a result of the merger. Overall, and even with limited mergers to measure, consolidation in the super industry has helped funds reduce expenses without affecting their performance – a true signal that mergers are positive for the industry.

We understand that there may be some hesitation and reluctance around consolidation in the UK due to the major differences between the pension systems. The UK is plagued with higher system fragmentation, employer-centred pension structures and a DB majority unlike Australia. Additionally, there is some question as to whether consolidation only benefits Master Trust schemes versus smaller schemes.

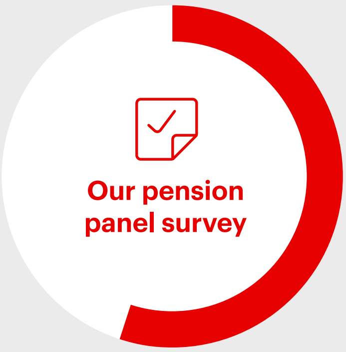
If the UK can make consolidation work, it could ensure the market is sustainable and could use scale to bring more complex parts of the system together. In the Australian model, different kinds of funds find the consolidation of DC schemes beneficial from DB funds (which can be integrated seamlessly as part of DC mergers) to sector-diverse funds. As an example, the annual APRA performance test, that encourages consolidation for underperforming funds, supports this broader system effectiveness.

1. Retirement readiness

MUFG Retirement Solutions 2022 UK consumer panel research shows that more than 55% of UK consumers did not know or were uncertain as to their expected retirement income despite 1 in 2 feeling it was their personal responsibility to secure said income. Being 'retirement-ready' for many Brits may feel like a distant fantasy. Previous global studies found UK citizens "less ready for retirement[13]" than their US and Australian counterparts. In fact, they were least likely to have personal savings for retirement and reported a lack of knowledge in how to make their savings last. When assessing retirement readiness, two factors must be considered:

a. Adequate member pot sizes
b. Retirement planning and preparation support

Without these safeguards in place, no citizen can feel secure or confident that they will reap the best benefits to sustain them well into old age. While DC, as we mentioned before, is shifting the onus onto the member, there still needs to be assistance from the system and its schemes to help make this happen.



55% of UK consumers
did not know or were uncertain as to their expected retirement income

Accumulation: Building a better pot

The UK is making steady strides forward by introducing pension reforms and increasing access to education to accelerate readiness. Our 2022 consumer research suggests that the UK Government and pensions industry have been successful in building better public awareness and understanding of pensions, with 4 in 5 consumers reporting to 'understand' their pensions. However, there is a clear need for the industry now to ramp up support to guide members into building larger pots through long-term saving behaviours.

The establishment and use of Pension Wise and the impending launch of the Pension Dashboard(s) are also key in helping the public to both understand and prepare for accumulating a large fund through their working life. Positively, our research shows that 60% of respondents knew the value of their pots. However, a 2021 Pensions Policy Institute study found that 5M British citizens[14] coming into retirement are at risk of lacking an 'adequate' income. Additionally, 90% of all current DC savers were also at risk of falling short on their expected retirement income.

Indeed, in September 2022 The Work and Pensions Committee (WPC) urged the UK government to consider boosting future saving rates.

The WPC acknowledged that the cost-of-living crisis is a difficult time to ask people to pay more into their pensions, it argued that the government should start building a consensus on the need for change now, to avoid a future catastrophe.

The WPC warned that despite the introduction of auto-enrolment (AE) ten years ago, more than 60 per cent of people are at risk of missing out on an adequate standard of living in retirement.[15]

The longevity and dominance of DC in Australia, which has enforced mandatory contributions with tax-free caps, has ensured superannuation members, for the most part, have built large enough pots to meet retirement requirements.

Originally, the Australian superannuation system was set up to supplement the retirement phase with longevity risk-pooling to enforce better savings in retirement, with the addition of releasing the burden on the Age Pension, which would never be enough on its own given increasing inflation and life expectancies. This system, as it seems, works. 2022 marks the 30 year anniversary of the mandated contribution system in Australia, which started at 3% in 1992. Australian Super, one of the nations largest superannuation providers, estimates that a 30 year old in 1992 with an average salary who has contributed in line with government mandated rates, would today have around $300,000.[16]

Compare that to UK citizens who, with the pensions system existing as it is (and assuming a full state pension of £9,627.80 in 2022/23) will need around £19,000 a year to enjoy comfortable (but modest) retirement.[17] This is when pots are averaging a £61,897.15. To achieve a private pension for the £9,372.22 balance will need a pot in excess of £200,000 at a 4% annuity rate, and without factoring in tax free cash. If we then look at what the Pension and Lifetime Savings Association (PLSA) regards as the essential Retirement Living standards in the UK, the difference in total pot sizes between the UK and Australia becomes even more stark.

Resetting the system in the UK so mandatory contributions are enforced, however, is not enough. It is as much a legislative change as it is a member mind-set shift. Pre-COVID, Australia hadn't faced a recession since 1991 while the UK was hit by 2008's 'Great Recession', which Australia avoided largely due to demand from China. This meant superannuation was able to take hold and forced savings were not disrupted by external events.

At the moment, constant upheavals to the UK system have reinforced mistrust and driven a poor reputation in the sector. Additionally, though DC enrolment has risen, contributions have remained at low or minimal levels.

A government review in 2021 warned that the state pension will run out within just 10 years.[18] This is a huge warning that more must be done, and quickly, to uplift DC contributions and pots before it is too late.

Recommendations:

We recommend mandating minimum contributions as a central pillar to protect and grow people's relationship to their future selves. We believe that mandation should include universal step-changes to slowly raise enforced contribution rates. Furthermore, opting-out or ceasing membership stores up societal issues for the future and should be removed as a default option for members except in the most difficult of circumstances when it should be time limited.

Ensuring that people do not opt out or cease their pension contributions despite the current pressures on life (war in Europe, inflation, cost of living etc) is vital as funds are now going to be eroded at the fastest rate in history at a time when index linking is more expensive than ever. Helping people to understand that their pension is vital to their future selves is critical.

While mandating pension contributions may face pressure in today's environment, it is key to ensure that pot sizes become larger so that it enables members to have a proper relationship with their money. All the time that pension pots are, on average, smaller than the average travel card or small car, they will not have relevance to people's future.

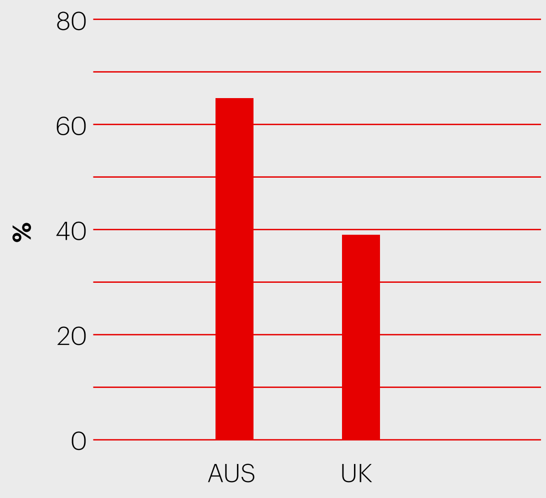
By ensuring that pot contributions escalate, and therefore create larger funds, people's relationship with their money will change, which will change the way the market interacts with the members of their schemes and change behaviours in both accumulation and decumulation.

Decumulation: Getting retirement support

There is a hidden issue with concentrating just on pot size and accumulation – while it is vital in making an individual's pension 'big enough to matter' it is not a substitute for understanding income needs in retirement. Understanding individuals' longevity risk is key to managing the decumulation phase, education and pot size is no substitute for well designed and easy to understand decumulation products.

Low confidence as people move into retirement plagues most pension systems, even Australia's. Despite a strong system, a joint Retirement Confidence Index study between Australian Super and Monash University, found that the average score for Australians over 50 was just 65/100[19] . This signals that retirees lack preparedness, understanding and the system's support to face into retirement with ease, including making decisions about maximising their entitlements or how to make the most of their money in the drawdown phase. Similarly, a 2021 survey[20] in the UK reported only 2/5 (39%) of those planning to retire felt very confident that they were financially ready, while another reported just 26%[21] said they were on track to reach their retirement goals.

Much of the focus for both the Australian and UK pensions system has been on the accumulation phase (building pension pots) to the detriment of the decumulation (retirement). In fact, when most retirees reach retirement, they find themselves navigating a quagmire of difficult risks and products, none of which they are often prepared for. The system as it exists also throws up a lot of hurdles itself. Even in Australia, combining your superannuation savings with the Age Pension to maximise your entitlements is difficult in and of itself, with a recent MUFG Retirement Solutions Pension Panel Study survey finding that over a 1/3 expressed low confidence when applying for the Age Pension and another 1/3 delayed their application for over a year, despite being eligible. The culmination of all these challenges is a real cost to the quality of life that retirees could have in retirement, and sooner, should they have the right guidance and support.



Average score for Australians confidence was **65% while UK is 39%**

The Australian answer to this challenge has been the result of multiple government inquiries as to retirements' unnecessary complexity: the Retirement Income Covenant (RIC). Instead of burdening the member with figuring out on their own, the responsibility is now shifting to be on super funds to have a strategy (and execution) to better assist members into retirement.

The strategy must focus on helping a broad section of their members to balance:

- Maximising their retirement income
- Managing risks to the sustainability and stability of their retirement income
- Having some flexible access to savings during retirement

With the RIC deadline now past, fund schemes are rushing to pull together an initial strategy that will likely keep evolving as more and more guidance is released, such as ASIC's recent update for superannuation calculators and retirement estimates[22]. In fact, the RIC has drawn ample criticism in this regard, with industry pundits and funds calling for more detail and direction from the government when it comes to implementing the above provisions while navigating the tight restrictions around providing financial advice.

Right now, there is no obligation on UK schemes to do anything similar to support members turning their accumulation pots into sustainable pensions.
A similar RIC should be introduced as soon as possible into the UK as mandated legislation with better qualifications and instructions how to improve offerings and support for retirees into decumulation – the earlier the better, as the Australian system is proving it has left it too late and many retirees, who have built sizeable pots, are now affected. Should a similar principle-focused design be used, in the UK attention should be focused on ensuring there is no murkiness when it comes to other areas it may contravene such as financial advice.

Recommendations:

The UK should closely monitor the implementation and outcomes of the RIC's strategy and how it benefits members into retirement.

2. Member's choice

With more and more British citizens understanding the value and importance of their pensions, it is becoming essential to maintain the momentum of that engagement in order to help them produce the best outcomes into retirement. Our Pension Panel Study found that 1 in 2 existing members would prefer to pick their own scheme, and 1 in 3 would like to be more involved in the management of their scheme. These numbers are likely to increase as pension awareness continues to take hold. This suggests an opportunity for a positive shift towards a 'member decides' model.

1 in 2
of existing members would prefer to pick their own scheme to give them greater control of their financial future

1 in 3
would like to be more involved in the management of their scheme

1 in 3
do not feel in control of their pension and retirement savings

1 in 2
say their pension provider does not encourage them to get involved in the management of their retirement plan

(MUFG Retirement Solutions Pension Panel Study 2022)[23]

The dominant 'employer decides' model in the UK has worked in the past but more control and choice should be shifted to the member for Defined Contribution schemes. The burden on the employer means Trusts have not communicated the value of workplace pensions well to disengaged members. Funds, therefore, are taking advantage of that lack of engagement and are remaining complacent in encouraging members to contribute and engage.

By moving to a 'member decides' model, we believe there can be a greater resolution to the small pots issue, which is more likely to lead to higher engagement from members, better and more informed consumer choices, and larger pots during accumulation.

The UK's 'employer decides' model has also ensured minimal or low contributions from both employees and employers. The imposition of pensions, regardless of choice has led to a lasting perception amongst members that pensions are a tax on their earnings and not a long-term benefit. Funds do not do anything to correct this perception as it is seen as an employer responsibility. Conversely, employers feel that pension communication is the Scheme or Fund's responsibility.

Neither position is correct, but without some form of competitive advantage to be gained from more informed, engaged and positive member interactions the member is the one that suffers.

Many would argue that Australia's superannuation system has sustained success because of routine government intervention such as the enforcement of mandatory contributions. However, this has also reinforced a number of problematic issues including fund complacency due to members default into funds, product underperformance due to a lack of competition and disengaged members. This has triggered a number of government reforms, many of which have been to engage members by putting power and control back in their hands.

1 in 4
pension providers do not make it clear what members can change or how they can make changes in relation to their pension

In 2005, the Australian DC system shifted from an 'employer decides' model to a 'member decides' model facilitated by government reform that allowed employees to select their super fund for contributions. Allowances for greater direction and choice by the employee has only continued to increase with more recent reforms which introduced 'stapling' in which a person is 'stapled' to one fund for life, unless they choose otherwise, and an APRA-directed annual performance test, which compels funds to meet certain obligations or face consolidation.

1 in 3
of all super accounts were duplicates in 2018
(2018 Productivity Commission)[24]

13 million
duplicate accounts eliminated from 2015 – 2021[25]

87%
of members stay in default products

95%
of members stay in default products

Australian 'Protecting your Super' reforms had drastically reduced the existence of multiple pension accounts but did not stop them from being created. This can swallow up new pots through administration fees and insurance premiums. In a roll-on effect, this also means that funds cannot now rely on members defaulting into their scheme. In order to grow or compete, they must have a differentiated offering that retains existing members, or encourages other members to switch or open their first super account with that fund, further reinforcing the 'member decides' model.

In our 2022 UK Pension Panel Study, a massive 75% of respondents said they would prefer if they could take their chosen workplace pension from one employer to another, showing a large desire for similar action here. Empowering members not only benefits members with the promise of increasing engagement but enables greater competition between funds by focusing on those who can best serve the member.

In Australia, there have been a number of positive results including the consolidation of multiple super accounts which have reduced by 13M since 2015. Despite (or maybe due to) continuous reforms, new digital technologies and fund activity to better serve the member; between 70—80% of fund members have remained disengaged[26], with some reporting that they avoid making the choice, or prefer to have someone else make it for them. This is further exemplified by 87% of members remaining in the default product[27] compared to choice products. While this compares favorably to the UK who have 95% of members remaining in the default, for both countries who desire the effects of greater choice and engagement, this presents a challenge for both policy and the affordability of the state pension in the UK.

Nowhere is this clearer than the growth in deferred pension pots in the UK's workplace DC sector where in 2021 alone a further 2 million deferred pots were created.[28]

Ownership is of primary concern. While the Pension Dashboard will do wonders for improving the transparency for individuals, years of 'set and forget' behaviour will still be difficult to overcome when outcomes are still too far off to be realised or other financial issues are vying for immediate attention. It is a first step followed up by other consistent activities that will change behaviours. More importantly, the power and necessity of government intervention or the 'default' should not be dismissed as a protection mechanism to ensure members are better off.

From Australia's history, the UK should do more to realise an equal balance across the government's 'protection mechanisms' (i.e. equalising pot size contributions) against giving members more choice (flexibility to opt-out or tax incentives), with the understanding that member's engagement in that choice may take longer to activate. What it can do in the meantime is ensure schemes work harder to service the member, bringing trust back into the funds and the overall pensions industry. We need to acknowledge that the current market is not structured for a member decides model and therefore significant change is needed.

Recommendations:

The industry can take action without waiting for primary legislation. We recommend creating an industry clearing house (through a community interest company or trust and operating on a not for profit basis) which allows employers to meet their duties and gives control back to employees, enabling pension stapling in the UK. This will enable an employer to pay to multiple funds, still discharge their employer duties, with minimal administrative overhead, but importantly put pension ownership back in the hands of employees, reducing the number of deferred accounts.

The UK pensions framework is complex, due to the fact that structures developed around the provision of DB pensions by employers haven't evolved as the system shifts to be more focused on DC schemes.

The truth is that many employers do not choose a pension with their employees best interests at heart but look for ease of administration and lack of cost to the employer as their main drivers. This inadvertently leads to increased risk of fraud, as each time an employee leaves a job they end up with an orphaned pot.

We believe in a better way - where schemes operate in the best interest of members to attract engaged employees who are keen for choice and employers have simple, easy to administer duties that concentrate on getting people into pension saving early in their career.

How could a new clearing house system work?

1. Employers duties are carried out either by payroll, the employer or the clearing house and those records retained much as they are today.

2. Employees choose their own scheme based on their own criteria, the only proviso being that the scheme needs to be a part of the clearing house.

3. Employers collect and pay contributions as they do today, but to the clearing house that instantly passes these on to the schemes chosen by their employees.

4. Communications are handled by the scheme as they are today and certificates of compliance are handled by the clearing house.

5. When an employee changes employer they can take their pot with them, simply having contributions paid by their new employer to the clearing house for investment into their chosen pot.

6. If an employee wants to change their contributions they can do that, as today, with their scheme or employer, the clearing house picks up these changes through feeds from the employers and by API with the schemes.

3. Industry structure

For a pension or superannuation system to work, it needs to be designed to provide benefits for members, with coordination from a diverse set of industry stakeholders to complement its design. If it is not considered or led strategically with broad representation, members may miss out on realising their best outcomes.

Industry bodies have long been established to provide a unified way for organisations and professionals to galvanise their voice and expertise in shaping their future. Having a singular peak body could be extremely advantageous for a very fragmented industry like the UK's pension industry. This could ensure that its members feel represented, heard and utilised as drivers of necessary changes to the industry itself.

The UK pensions industry currently has numerous industry and regulatory bodies including the Department for Work and Pensions, Financial Conduct Authority, The Pensions Regulator, The Pensions Administration Standards Association, Pensions and Lifetime Savings Association, The Association of British Insurers and more – having interests in the UK pensions industry. For organisational members to benefit, collaboration between these industry bodies is necessary to provide a shared vision or to bring everyone together, representing all interests, to enable and drive the industry forward. This will provide greater value through stronger resources and an enhanced
industry profile.

There are fewer industry bodies in Australia and a good example of a united body representing all stakeholders across the industry is the Australian Sperannuation Funds Association (ASFA). The Association of Superannuation Funds of Australia (ASFA) was formed in 1962 to successfully advocate against the government's 30:20 policy, whereby funds were compelled to invest in a mandated proportion of funds in government bonds. Since then, it has evolved to continue defending the super system, proactively promoting good public policy, changes to government policy and much more.

During its tenure, ASFA has successfully achieved many policy changes including ensuring the existing legislative timetable to increase the superannuation guarantee to 12% was not dismantled, and with respect to fund mergers – achieving permanent Capital Gains Tax relief and amendments to the legislative provisions to recognise said mergers.

ASFA's RECENT Policy Achievements

- **Superannuation Guarantee (SG)** to 12%
- **Permanent** Capital Gains Tax relief
- **Reuniting** member money from inactive accounts to active accounts
- **Inclusion** of admin fee in performance test
- **Reducing** proposed reporting to Australian Securities & Investments Commission (ASIC) of breach investigations
- **Development of** data standards
- **Allowing** voluntary transfers from funds to Australian Tax Office (ATO)
- **Successfully opposed** proposed Treasurer's power to direct investment and expenditure
- **Closing** the equity gap to help women achieve better outcomes in retirement
- **Recommended changes to benchmarks** in performance test

According to ASFA Director of Policy Fiona Galbraith, ASFA's prominent role has been in defending it against various attempts over the years to dismantle or weaken the super system. **For a peak pensions industry body to work in the UK, like ASFA, they must be instrumental in effecting changes to government policy, legislation and regulatory settings.** In any advocacy for legislative amendment or regulatory change, they should take into consideration the perspectives of industry stakeholders and the operational effect of any changes. When responding to changes that have been proposed this could include, for example, advocating for a reduction in the scope of a change or recommending a longer period for schemes to implement the changes.

ASFA, in collaboration with MUFG Retirement Solutions, have advised on a few ways a peak industry body in the UK might be able to achieve similar outcomes. The first step for the UK is to ensure there is a broad representation of industry stakeholders. ASFA, for example, has members from the public sector, industry, retail and corporate funds. Additionally, they also represent numerous service providers. Secondly, the UK would need to establish constructive relationships with government bodies. ASFA has, very successfully, formed strong working relationships with government bodies such as the ATO, Treasury and the industry's two main regulators APRA and ASIC. This has been helpful in increasing the likelihood that these organisations consult with ASFA and its members and have regard to feedback received.

Finally, ASFA suggests they make themselves readily available in all capacities to address issues in the media – either through proactive media releases, responding to journalist enquiries or submitting opinion pieces – which can be very powerful in affecting and influencing policy as well as improving member and fund outcomes.

Overall, a single merged entity representing the interests of the UK industry would enable a longer-term strategy to be created that spans across multiple governments and pensions ministers, making for a stronger pensions system that would secure broader benefits for scheme members. As reiterated in ASFA's comments, this will help defend the system from shifting government policies that undermine long-term strategies and help stabilise it through volatile or fast-evolving environments. More importantly, it will solidify a collective and authoritative voice and galvanise the industry to work together, not against one another, such as through better industry-wide standards.

These improvements and changes must not be driven purely by government entities. The Australian system's success has been built on many fronts, but a long-term driver of this success has been the establishment and support of its industry bodies who speak with a singular voice and have a strong impact on steering the government and providing further protection. Right now in the UK, there is no single industry body representing the broader pensions or even just the DC market and this is sorely needed.

Recommendations:

We recommend creating a single merged and empowered entity to represent the interests of the UK industry in the same way that ASFA does in Australia. This would enable a long-term strategy to be established and implemented that spans across multiple governments and pensions ministers.

This will defend the system from shifting government policies that undermine long-term strategies and help stabilise it through volatile or fast-evolving environments. More importantly, it will solidify a collective and authoritative voice and galvanise the industry to work together, not against one another, such as through better industry-wide standards.

This change must not be driven purely by government entities. The Australian system's success has been built on many fronts, but a long-term driver of this success has been the establishment and support of its industry bodies who speak with a singular voice and have a strong impact on steering the government and providing further protection. Right now, there is no single industry body representing the broad pensions or even DC market and this is sorely needed.

Conclusion

Our study has shown that the UK and Australian markets have come from two very different starting points but it is clear that they are converging to a very similar future state.

The Australian market is ahead of the UK in many respects but this gives the UK the opportunity to take some key learnings from Australia and where appropriate, accelerate change to drive better outcomes, sooner. We believe our three recommendations are the key steps that will have the greatest long-term impact on member outcomes.

It is clear that today, Australians are retiring with larger funds spread across much fewer pots thus creating greater clarity and control. We know there is already a groundswell of opinion that minimum contribution levels need to increase from where they are today. Phase 1 of UK auto enrollment has successfully increased the number of people saving for retirement. Phase 2 now needs to focus on increasing the levels of saving to improve the probability of members' pots being adequate to support them through retirement. Based on our Australian experience, MUFG Retirement Solutions absolutely agrees that minimum contribution levels should increase.

The multiple pots issue has been a problem experienced in both Australia and the UK. The steps being taken in Australia are significantly reducing the number of pots and we need to take similar action here in the UK. It is clear that there will need to be multiple actions, taken in concert, to properly make a difference. While the imminent launch of the Pensions Dashboard will make a positive impact, further steps are required to stop the future proliferation of pots. We also know that members want to have more control in deciding who their pension is invested with and there is a desire for members to take their pots with them between employments. By introducing a clearing house capability that makes it easy for members and their employers to choose where pension contributions are invested, MUFG Retirement Solutions believes that the UK can return control and choice to members and reduce the number of new pots that are created every day.

Finally, MUFG Retirement Solutions believes these changes can and will happen faster if the industry empowers a unified, future focussed body that represents all elements of the UK pensions market. It should be capable of setting the future strategy and it will enable a much stronger working relationship with both government and the regulators. This will drive a clearer, more member focused change agenda that is not adversely impacted by changes in Government.

While MUFG Retirement Solutions is a relatively new player in the UK market, we are keen to be agents for positive change. As the Australian voice in the market, we will always seek to bring the best of Australia here to the UK to enhance member outcomes.

About

About MUFG Retirement Solutions

MUFG Retirement Solutions is a global, digitally enabled business connecting millions of people with their assets – safely, securely and responsibly.

From equities, pension and superannuation to investments, property and other financial assets, we partner with a diversified portfolio of global clients to provide robust, efficient and scalable services, purpose-built solutions and modern technology platforms that deliver world class outcomes and experiences.

We help manage regulatory complexity, improve data management and connect people with their assets, through exceptional user experiences that leverage the expertise of our people combined with technology, digital connectivity and data insights.

In Australia, one in three pension scheme members are supported by MUFG Retirement Solutions on behalf of its clients. This market leading positioning has enabled MUFG Retirement Solutions to provide solutions for clients, their members and employers through digital front end, service channels, account management, transaction processing, data and insights in a secure and trusted way.

As global leaders in retirement solutions, we have already simplified and transformed the member experience and engagement in the Australian market. Now, we have brought our expert Australian capability to the UK market through innovative engagement wrap technology that simplifies member experience and engagement.

For the same metrics to be achieved for UK's DC schemes, we believe there needs to be certain safeguards in place given our long experience in the arena. Having played a role in administering over half of the mergers in this study, we also examined our success in this context. Monash University's research undertaken with MUFG Retirement Solutions found our mergers provided a comparative advantage over other administrators in achieving a higher one-year rate of return and a higher adjusted net rollover ratio. In most of these cases, the result of this was likely achieved due to our focus on developing strong governance, better risk profiles and greater operational flexibility that supports robust consolidation outcomes.

How do we help?

Our engagement wrap technology enables existing administration platforms, systems and communications channels to simplify the member experience and engagement.

- Seamlessly integrates member data with 20 different voice, digital and physical channels to create a single, simple engagement interface that enables a best-in-class customer experience.
- Addresses years of under-investment in UK pensions administration. With no more sticky tape, spreadsheets and workarounds, our engagement wrap technology fills a major gap in UK pensions functionality.

For providers and employers, our wrap technology removes complexity to help you focus on member engagement through a secure, compliant, cost effective and personalised member experience.

For members, our wrap technology enables simpler end-to-end experience and better engagement – which we believe is the foundation of healthier retirement outcomes. Whether members tweet, text, email or write, we can ensure the experience is best-in-class.

Powerful wrap technology

Our technology wraps around your existing administration systems – in the same way that it wraps around our own market-leading administration, data and fraud solutions and can be standalone or offered as part of an integrated solution that includes:

Pensions administration

Our digital-first solution for the Defined Contribution (DC) and Master Trust Administration market drives efficiency, puts member engagement at the heart of pensions, and firmly delivers on MUFG Retirement Solutions purpose of connecting people with their assets.

Our leading-edge administration solution combines highly automated, cost efficient, scalable processes with advanced data analytics and platform capabilities.

Powerful data insights to simplify engagement

Wherever you are on your data journey, our Data Solutions team are skilled at transforming data into a strategic driver. We provide our clients with a wide variety of insights and solutions that focus on customer outcomes, including data clustering and segmentation, predictive analytics focused on customer retention, engagement and cross-sell. In addition, we provide customer journey mapping and the ability to pinpoint a customer's next best action or conversation.

Fraud solutions

MUFG Retirement Solutions Analytical Link Exception Reporting Tool "ALERT" is the industry standard in the Australian pensions market to mitigate these loss events. ALERT has been specifically developed for the pension market and created in collaboration with regulators, law enforcement agencies and our existing client funds. The service, with over five years of fraud risk intelligence built into its framework and rules, provides automated account and transaction monitoring to support funds' operational fraud control environments.

Our long ambition is to help the UK achieve member-centricity by 2030.

We are passionate about helping people achieve healthier retirement outcomes. So, we're setting our long-term sights on moving beyond simplifying and improving member engagement to enabling true member-centricity in the UK by 2030. Later this year, we will be sharing a whitepaper to frame our vision of the future for a member-centric UK pensions industry.

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