



Report to the Chairman,  
Committee on Ways and Means,  
House of Representatives

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August 2022

# RETIREMENT SECURITY

## Recent Efforts by Other Countries to Expand Plan Coverage and Facilitate Savings

Accessible Version

# GAO Highlights

Highlights of [GAO-22-105102](#), a report to the Chairman, Committee on Ways and Means, House of Representatives

## Why GAO Did This Study

The United States faces a range of challenges regarding how to ensure retirement income security for our aging workforce. As traditional pensions have become less common, more individuals are responsible for managing their own retirement savings. In doing so, they may face challenges accessing retirement plans through an employer; accumulating sufficient retirement savings; and ensuring that their accrued savings last through retirement. Other countries have begun to address similar challenges with various reforms to their retirement systems.

This report describes the views of international retirement representatives on policy options and trade-offs from account-based retirement savings reforms in other countries, intended to improve retirement security. These include (1) automatic enrollment of employees in retirement savings plans; (2) financial incentives for employees to contribute; (3) default plan options; and (4) plan flexibilities. GAO reporting on these reforms does not signify endorsement of any particular reform.

GAO interviewed representatives about retirement plans in five selected countries: Canada (the federal level and the province of Quebec), Lithuania, the Netherlands, New Zealand, and the United Kingdom. GAO selected the plans based on the range of strategies used to increase retirement plan coverage, recommendations from knowledgeable stakeholders, and comparability to the United States.

View [GAO-22-105102](#). For more information, contact Tranchau (Kris) T. Nguyen at (202) 512-7215 or [nguyentt@gao.gov](mailto:nguyentt@gao.gov).

August 2022

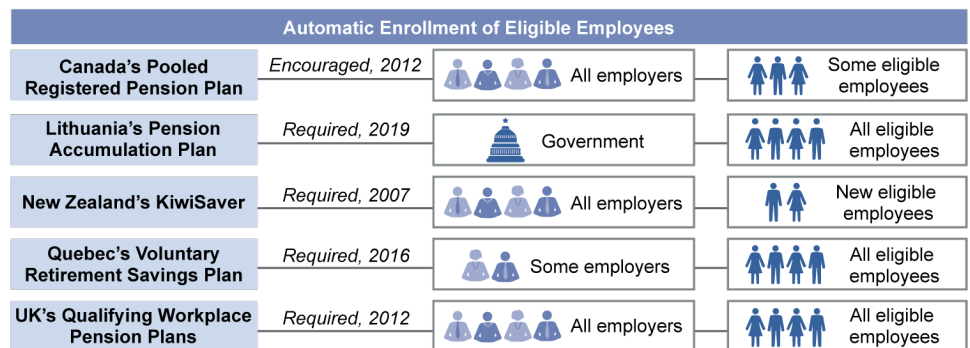
## RETIREMENT SECURITY

### Recent Efforts by Other Countries to Expand Plan Coverage and Facilitate Savings

## What GAO Found

According to representatives GAO interviewed about selected international retirement savings plans, most of the plans require eligible employers to automatically enroll some of their workforce, unless workers explicitly opt out (see figure). This automatic enrollment is intended to help increase plan participation. However, those not automatically enrolled, including some self-employed and part-time workers, remain difficult to cover. For example, part-time employees must work for 24 months before becoming eligible for automatic enrollment in one plan GAO reviewed.

**Automatic Enrollment of Eligible Employees, as Implemented in Selected Plans**



Source: GAO summary of information from selected international retirement representatives, plan web sites and OECD reports. | GAO-22-105102

**Accessible Data for Automatic Enrollment of Eligible Employees, as Implemented in Selected Plans**

Category	Encouraged or required	Employers	Employees
Canada's Pooled Registered Pension Plan	Encouraged, 2012	All employers	Some eligible employees
Lithuania's Pension Accumulation Plan	Required, 2019	Government	All eligible employees
New Zealand's KiwiSaver	Required, 2007	All employers	New eligible employees
Quebec's Voluntary Retirement Savings Plan	Required, 2016	Some employers	All eligible employees
UK's Qualifying Workplace Pension Plans	Required, 2012	All employers	All eligible employees

Source: GAO summary of information from selected international retirement representatives, plan web sites and OECD reports. | GAO-22-105102

The selected retirement savings plans use government and employer incentives to encourage workers to join or stay in a plan, according to the representatives. The plans with automatic enrollment incentivize participation by providing some

tax benefits to employees, either when contributing or when withdrawing funds at retirement. Each plan also mandates or otherwise incentivizes employer contributions, which, according to retirement representatives, can encourage employee participation and bolster retirement savings. However, lower-income workers may not realize some tax benefits, and the self-employed do not receive the incentives that come with employer contributions.

Selected plans established default contribution rates and investments to facilitate employee participation and remove potential barriers to saving. Nearly all of the selected plans use default contribution rates between 3 and 5 percent of a worker's salary, according to retirement representatives, simplifying a key investment decision of how much to contribute. The plans also offer default investments that combine high- and low-risk funds to balance risk and growth, such as target date funds that adjust based on a worker's expected retirement date. According to the representatives GAO interviewed, default investments can be particularly important for workers with lower levels of financial literacy.

The selected plans also offer flexibilities to participants to adjust or access savings based on life circumstances, such as financial hardship. For example, some plans allow early withdrawal of retirement funds. However, representatives noted concerns that participants who withdraw too much of their money too soon can risk running out of funds later in retirement.

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**Abbreviations**

NEST	National Employment Savings Trust
OECD	Organisation for Economic Co-operation and Development
PRPP	Pooled Registered Pension Plan
UK	United Kingdom
VRSP	Voluntary Retirement Savings Plan

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August 29, 2022

The Honorable Richard E. Neal  
Chairman  
Committee on Ways and Means  
House of Representatives

Dear Mr. Chairman:

The United States faces a range of challenges regarding how to ensure retirement income security for our aging workforce and their families, especially since people are living longer and are at risk of outliving their savings. As traditional pensions have become much less common, individuals increasingly are responsible for planning and managing their own retirement savings, for example, through defined contribution retirement savings plans.<sup>1</sup> In doing so, they may face challenges with access to retirement plans through an employer, accumulating sufficient retirement savings, and ensuring that their accrued savings and benefits last through retirement.

In our prior work, we reported that although individuals without access to an employer-sponsored plan can save for retirement on their own, having access to such plans makes it easier to save.<sup>2</sup> Even those with access, however, must decide whether to participate, how much to contribute, how to manage their investments, how to manage their savings when other needs arise or life circumstances change—such as when leaving a job mid-career or facing financial hardship—and how to draw down funds in retirement.

Other countries also face challenges ensuring their population's retirement security, and have begun to address these issues with various reforms to their retirement account systems, and to defined contribution

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<sup>1</sup> Defined contribution plans are employer-sponsored account-based retirement plans that allow individuals to accumulate retirement savings in an individual account based on employee or employer contributions, and the investment returns (gains and losses) earned on the account. In the United States, defined contribution plans, such as 401(k) plans, generally have tax advantages.

<sup>2</sup> See GAO, *The Nation's Retirement System: A Comprehensive Re-evaluation Is Needed to Better Promote Future Retirement Security*, [GAO-18-111SP](#) (Washington, D.C.: Oct. 18, 2017).

retirement savings plans, in particular. For example, some countries, including the United States, have developed strategies to increase retirement plan coverage through automatic enrollment—a plan feature whereby eligible workers are enrolled into a plan automatically, or by default, unless they explicitly choose to opt out.

You asked us to review recent policy initiatives from other countries to help provide information to U.S. policymakers as they consider options to improve our nation’s retirement security. This report describes the views of international retirement representatives on the policy options and trade-offs from account-based retirement savings reforms in other countries for improving retirement security. Specifically, this report discusses their views on (1) automatic enrollment of employees in retirement savings plans, (2) financial incentives to contribute, (3) default contribution and investment options, and (4) plan flexibilities to change contributions or withdraw funds.

To conduct this work, we convened a panel and conducted individual discussion sessions, from August to October 2021, with representatives from Canada (at the federal level, and for the province of Quebec), Lithuania, the Netherlands, New Zealand, and the United Kingdom regarding retirement account reforms and policies that may be instructive to the U.S. retirement system. We also obtained information on recent technological reforms in Mexico’s retirement system through written responses. We selected these countries (and one province) based on a review of literature (including from our past international retirement work) and recommendations from a range of experts, including experts at the Organisation for Economic Co-operation and Development (OECD).

We developed criteria to select reform topics, such as relevance to the U.S. retirement system and available information in our prior work and OECD reports. These topics included automatic enrollment in retirement savings plans, reaching non-standard workers, and improving portability for workers when changing employers.<sup>3</sup> In selecting plans to review, we also considered the country’s comparability (e.g., level of economic development) to the United States. We did not conduct an independent legal analysis to verify the information we obtained about the laws, regulations, or policies of the countries selected for this study. Instead, we

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<sup>3</sup> According to the OECD, non-standard workers are a diverse group, including part-time and temporary employees, as well as the self-employed. See OECD, *Pensions at a Glance 2019: OECD and G20 Indicators* (Paris, France: OECD Publishing, 2019), <https://doi.org/10.1787/b6d3dcfc-en>.



relied on appropriate secondary sources, including government websites and retirement plan reports, interviews, and other sources to support our work.

We submitted key report excerpts to representatives in each country for review and verification, and we incorporated their technical corrections as necessary. We note that although a legal feature may be successful in one or more of the countries we selected, it does not necessarily indicate that it would be successful in the United States because of the different cultures, histories, and legal systems of the selected countries. Further, our reporting of these reforms does not signify an endorsement of any particular reform.

We conducted our work from March 2021 to August 2022 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

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## Background

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### U.S. Retirement System

The current retirement system in the United States can be thought of as comprising three main pillars: Social Security, employer-sponsored pensions or retirement savings plans, and individual savings.

- The first pillar, Social Security, was established in 1935 to provide for the general welfare of older Americans by, among other things, establishing a system of federal old-age benefits, including a retirement program.<sup>4</sup> As currently structured, Social Security replaces about 40 percent of an average wage earner's income after retiring.<sup>5</sup>

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<sup>4</sup> Officially titled Old-Age and Survivors Insurance, the Social Security retirement program provides benefits to retired workers, their families, and survivors of deceased workers. For more about Social Security, see GAO, *Social Security's Future: Answers to Key Questions*, [GAO-16-75SP](#) (Washington, D.C.: Oct. 27, 2015).

<sup>5</sup> [GAO-18-111SP](#).

- The second pillar, employer-sponsored pensions or retirement savings plans, has been heavily influenced by landmark legislation enacted in 1974. The Employee Retirement Income Security Act of 1974 (ERISA) has played a major role in establishing the structure for private sector employers' involvement in the U.S. retirement system. ERISA was enacted, in part, to address public concern about the prominent failure of a large private pension plan. The act, as amended, does not require any employer to establish a retirement plan, but those who do must meet certain requirements and minimum standards.<sup>6</sup>
- As part of the third pillar, individuals are expected to supplement their retirement income from the first two pillars with their own savings, which would include any home equity and other non-retirement savings and investments.

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<sup>6</sup> For example, ERISA establishes certain requirements for all employer-sponsored plans, including provision of information to participants on a regular basis about the plan's features and funding, and responsibilities for plan fiduciaries, among other things. ERISA also establishes certain minimum standards for employer-sponsored plans concerning: when an employee must be allowed to participate in a plan; how long participants have to work before having a non-forfeitable interest in their plan benefit; how long participants can be away from work before it might affect their plan benefit; and whether a participant's spouse has a right to plan benefits in the event of the participant's death.

Fundamental changes occurring over the last 40 years have made it more difficult for many individuals to plan for and effectively manage retirement. Specifically, there has been a marked shift away from employers offering traditional defined benefit pension plans to defined contribution pension plans, such as 401(k) plans, as the primary type of retirement plan.<sup>7</sup> While even at their peak, defined benefit plans were far from universal and also pose risks for participants, this shift has generally increased the responsibilities and risks for many individuals in planning and managing their retirement.<sup>8</sup> For example, many defined contribution plans require employees to contribute in order to establish an account, whereas, under defined benefit plans, generally, employees do not contribute.<sup>9</sup> In addition, under defined contribution plans, employees are often responsible for managing the investments of their accounts, choosing from investment options offered by the plan, whereas under defined benefit plans, plan officials manage the investment and the employers are responsible for ensuring that the amount put in the plan plus investment earnings will be enough to pay promised benefits. Furthermore, economic and societal changes, including slow wage growth in recent decades and increases in life expectancy, among other things, have added to the challenge of ensuring sufficient income in retirement.

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<sup>7</sup> Defined benefit plans are employer-sponsored retirement plans that traditionally promise to provide a benefit for the life of the participant, based on a formula specified in the plan that typically takes into account factors such as an employee's salary, years of service, and age at retirement. In the United States, defined benefit plans generally have tax advantages.

<sup>8</sup> Aside from 401(k) plans, Individual Retirement Accounts (IRAs) are common tax-advantaged vehicles for individuals to save for retirement, and many individuals roll over savings from employer-provided retirement plans into IRAs.

<sup>9</sup> In private sector defined benefit plans, only employers typically make contributions. In public sector plans, however, both employers and employees generally make contributions.

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**401(k) Plans**

In the United States, 401(k) plans are subject to the requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA), which establishes minimum standards and requirements for employee benefit plans intended to protect the interests of plan participants and beneficiaries. A 401(k) plan provides eligible plan participants the opportunity to choose to contribute a portion of their earnings, commonly called elective contributions, to their own individual account in a retirement plan.

Source GAO-21-357 and GAO-17-69 | GAO 22 105102

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**Other Countries' Retirement Systems**

Similar to the United States, retirement systems in other developed countries generally can be thought of as consisting of three main pillars: a national pension, similar to the U.S. Social Security program (Old-Age and Survivors Insurance); employer-sponsored pensions or retirement savings plans; and individual savings.<sup>10</sup> Other developed countries face challenges similar to the United States in delivering adequate retirement income to an aging population while ensuring the financial sustainability of their systems. Some of these countries have implemented changes and reforms in an effort to expand retirement plan coverage.

Table 1 presents an overview of the selected retirement savings plans from other countries we reviewed.

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<sup>10</sup> National pensions may also be called public or state pensions in some countries. The term employer-sponsored retirement plans refers to retirement benefits employers make available to their employees. They are also called occupational, workplace, or company plans.

**Table 1: Selected International Retirement Savings Plans**

Country	Retirement savings plan	Description
Canada	Pooled Registered Pension Plan (federal)	The federal Pooled Registered Pension Plans (PRPP) Act, enacted in 2012, created defined contribution-type plans that federally regulated employers can choose to offer their workers. The federal PRPP Act covers PRPPs offered to workers in federally regulated industries, such as banking or inter-provincial transportation, and those private sector workers who are employed or self-employed in the Canadian territories.
Canada	Voluntary Retirement Savings Plan (Quebec)	Quebec's version of PRPPs, the defined contribution Voluntary Retirement Savings Plan (VRSP), is governed by the VRSP Act and became available in 2014. The VRSP Act requires certain employers to offer eligible employees a VRSP if they do not already offer another group retirement savings plan that allows employees to make contributions through payroll deductions.
Lithuania	Pension Accumulation Plan	Lithuania's Pension Accumulation Plan began in 2004, with key changes in 2014, when defined contributions from workers' wages were introduced, and 2019, with the beginning of automatic enrollment. Eligible workers who are covered by state social pension insurance and the government contribute to workers' Pension Accumulation Plans.
The Netherlands	Occupational Pension Plan	The Netherlands' Occupational Pension Plan system is a defined benefit or defined contribution system where employers and employees contribute to a pension plan, based on collective agreements between employer organizations and trade unions. Participation in an industry pension plan may be mandatory for an entire sector, if representative social partners (employer organizations and trade unions) have submitted a request to the Minister of Social Affairs.
New Zealand	KiwiSaver	The New Zealand government passed the KiwiSaver Act, which established KiwiSaver in 2007 as a government-sponsored defined contribution workplace program requiring participation from employers.
United Kingdom (UK)	Qualifying Workplace Pension Plans (e.g., National Employment Savings Trust) <sup>a</sup>	The UK's automatic enrollment program established mandatory automatic enrollment requirements for all employers of their eligible employees into a qualifying workplace pension plan and established a public plan option—the National Employment Savings Trust (NEST)—as one qualifying plan open to any employer wishing to use it. NEST is a defined contribution retirement savings program that was created following 2007 and 2008 legislation.

Source: GAO summary of information from selected international retirement representatives and plan documents, OECD, and GAO reports. | GAO-22-105102

Note: To inform the descriptions of the selected plans in other countries, we relied on appropriate secondary sources, including government retirement plan reports, interviews, and other sources. We did not conduct an independent legal analysis to verify the information in the table.

<sup>a</sup>While NEST is only one qualifying workplace pension plan, we have chosen to focus on it in our report, as it is the largest pension provider in the UK. Accordingly, plan features used to describe NEST in this report do not necessarily apply solely to NEST and may also apply to other qualifying pension plans in the UK.

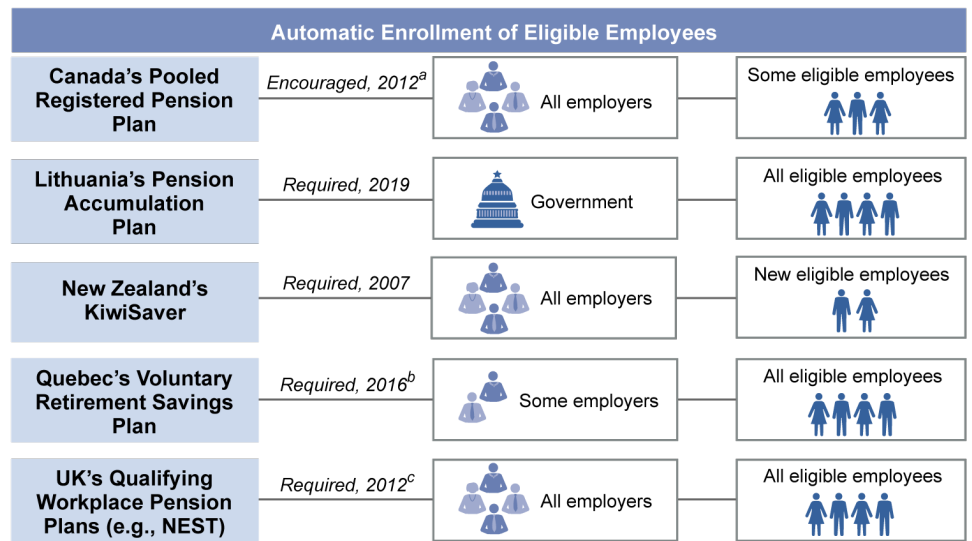
# Automatic Enrollment Is Used to Increase Participation; Certain Workers Remain Hard to Cover

Most international retirement savings plans we reviewed automatically enroll some of the workforce to increase participation in their plans, though certain workers, including those who are self-employed, continue to be hard to cover, according to retirement representatives we interviewed. Automatic enrollment is a plan feature whereby eligible employers automatically enroll their eligible workers into a plan, and then the employee may explicitly choose to opt out.

## Automatic Enrollment

The plans we reviewed differ by whether they require or encourage employers to provide automatic enrollment for their workforce, and which employers and employees are subject to automatic enrollment requirements (see fig. 1). See app. I for more information on employer and employee eligibility requirements.

**Figure 1: Automatic Enrollment of Eligible Employees, as Implemented in Selected International Retirement Savings Plans**



Source: GAO summary of information from selected international retirement representatives, plan web sites and OECD reports. | GAO-22-105102

**Accessible Data for Figure 1: Automatic Enrollment of Eligible Employees, as Implemented in Selected International Retirement Savings Plans**

<b>Category</b>	<b>Encouraged or required</b>	<b>Employers</b>	<b>Employees</b>
Canada's Pooled Registered Pension Plan	<i>Encouraged, 2012</i>	All employers	Some eligible employees
Lithuania's Pension Accumulation Plan	<i>Required, 2019</i>	Government	All eligible employees
New Zealand's KiwiSaver	<i>Required, 2007</i>	All employers	New eligible employees
Quebec's Voluntary Retirement Savings Plan	<i>Required, 2016</i>	Some employers	All eligible employees
UK's Qualifying Workplace Pension Plans (e.g., NEST)	<i>Required, 2012</i>	All employers	All eligible employees

Source: GAO summary of information from selected international retirement representatives, plan web sites and OECD reports. | GAO-22-105102

Note: See app. I for more information on employer and employee eligibility requirements. We did not conduct an independent legal analysis to verify the information in this figure. Instead, we relied on appropriate secondary sources, including government websites and retirement plan reports, interviews, and other sources.

<sup>a</sup>According to Canadian officials, it is not mandatory for employers to offer a Pooled Registered Pension Plan (PRPP); however, if employers offer a PRPP, eligible employees are automatically enrolled. The PRPP model was developed jointly by the federal government and provinces, who worked together to establish the specific elements of the framework. The federal framework was introduced in 2012. As of 2021, five provinces (British Columbia, Manitoba, Nova Scotia, Ontario, and Saskatchewan) have introduced PRPP frameworks similar to the federal model, while Quebec has established its own model, the Voluntary Retirement Savings Plan (VRSP).

<sup>b</sup>In Quebec, employer requirements to provide an eligible workplace retirement plan gradually took effect, depending on employer size. By December 31, 2017, all eligible employers with 10 or more employees were obligated to provide an eligible workplace retirement savings plan.

<sup>c</sup>The United Kingdom's (UK) automatic enrollment program established mandatory automatic enrollment requirements for all employers of their eligible employees into a qualified workplace pension plan and established a public plan option—the National Employment Savings Trust (NEST)—as one qualifying plan open to any employer wishing to use it. The UK required employers of a certain size to provide an eligible workplace retirement plan beginning in 2012, and gradually phased in remaining employers over a 5-year period.

Additionally, according to selected international retirement representatives, each international plan has different requirements for employers to provide eligible employees with workplace retirement plans. For example, the KiwiSaver program in New Zealand requires all employers to enroll new employees between the ages of 18 and 65, who have worked or are on a contract to work for more than 28 days, and are New Zealand citizens, unless the employers have a pre-existing and

qualifying retirement plan.<sup>11</sup> In contrast, in Canada, employers are encouraged, but not required, to offer the Pooled Registered Pension Plan, one of several workplace retirement plans, through incentives, such as tax incentives.<sup>12</sup>

Some of our international plan representatives (from plans that require employers to provide an eligible workplace retirement plan) noted that automatic enrollment has increased retirement savings plan participation by workers. For example:

- A representative from New Zealand's KiwiSaver stated that automatic enrollment had a major impact on KiwiSaver's participation rate. For example, once enrolled, more than 90 percent of participants remain in the plan. According to the plan's 2021 annual report, there are more than 3 million open KiwiSaver accounts.<sup>13</sup>
- A representative from United Kingdom's (UK) National Employment Savings Trust (NEST) similarly noted the significance of automatic enrollment, saying that prior to instituting automatic enrollment, 10 million workers who would be covered by the new automatic enrollment eligibility rules were not yet saving for retirement. According to NEST Insight's annual research report, *Retirement saving in the UK 2021*, NEST began with 1.1 million initial enrollees in

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<sup>11</sup> As of 2021, only 120 employers have pre-existing plans in place and are able to offer a private plan, as opposed to the KiwiSaver plan, to their employees. To qualify as an employer with a pre-existing plan, the employer had to offer a workplace pension plan prior to the advent of the KiwiSaver in 2007. A representative from New Zealand noted that these 120 pre-existing "superschemes" tend to elicit a higher contribution rate from employees and are generally held by large corporate companies and government agencies.

<sup>12</sup> According to Canadian officials, an employer can choose to provide a PRPP for all of its employees or only for certain groups. If an employer offers a PRPP, eligible full-time employees will be automatically enrolled and eligible part-time employees will be automatically enrolled once they have completed 24 months of continuous employment, or earlier depending on the specific plan. Additionally, a person with a valid Canadian Social Insurance Number can participate in a PRPP if they work in a federally regulated business or industry for an employer who chooses to participate in a PRPP; are employed or self-employed in the Northwest Territories, Nunavut, or Yukon; or live in a province that has the required provincial standards legislation in place.

<sup>13</sup> Only one KiwiSaver workplace retirement account per person is allowed in New Zealand.



2013-2014 and grew to 14.8 million cumulative enrollments by 2020-2021.<sup>14</sup>

- Representatives from Quebec’s Voluntary Retirement Savings Plan (VRSP) stated that requiring employers, with more than 10 employees, to enroll their employees in a workplace retirement plan has helped increase the number of participants enrolled in the VRSP and other eligible retirement savings plans. In particular, since the implementation of automatic enrollment in 2016, about 39,000 employers who did not previously offer employees retirement savings plans were obligated to offer the VRSP, or a similar workplace retirement plan, to their employees. According to the representatives, this resulted in an additional 800,000 individuals from Quebec with access to workplace retirement savings plans. The officials said that as of December 2020 about 30 percent of targeted employers chose to offer a VRSP from among the eligible plans.

In contrast, officials from Canada—where employers are not required to offer a Pooled Registered Pension Plan (PRPP)—said that uptake of PRPPs has been limited. In addition, even when employers choose to implement automatic enrollment, they may choose which groups of employees they enroll.

Some representatives from selected countries discussed their views regarding their countries’ decisions to require employers to automatically enroll all eligible employees or to make it optional for employers to automatically enroll eligible employees. For example, according to the NEST representative, the UK government had to determine whether to exclude any groups of employers from automatic enrollment, and ultimately chose not to exempt any employers from being required to automatically enroll their eligible employees.<sup>15</sup> In Canada, where employers have the option to provide a workplace retirement plan, representatives said that when the PRPP framework was developed, there was strong support from pension industry stakeholders. However, the representatives went on to note that the decision to make it optional for employers to offer a PRPP, or another eligible plan, may have

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<sup>14</sup> Richard Notley (Nest Insight), and David Mann (Nest Corporation), *Retirement saving in the UK 2021* (London: National Employment Savings Trust Corporation, 2021).

<sup>15</sup> The UK’s automatic enrollment program established mandatory automatic enrollment requirements for all employers of their eligible employees into a qualified workplace pension plan and established a public plan option—NEST—as one qualifying plan open to any employer wishing to use it, according to the NEST representative.

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impeded widespread participation in the PRPP, according to feedback received from stakeholders.

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## Workers Who Remain Hard to Cover

### Prior GAO Work: Part-Time Workers

We previously reported that in the United States, full-time workers were 2.6 times more likely to have access to a workplace retirement savings plan than part-time employees.

Source [GAO-15-556](#). | GAO-22-105102

Selected retirement officials noted that automatic enrollment policies might exclude several groups of workers, who remain hard to cover, including self-employed, part-time, and temporary workers, and those employed by small employers. However, in Canada, including Quebec, the UK, and New Zealand, workers who are not automatically enrolled may choose to enroll themselves in their country's respective plan, according to retirement representatives.<sup>16</sup>

- **Self-employed.** Self-employed workers are not automatically enrolled in the selected retirement savings plans in the UK, Canada, including Quebec, and New Zealand, according to their respective representatives. In these countries, the enrollment responsibility falls on the employer, and the self-employed do not have an employer responsible or mandated to enroll them. In contrast, an official from Lithuania noted that the government, rather than the employer, automatically enrolls the self-employed, which may include gig

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<sup>16</sup> The NEST official told us that workers who are not automatically enrolled can only create an account with NEST if they work for an employer offering NEST or if they are self-employed.

workers and other non-standard workers,<sup>17</sup> under the same terms as regular workers.<sup>18</sup>

- **Part-time and temporary workers.** Part-time and temporary workers may not be enrolled in retirement savings plans, as some of the plans have minimum requirements for automatic enrollment, according to international representatives. For example, an employee in the UK must make more than £10,000 per year to be eligible for automatic enrollment in a UK retirement savings plan such as NEST, according to our NEST representative.<sup>19</sup> The representative noted that the workplace retirement system disproportionately excludes those who work part-time.<sup>20</sup> Other selected plans have minimum working time requirements that specifically affect part-time and temporary employees. For example, a representative from Canada told us that part-time employees must work for 24 months before they become eligible for automatic enrollment in a PRPP. In Quebec, all eligible employees, whether full or part-time, must work a minimum of 1 year before they are automatically enrolled in a VRSP, according to our representative from Quebec.

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<sup>17</sup> According to the OECD, non-standard workers are a very diverse group, including part-time and temporary employees, as well as the self-employed. See OECD, *Pensions at a Glance 2019: OECD and G20 Indicators*, <https://doi.org/10.1787/b6d3dcfc-en>. We previously identified gig workers as self-employed individuals providing labor services and completing single projects or tasks on demand for pay, such as performing tasks through digital platforms, ride-hailing services, or in offline work, such as house painting, house cleaning, and babysitting or child care services. GAO, *Workforce Training: DOL Can Better Share Information on Services for On-Demand, or Gig, Workers*, [GAO-17-561](#) (Washington, D.C.: Sept. 26, 2017).

<sup>18</sup> A representative from Lithuania reported that 11 percent of all workers in Lithuania are self-employed.

<sup>19</sup> According to a representative from NEST, the government of the UK re-evaluates the lower earnings limit at which automatic enrollment begins each year. Those age 22 to 66 years old, and earning over £6,240 but less than £10,000, have a right to opt into their employer's plan. If they opt in to their employer's plan, they receive an employer contribution. Those age 16 to 21 or between 66 and 74, and who earn at least £6,240, also have the same rights. Anyone earning under £6,240 has the right to opt in, but does not have the right to receive an employer contribution. Their employers can still choose to make contributions if they wish. According to NEST Insight's annual research report in 2021, 14 percent of NEST members worked part-time.

<sup>20</sup> According to a recent report from the UK Office for National Statistics, full-time employees in the UK were 1.5 times more likely to have a pension than part-time employees. See Hilary Mainwaring, *Employee Workplace Pensions in the UK: 2020 Provisional and 2019 Final Results* (Office for National Statistics, 2021).

- **Workers employed by small employers.** Our selected retirement representatives also noted that small employers are occasionally exempt from providing a plan and, even where offered, employees of small employers may participate in retirement savings plans to a lesser extent than those who work at larger companies. For example, a representative from Quebec’s VRSP stated that the government of Quebec created the VRSP, in part, to incentivize small employers to offer retirement savings plans to their employees by allowing contributions through payroll deduction. Currently, however, Quebec does not mandate that employers with fewer than 10 employees provide the VRSP or another eligible workplace retirement plan. Also, in Quebec, small businesses of that size comprise around 75 percent of businesses in the province, according to our retirement representatives.<sup>21</sup> Additionally, according to NEST Insight’s 2021 annual research report, opt-out rates, or the rate at which automatically enrolled employees chose not to remain in the plan, were highest amongst employees who worked for micro-employers, or employers with one to four employees.<sup>22</sup> In the UK, an estimated 98 percent of employers using NEST as of March 2021 are micro-employers or small employers—with less than 49 employees.<sup>23</sup>

**Prior GAO Work: Small Employers**

We previously reported that employees who work for small employers in the United States are less likely to have access to a workplace retirement plan than employees who work for a large employer. This may be due to the challenges small employers face when starting and maintaining a program, including higher rates of worker turnover, or potential fiduciary risk.

Source: [GAO-15-556](#). | GAO-22-105102

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## Opt-Out Mechanism

All of the selected international retirement plans that use automatic enrollment offer workers the opportunity to opt out of the plan. Retirement

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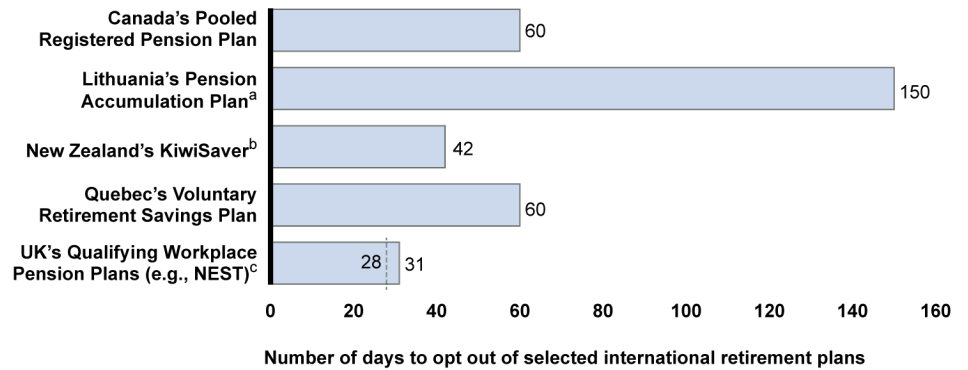
<sup>21</sup> VRSP officials did not provide data on the percentage of employees in Quebec who work for a small business.

<sup>22</sup> NEST defines large employers as employers with 250 or more employees. Richard Notley (Nest Insight), and David Mann (Nest Corporation), *Retirement saving in the UK 2021* (London: National Employment Savings Trust Corporation, 2021).

<sup>23</sup> The 2021 NEST Insight’s annual research report did not provide data on the percentage of employees in the UK that work for a small business.

representatives noted, however, that countries, generally, want to reduce the number of employees that opt out, and have several ways of doing this. These include limiting the amount of time in which employees can opt out and periodically re-enrolling employees after they have opted out (see fig. 2).

**Figure 2: Number of Days to Opt Out, as Implemented in Selected International Retirement Plans**



Source: GAO summary of information from selected international retirement representatives and plan web sites. | GAO-22-105102

**Accessible Data for Figure 2: Number of Days to Opt Out, as Implemented in Selected International Retirement Plans**

Category	Number of days to opt out of selected international retirement plans
Canada's Pooled Registered Pension Plan	60
Lithuania's Pension Accumulation Plan <sup>a</sup>	150
New Zealand's KiwiSaver <sup>b</sup>	42
Quebec's Voluntary Retirement Savings Plan	60
UK's Qualifying Workplace Pension Plans (e.g., NEST) <sup>c</sup>	31

Source: GAO summary of information from selected international retirement representatives and plan web sites. | GAO-22-105102

<sup>a</sup>Eligible persons are enrolled in January and can opt out any time until June 30 of the same year, according to the Lithuanian retirement representative.

<sup>b</sup>An enrolled employee in KiwiSaver can opt out between the end of week 2 and week 8 of starting work (e.g., on or after day 14 and on or before day 56), according to New Zealand's Department of Inland Revenue.

<sup>c</sup>Employees who are automatically enrolled in a qualifying workplace pension plan, such as the National Employment Savings Trust (NEST), by their employer have 1 calendar month to opt out (e.g., 28-31 days). For example, if an employee is enrolled on January 3, they have until February 3 to opt out. The exact number of days employees have to opt out will depend on the length of the month.

For example, after an employer automatically enrolls an employee in New Zealand's KiwiSaver, employees have 42 days, between day 14 and day 56 of being enrolled,<sup>24</sup> to opt out of the plan. A late opt out may be accepted (up to 3 months from the employee's first contribution) if certain criteria are met. A representative from New Zealand noted that KiwiSaver purposefully has a short opt-out window to discourage automatic enrollees from opting out of their KiwiSaver plan.

Of the three types of retirement savings plans for which opt-out data were provided, information from the respective plan officials suggests that the plan with the longest opt-out window had the highest opt-out rate. Specifically, the UK's NEST has an opt-out window of 1 month, and New Zealand's KiwiSaver has a window of 42 days; each had recent opt-out rates of around 10 percent.<sup>25</sup> Lithuania's Pension Accumulation Plan has an opt-out window of 150 days and an opt-out rate of 39 percent.<sup>26</sup>

In addition to limiting the opt-out window, eligible workers who opted out in the past may be re-enrolled in some of the selected retirement plans. For example, Lithuania's Pension Accumulation Plan automatically re-enrolls those who opted-out every 3 years. Similarly, under the UK's automatic enrollment requirements, according to the NEST representative, employers are required to automatically re-enroll any eligible employee who opted out and remains in the same employment after 3 years. Automatic enrollees who opt out of New Zealand's KiwiSaver are automatically re-enrolled whenever they start a new job. In Quebec, employers must offer workers who have opted out of the VRSP the opportunity to re-enroll in the VRSP every 2 years. The federal PRPP framework in Canada does not re-enroll individuals who initially opt out of the program.<sup>27</sup>

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<sup>24</sup> An enrolled employee in KiwiSaver can opt out between the end of week 2 and week 8 of starting work (e.g., on or after day 14 and on or before day 56), according to New Zealand's Department of Inland Revenue.

<sup>25</sup> The UK's NEST had an opt-out rate of 10 percent in 2021, according to the 2021 NEST Insight's annual research report. Richard Notley (Nest Insight), and David Mann (Nest Corporation), *Retirement saving in the UK 2021*. The KiwiSaver opt-out rate was less than 10 percent, according to our 2021 interview with KiwiSaver officials.

<sup>26</sup> Lithuania's Pension Accumulation Plan had an opt-out rate of 39 percent in 2021, according to data sent from a Lithuania representative.

<sup>27</sup> Canada's PRPP, Quebec's VRSP, and UK's NEST allow participants to re-enroll in their respective plan after opting out (before they are automatically re-enrolled). Information was not provided for New Zealand's and Lithuania's respective plans.

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## Administrative Burden

Automatic enrollment, despite its intended benefits, creates associated administrative burdens on employers and government officials, according to our international representatives. For most of the selected retirement savings plans, employers must automatically enroll eligible employees, which may include determining which employees are eligible, instituting payroll deductions, finding a retirement plan administrator, managing employees who decide to opt out, and regularly re-enrolling those employees. For example:

- A representative from New Zealand's KiwiSaver reported that several employers expressed concerns about the cost of compliance with the KiwiSaver program and the administrative burden of employee eligibility requirements. The representative also mentioned that employer errors in enrolling their employees often lead to administrative burden for the government officials who must reconcile the data.
- Additionally, a representative from Canada noted that they have received feedback from stakeholders who believe uptake of PRPPs may be low because other retirement savings vehicles not subject to pension standards legislation may present a lower administrative burden.
- According to a representative from NEST, mid-sized employers might face some additional administrative challenges when enrolling eligible employees into NEST, compared to their small and large employer counterparts, as small employers would have easier access to their employees and large employers would likely have a team or administration dedicated to the implementation of workplace retirement plans. However, the representative said that, generally, employers overall tend to find the automatic enrollment process straightforward.

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## Financial Incentives Are Used to Increase Worker Contributions, but Self-Employed and Lower-Income Workers Face Particular Challenges

Selected international retirement savings plans provide workers with incentives to join or stay in their plans, including government incentives

and mandatory employer contributions. However, the self-employed and lower income workers face particular challenges to contribute, according to our international representatives.

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## Government Incentives

According to selected international representatives and OECD reports, each of the selected countries with automatic enrollment incentivize retirement savings by making either employee contributions to retirement savings accounts or employee withdrawals at retirement from retirement savings accounts tax deductible or tax exempt (see fig. 3).<sup>28</sup> For example, in Lithuania, while the government taxes the first 3 percent of income a person contributes to their Pension Accumulation Plan, their contributions in excess of 3 percent are generally tax deductible, and all of their withdrawals from the Pension Accumulation Plan at retirement are tax-free.<sup>29</sup> According a Canadian representative, employees' contributions to their PRPP accounts are tax deductible (to a limit), but any money that employees withdraw from their accounts in retirement is taxed as income. In our prior work, we found that combining automatic enrollment with financial incentives, such as tax preferences, helped increase retirement savings plan participation.<sup>30</sup>

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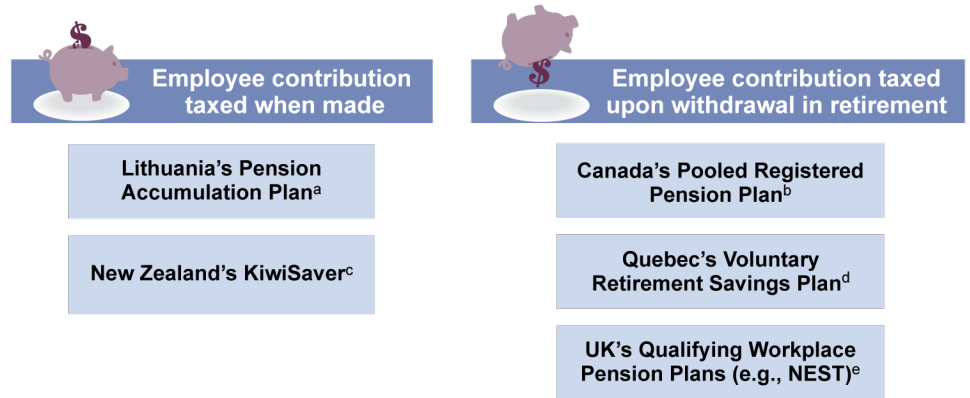
<sup>28</sup> According to The Organisation for Economic Co-operation and Development (OECD), countries use financial incentives, including tax incentives, to encourage people to save for retirement. In doing so, they determine whether or not to tax contributions, investment income, or withdrawals. See OECD, *Financial incentives for funded private pension plans OECD Country Profiles 2021* (Paris, France: 2021).

<sup>29</sup> Additional contributions over 3 percent of income, can be deducted from the member's income taxes with several caveats. See OECD, *Financial incentives for funded private pension plans OECD Country Profiles 2021*.

<sup>30</sup> [GAO-15-556](#). In the United States, contributions and investment gains in 401(k) plans are generally tax deferred until distribution.



**Figure 3: Tax Treatment for Employees, as Implemented in Selected International Retirement Savings Plans, According to Retirement Representatives and Documents**



Source: GAO summary of information from selected international retirement representatives, plan web sites and OECD reports. | GAO-22-105102

**Accessible Data for Figure 3: Tax Treatment for Employees, as Implemented in Selected International Retirement Savings Plans, According to Retirement Representatives and Documents**

Employee contribution taxed when made	Employee contribution taxed upon withdrawal in retirement
Lithuania's Pension Accumulation Plan <sup>a</sup>	Canada's Pooled Registered Pension Plan <sup>b</sup>
New Zealand's KiwiSaver <sup>c</sup>	Quebec's Voluntary Retirement Savings Plan <sup>d</sup>
	UK's Qualifying Workplace Pension Plans (e.g., NEST) <sup>e</sup>

Source: GAO summary of information from selected international retirement representatives, plan web sites and OECD reports. | GAO-22-105102

Note: We did not conduct an independent legal analysis to verify the information in this figure. Instead, we relied on appropriate secondary sources, including government web sites and retirement plan reports, interviews, and other sources.

<sup>a</sup>According to the Organisation for Economic Co-operation and Development (OECD), in Lithuania's Pension Accumulation Plan, the first 3 percent of contributions, which is the default rate, is taxed, while contributions over 3 percent can be deducted from the pensioner's income taxes, with several exceptions. For more information, see The Organisation for Economic Co-operation and Development, *Financial incentives for funded private pension plans* OECD Country Profiles 2021 (Paris, France: 2021).

<sup>b</sup>According to a representative from Canada, employee PRPP contribution limits, which are integrated with those of defined contribution pension plans and Registered Retirement Savings Plans, are determined by Canada's Revenue Agency. PRPPs are overseen by the Office of the Superintendent of Financial Institutions with respect to pension standards legislation, and by the Canada Revenue Agency with respect to tax legislation.

<sup>c</sup>According to a representative from KiwiSaver, employee contributions to New Zealand's KiwiSaver are taxed. A person's individual tax rate is largely dependent on income level.

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<sup>d</sup>Any employee contribution to Quebec's Voluntary Retirement Savings Plan is tax deductible, according to a representative from the VRSP. See [https://www.rrq.gouv.qc.ca/en/retraite/rver/Pages/travailleur\\_rver.aspx](https://www.rrq.gouv.qc.ca/en/retraite/rver/Pages/travailleur_rver.aspx).

<sup>e</sup>In the United Kingdom's (UK) qualifying workplace pension plans, such as NEST, employee contributions are tax deductible to a limit, according to a representative from NEST. More information can be found at:

<https://www.nestpensions.org.uk/schemeweb/next/my-nest-pension/contributions-and-fees.html>.

Contributions over the annual limit or beyond the lifetime limit for account balances set by the UK government will be taxed. Also, employees, who generally contribute 5 percent of their salary to their workplace pension, receive a 1 percent tax credit, so that the 5 percent contribution effectively costs the employee only 4 percent of their salary. Plan documents further detail that regarding employee withdrawals, under normal circumstances, 25 percent of each employee withdrawal is tax-free while the remaining 75 percent is taxed. More information can be found at:

<https://www.nestpensions.org.uk/schemeweb/next/retirement/your-pensions-and-tax.html>.

Some of the selected plans also incentivize worker contributions with government matches or direct contributions, according to retirement representatives. For example, New Zealand provides a cash match to eligible participants in the KiwiSaver plan. The New Zealand government matches 50 percent of the first NZ\$1,042.86 a member contributes to the account (up to NZ\$521.43 added directly to the participant's account). The government of Lithuania does not specifically tie its contributions to worker contributions; rather, the government directly contributes 1.5 percent of the country's average worker's salary into each individual's Pension Accumulation Plan each year.

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## Employer Incentives

### **Prior GAO Work: Employer Contributions**

We previously reported that employer contributions combined with automatic enrollment helped increase workers' retirement savings plan participation.

Source: [GAO-15-556](#). | GAO-22-105102

In addition to government incentives, each of our selected international retirement savings plans with automatic enrollment either mandate employer contributions to employee retirement savings plans or otherwise incentivize employer contributions, according to retirement representatives. For example, representatives said employers in the UK and New Zealand must contribute at least 3 percent of an employee's

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salary to their NEST and KiwiSaver accounts, respectively.<sup>31</sup> These representatives noted that employer contributions can incentivize employee participation and bolster retirement savings. In addition, the Netherlands also mandates employer contributions, but, at a variable rate.

In contrast, the governments of Lithuania, Quebec, and Canada encourage employers to contribute through tax incentives, like tax deductions. For example, a representative from Quebec stated that the employer's contribution to the VRSP is not subject to a fringe benefits tax and that relief given to employers when they contribute is the primary advantage that the VRSP has over many other plans in Canada.<sup>32</sup> In addition, the government of Lithuania encourages employers to contribute to their employees' Pension Accumulation Plans through tax deductions, according to an OECD report.<sup>33</sup>

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## Challenges Reported for the Self-Employed

According to some international retirement representatives, it can be challenging for self-employed individuals to contribute to retirement savings plans, in light of potential financial instability. For example, representatives from Lithuania, the Netherlands, and the UK spoke of the relatively volatile incomes and savings of the self-employed. Due to this, the representative from the Netherlands concluded that self-employed individuals might forgo retirement savings to ensure their savings remain liquid and flexible. The representative added that government efforts in

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<sup>31</sup> Employers in New Zealand are only required to contribute 3 percent of an employee's salary to their KiwiSaver account, if the employee is also contributing to their account, according to representatives from KiwiSaver. Employer contributions to New Zealand's KiwiSaver are taxed. The tax is called the employer superannuation contribution tax (ESCT). The tax rate is dependent on the employee's income with each employer, so an employee may have different ESCT rates with different employers. In addition, the government of the UK requires eligible employers to contribute to eligible employees' accounts, provided the employees do not exercise their right to opt out, according to the NEST representative.

<sup>32</sup> According to the Quebec representative, employer contributions to employee VRSP accounts are not considered salary, and therefore employers do not have to pay the fringe benefits tax. The representative stated that these fringe benefits include employment insurance contributions, the public pension plan, and labor standards, etc.

<sup>33</sup> See OECD, *Financial incentives for funded private pension plans OECD Country Profiles 2021*.

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the Netherlands to encourage the participation of the self-employed have had little effect on the pension savings of the self-employed.

UK's NEST Insight, the public benefit research arm of NEST, is working on several research initiatives to test ways to encourage the participation of the self-employed, according to the NEST representative. These initiatives include a "pay what you can" system, which allows the self-employed to be flexible with their savings, along with other technology-based prompts to encourage savings among this group. (In the text box below, we discuss how Mexico—a country we selected for its technological innovations for retirement—uses them to encourage savings.)

### **Mexico: National Commission of the Retirement Saving System's Use of Technological Incentives**

According to representatives from the National Commission of the Retirement Savings System (CONSAR), it has created several mechanisms to encourage all workers to continue investing in private pension funds managers, such as Administradoras de Fondos para el Retiro (AFORE). These mechanisms include informal workers who are not protected by the country's social security system, and who comprise more than 55 percent of the workforce, as well as formal workers who are protected by social security. In Mexico, workers' access to their private AFORE funds has been increasing through mobile or online accounts, or the AFOREMOVIL app.

- Partnership with convenience stores. Currently, CONSAR has agreements with several convenience stores and has 17,000 locations around the country, where AFORE members can make cash deposits providing only their identification or Unique Population Registration Code (Clave Unica de Registro de Población, CURP).
- Savings through consumption. Certain companies deposit a percentage of AFOREMOVIL users' purchases into their individual accounts through a loyalty savings program, GanAhorro.
- Bankcard partnerships. Through its "Miles for Retirement" program, CONSAR has several agreements with popular debit and credit card companies and money transferring apps to allow and promote the transfer of small deposits into a member's AFORE account directly through their phone using the AFOREMOVIL app. AFOREMOVIL also allows members to earmark a certain percentage of their purchases with their eligible bankcard to transfer into their AFORE account. For example, a member can choose to allow, through its AFOREMOVIL app, an additional 2 percent of the cost of their purchase to transfer into their AFORE account each time they use their eligible card.

Source: Mexico's National Commission of the Retirement Savings System. | GAO-22-105102

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In addition, those who are self-employed do not generally benefit from employer contributions that can incentivize other workers. For example, retirement representatives from New Zealand noted that because self-employed individuals do not have an employer, they do not receive any of the incentives that would come with employer contributions. The lack of employer contributions may be a relative disadvantage for the self-employed in New Zealand, the UK, and the Netherlands, where employer contributions to employee accounts are otherwise mandatory. The self-employed, as their own employer, are not required to contribute to their own account.

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## Challenges Reported for Lower-Income Employees

### **Prior GAO Work: Low-Income Workers**

In a prior report, we found that low-income individuals in the United States are much less likely than higher-income individuals to have access to workplace retirement savings plans. We also previously reported that low-income individuals, even with access to plans, might elect not to participate in defined contribution plans, as their participation could divert funds from basic necessities.

Source: [GAO-15-556](#) and [GAO-16-408](#). | GAO-22-105102

Some of the international retirement representatives noted that lower-income workers in their respective countries also faced particular challenges to contribute to retirement savings plans, and discussed initiatives to increase their participation. For example, UK's NEST representative questioned whether it makes sense for low-income workers making less than £10,000 per year to defer some of their salary to a future pension. To encourage lower-income individuals to contribute to their retirement savings plans in New Zealand, the KiwiSaver plan added a lower contribution rate of 3 percent, recognizing that 3 percent of one's income can still be burdensome for a lower-income participant to save.<sup>34</sup> A representative from Canada said that they purposefully allowed each individual to set their own contribution rate to ensure that members can choose contribution rates that are optimal for their individual circumstances. The representative also noted that participants could even set their contribution rate to zero, 12 months at a time.

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<sup>34</sup> Currently, members of the KiwiSaver plan can choose to invest at the following contribution levels: 3 percent, 4 percent, 6 percent, 8 percent, and 10 percent of salary.

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**Prior GAO Work: Employer Contributions for Low-Income Workers**

In a prior report, we also noted that low-earning households in the United States are more likely than others to miss out on their employer matching contributions, potentially by not contributing enough to their defined contribution plan to receive their full employer match.

Source: [GAO-16-408](#). | GAO-22-105102

Some international retirement representatives also spoke of particular impacts of their government incentives on lower-income workers. Representatives from Canada noted that very low-income individuals might not pay taxes, so they would not realize some tax benefits (e.g., tax deductions) on contributions that may impact others. In addition, as previously mentioned, the government of New Zealand provides a match for employee contributions, up to a limit. However, retirement representatives said the government match is not well-targeted to low-income individuals and that middle-income individuals tend to benefit the most.<sup>35</sup> In contrast, because the Lithuanian government contributes 1.5 percent of the average Lithuanian worker's yearly income into a worker's retirement savings account annually, regardless of their income or contribution level, low-income workers—particularly, those who earn less than the average salary—disproportionately benefit from this contribution compared to higher-income participants.

**Prior GAO Work: Tax Implications for Low-Income Workers**

In a prior report, we noted that in the United States, the progressive structures of the U.S. federal income tax code and Social Security also provide low-income households less incentive to participate in a defined contribution plan than those provided to high-income households. In that report, we gave the following example: in the United States, the federal income tax rate increases as a household's taxable income increases. Thus, the tax advantages of contributing to a defined contribution plan—increased tax savings—are greater for high-income than low-income households.

Source: [GAO-16-408](#). | GAO-22-105102

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<sup>35</sup> KiwiSaver members who do not save the full amount necessary for the maximum match will receive 50 cents for every dollar they contribute, according to KiwiSaver.

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## Default Options for Contribution Rates, Investments, and Providers Aim to Facilitate Savings

The international retirement savings plans we reviewed established several default options—including contribution rates, investments, and plan providers—to facilitate employee participation and remove potential barriers to saving, according to retirement representatives we interviewed and plan documents. In our prior work, we reported that plan strategies can be designed to recognize the realities of human psychology, such as procrastination, inertia, and difficulty processing complex information.<sup>36</sup> Some strategies, which may include default plan options, can steer individuals towards increasing their financial well-being.

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### Default Contribution Rate

Nearly all of our selected retirement savings plans with automatic enrollment established default contribution rates between 3 and 5 percent of a worker's salary, according to retirement officials we interviewed (see table 2). Participants automatically contribute their plan's default contribution percentage in the absence of another choice, which simplifies the key investment decision of how much to contribute.

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**Table 2: Default Worker Contribution Rates, as Implemented in Selected International Retirement Savings Plans**

Retirement savings plan	Default worker contribution rate
Lithuania's Pension Accumulation Plan	3 percent
New Zealand's KiwiSaver	3 percent
Quebec's Voluntary Retirement Savings Plan	4 percent
UK's Qualifying Workplace Pension Plans (e.g., NEST)	5 percent <sup>a</sup>

Source: GAO summary of information from selected international retirement representatives. | GAO-22-105102

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<sup>36</sup> Behavioral economics studies the effect of emotional, social, and cognitive factors on economic decision making and the financial consequences of these decisions. It combines economics and psychology to offer an alternative to the traditional economic theory that individuals always act rationally and in their own self-interest. [GAO-18-111SP](#).



Note: Pooled Registered Pension Plans (PRPP) do not use a single default contribution rate. Each PRPP has the flexibility to set its own contribution rates. If members are able to select their own rate but do not, the member will contribute the default rate set by the PRPP administrator.

<sup>3</sup>In the United Kingdom (UK), the default contribution rates for both the employer and the overall pension contribution are provided for through automatic enrollment. As of March 31, 2021, about 86 percent of National Employment Savings Trust (NEST) participants contributed at the legislative mandatory minimum rates, i.e., with an employer contribution of 3 percent and a total combined contribution of 8 percent.

The selected retirement savings plans used different approaches to setting default contribution rates, which plans generally aim to set at an appropriate level to increase savings without causing too many workers to opt out. For example, the plans in the UK and New Zealand established default contribution rates as the minimum for plan participants to contribute,<sup>37</sup> and about 86 and 62 percent of plan participants, respectively, contribute at this level in each country, according to information from international plan representatives.<sup>38</sup> As previously noted, a New Zealand official told us that KiwiSaver lowered its default contribution rate 1 percentage point to 3 percent to encourage greater participation from lower-income workers. In contrast, plan participants in Lithuania and Quebec may choose to contribute less than the default contribution rate for their plans. According to the Lithuanian retirement official, this was intended to help overcome fears from new participants enrolling in the pension plan.

Plan officials suggested that the extent to which the selected plans' default contribution rates promote adequate income at retirement, however, is unclear. For example, according to the UK NEST representative, for many, the default contribution framework is likely insufficient on its own to enable a smooth transition into retirement,

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<sup>37</sup> In the UK, the 5 percent default contribution rate is the minimum contribution necessary to receive the 3 percent required employer contribution (and 8 percent required total contribution). See <https://www.nestpensions.org.uk/schemeweb/nest/my-nest-pension/contributions-and-fees.html>. However, these requirements are not specific to NEST only, according to the NEST representative.

<sup>38</sup> According to New Zealand KiwiSaver representatives, 21 percent of participants contribute at 4 percent, which was the minimum contribution rate when KiwiSaver was introduced.

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though individual circumstances vary.<sup>39</sup> Moreover, the official noted that the 10 million workers who were not enrolled in a workplace pension at the beginning of NEST may have also missed 10-20 years of pension savings. This would further compound their challenges in securing an adequate retirement. In Lithuania, according to the pension official, workers cannot expect to have a large retirement income if their income while working was low, since retirement savings depend on contribution rates to the government pension fund. The official told us that many who are retired must buy an annuity to supplement the pension they receive.<sup>40</sup>

**Prior GAO Work: Default Contribution Rates**

We have previously reported about concerns that default contribution rates in retirement savings plans may be insufficient to secure an adequate retirement income.

Source: [GAO-15-556](#) | GAO-22-105102

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## Default Investments

Select international retirement savings plans offer default investments that combine high- and low-risk funds to appropriately balance risk and growth, according to retirement officials.<sup>41</sup> Much like contribution rates, employees are enrolled in (or are placed in) default funds, if they do not otherwise select another investment option.<sup>42</sup> For example:

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<sup>39</sup> According to the UK NEST official, the contribution framework was based on retirement income for an average earner from a combination of sources, which include: a state pension; a retirement savings plan; and voluntary additional pension contributions or other forms of saving or wealth to make up any gaps in target retirement income. Together, the official said, the first two sources should replace about 45 to 48 percent of income in retirement for someone saving 8 percent of income throughout their working life.

<sup>40</sup> According to the Lithuanian official, retirees with retirement savings of 10,000 euros or greater are obligated to purchase an annuity.

<sup>41</sup> PRPPs are required to offer default investments that combine equity and fixed income to appropriately balance risk and growth, according to retirement officials.

<sup>42</sup> In Lithuania, the state social insurance fund board randomly assigns workers automatically enrolled in the Pension Accumulation Plan to different but equivalent default funds that decrease risk as a worker approaches retirement age, according to the retirement representative.

- UK's NEST default investments include a range of target date funds (nearly 50 in all) where workers' contributions are directed at the time of enrollment based on their expected retirement age; there is a separate investment fund for each year in which a member could retire, currently, until 2066. The target date funds adjust based on investment objectives and portfolio risk levels for those in each fund. Specifically, the fund's asset allocation changes over time to match the life stage of its members, as well as investment market conditions, according to NEST.<sup>43</sup>
- In Canada, a PRPP's default investments must either be a balanced fund, which offers a mix of safety, income, and capital appreciation, or a portfolio of investments that take into account the worker's age, such as a target date fund, according to the retirement representative.<sup>44</sup>

**Prior GAO Work: Default Investment Funds**

In prior work, we reported that while there are no nationally representative data in the United States on the universe of 401(k) plan sponsors' default investment use, data from three industry surveys indicated that between 2009 and 2013 the majority of plan sponsors surveyed used target date funds for this purpose.

Source: [GAO-15-578](#). | [GAO-22-105102](#)

The international retirement plan officials we interviewed underscored the importance of default investments, particularly for those with lower levels of financial literacy. For example, in Quebec, where the default option helps make up for VRSP members' possible lack of financial literacy, more than 90 percent of VRSP assets were in default investments as of

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<sup>43</sup> According to NEST, the target date funds follow a glide path that matches a set of investment objectives and portfolio risk levels appropriate for the cohort of individuals in the fund as they move towards retirement. For more information, see Richard Notley (Nest Insight), and David Mann (Nest Corporation), *Retirement saving in the UK 2021*.

<sup>44</sup> Target date funds are based on a life-cycle approach that becomes less risky as participants near retirement age. According to Canada's Office of the Superintendent of Financial Institutions, the federal agency which oversees PRPPs, a balanced fund holds a combination of equity and fixed income investments to provide income and capital appreciation while avoiding excessive risk. A balanced fund typically has a target allocation of between 40 and 60 percent of assets to equities and the remainder to fixed income investments. See [https://www.osfi-bsif.gc.ca/Eng/pp-rr/ppa-rra/prpp-rpac/Pages/dft\\_inv.aspx](https://www.osfi-bsif.gc.ca/Eng/pp-rr/ppa-rra/prpp-rpac/Pages/dft_inv.aspx).

December 2020, according to retirement representatives.<sup>45</sup> Relatedly, about 99 percent of UK's NEST members had invested in a default target date fund as of March 2021, and once enrolled in these funds, very few members switch.<sup>46</sup> Additionally, two countries have shifted relatively recently to balanced or target date default funds for their retirement savings plans. Specifically:

- As of December 1, 2021, New Zealand's KiwiSaver changed its default investments from conservative funds with low risk (e.g., bonds) to balanced funds that represent a mix of low- and high-risk, designed to provide better returns over the long term, according to a KiwiSaver representative. The official said that because default investments generally include members with lower levels of financial literacy and savings, the shift to balanced funds could help increase retirement savings.
- Lithuania began offering target date funds as the default in 2019, according to the retirement official, when it found that pension plan participants were not choosing risk based on their age; specifically, some of the younger ages would choose the smallest risk, conservative funds, resulting in an overall lower pension. The retirement official said that the change to target date funds was important as many in Lithuania lack the financial education to manage their assets.

At the same time, retirement officials suggested that default investments may not be optimal for participants with greater financial literacy, and pointed to additional investment options to address this. To appeal to those with varying risk appetites, among other things, NEST offers six additional investment funds, some based on different balances of expected risk and volatility.<sup>47</sup> Similarly, Quebec's VRSPs must offer members three to five other investment fund options with different risk

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<sup>45</sup> In Quebec, according to retirement representatives, employers must offer eligible employees a VRSP with a default fund option based on a life-cycle approach that uses an established risk level based on age and retirement date that appropriately adjusts until age 65—the normal retirement age set in such plans.

<sup>46</sup> See Richard Notley (Nest Insight) and David Mann (Nest Corporation), *Retirement saving in the UK 2021*.

<sup>47</sup> These funds include an ethical fund and a Sharia fund (with investments screened by Islamic scholars to ensure they meet Sharia principles). For more information, see <https://www.nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/other-fund-choices.html>.

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and return levels to allow prudent investors to build an appropriate retirement savings portfolio. In New Zealand, according to retirement officials, a smaller percentage of KiwiSaver members (about 10 percent) are currently invested in default investments than 7 years ago (about 25 percent). The officials said that, during this time, fund providers have become increasingly successful in persuading members to select their own fund and many tools and websites have become available to help members select among available funds.<sup>48</sup>

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## Default Plan Providers

### Prior GAO Work: 401(k) Plan Fees

In related work, we have previously reported on the difficulties 401(k) plan participants in the United States face in understanding associated fee information.

Source: [GAO-21-357](#). | GAO-22-105102

Default plan providers offer workers low fees, fiduciary responsibility, and government oversight, according to international retirement officials, which can incentivize plan participation.<sup>49</sup> Overall, default plan providers in the selected retirement savings plans include a range of entities, such as financial institutions, life insurance companies, and not-for-profit organizations.

**Low fees.** Default plan providers in each of the international retirement savings plans we reviewed with automatic enrollment limit fees for participants to help keep plans low-cost, though in different ways. For example:

- Quebec’s VRSPs legislatively limit costs to plan participants, according to retirement officials. VRSPs’ low management fees allow

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<sup>48</sup> Even if a provider no longer holds default funds, it may still offer other funds. For example, ANZ Bank—a large bank—was once a default provider but has since lost the default status, according to the KiwiSaver official. The bank has a 23 percent share of the KiwiSaver market; of its about 750,000 members, it lost 50,000 when it lost default status. The representative said that such default fund providers want to actively convert default members into making an active choice into their other funds.

<sup>49</sup> For the purposes of this report, we refer to service providers that offer participants default investments as “default plan providers.”

for a greater appreciation of assets at retirement, according to the retirement representatives.<sup>50</sup>

- In Canada, the PRPP framework limits fees for participants. Specifically, fees charged by PRPPs must be at or below those incurred by members of defined contribution plans that provide investment options to groups of 500 or more members. The officials said this helps ensure that workers do not pay fees that retail customers typically pay, but rather those generally associated with large-scale plans.
- In New Zealand, officials said KiwiSaver’s default plan providers are renewed on a competitive basis, with four of the nine previous providers renewed most recently, and fee reduction is a key criterion.<sup>51</sup> Plan providers that offer lower cost and more digitally nimble models are the ones that will succeed and stand out, according to retirement officials.
- In the UK, NEST is able to negotiate low fees with investment companies due to the overall size of funds that it controls, according to the NEST retirement official.<sup>52</sup>

**Fiduciary responsibility.** Some international retirement representatives also described the fiduciary role of default plan providers. For example, the NEST official said that in the UK the retirement savings plan or provider acts as the fiduciary, not the employer. According to NEST, while employers have no direct fiduciary responsibility, they are obligated to select a qualifying retirement savings plan.<sup>53</sup> According to the plan representative, plan providers have traditional fiduciary obligations to participants in “trust-based” or occupational plans, or equivalent “treating customers fairly” obligations in workplace plans provided by the insurance sector. Fiduciary responsibilities are similarly incumbent upon plan providers in Quebec’s VRSPs, according to plan representatives, which

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<sup>50</sup> Employers who meet certain criteria regarding the number and length of service of their employees, and who do not otherwise offer qualifying retirement plans or similar accounts with workplace deductions, must offer employees a VRSP. Employees have the right to withdraw, opt out, or suspend participation in a VRSP by request. See [https://www.rrq.gouv.qc.ca/en/retraite/rver/Pages/travailleur\\_rver.aspx](https://www.rrq.gouv.qc.ca/en/retraite/rver/Pages/travailleur_rver.aspx).

<sup>51</sup> According to plan representatives, two new default plan providers were successfully added as well.

<sup>52</sup> The NEST official said that while NEST does the strategic asset allocation, it outsources the actual investments to investment companies.

<sup>53</sup> For more information, see <https://www.nestinsight.org.uk/learnings-from-british-pension-plans/>.

must act in the best interest of participants. Likewise, PRPP administrators in Canada have fiduciary responsibilities to act in the best interest of participants.

**Government oversight.** Public agencies regulate and oversee default plan providers in selected retirement savings plans with automatic enrollment and intervene as appropriate, according to retirement officials. In New Zealand, the government regulator, the Financial Markets Authority, supervises KiwiSaver plan providers. It also monitors KiwiSaver fees and can intervene if it thinks fees are excessive, leading efforts on fee comparability across funds, officials said. In Lithuania, the state social insurance fund board is responsible for organizing the automatic enrollment process and transfer of contributions (default contributions from participants' wages and the contribution from state). The state-owned Bank of Lithuania is responsible for ensuring that the Pension Accumulation Plan and pension accumulation companies are working in accordance with law.<sup>54</sup> The bank oversees all pension fund providers and, according to the retirement representative, can take actions against funds, as necessary. For example, the bank can require pension providers to transfer the management of pension funds, and restrict or prohibit the investment of pension assets, among other things.

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## Flexibilities to Change Contributions or Withdraw Funds May Pose Trade-offs

International retirement representatives identified various flexibilities our selected international retirement plans offer to plan participants—including options when changing employers, the ability to pause or stop employee contributions, early withdrawals of retirement funds, and options for drawing down funds. However, these flexibilities may pose trade-offs for plan participants, according to retirement representatives.

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### Options When Changing Employers

According to our international retirement representatives, each of the retirement savings plans we reviewed allows workers the option to leave funds in the same plan or transfer funds to a different plan (or retirement

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<sup>54</sup> The Bank of Lithuania belongs to the State of Lithuania. See <https://www.lb.lt/en/organisational-structure> for more information.

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vehicle) when changing employers. Some plans also allow participants the option to withdraw funds as a lump sum. See table 3.

**Prior GAO Work: 401(k) Plans**

In the United States, when 401(k) plan participants separate from their employers, they generally have up to four options for their plan savings: leave the money in the plan, roll or move the money into a new qualified employer plan, roll the money into an individual retirement account, or take a lump sum distribution.

Source: [GAO-13-30](#) | [GAO-22-105102](#)



**Table 3: Reported Options to Manage Retirement Savings When Changing Employers, as Implemented in Selected International Retirement Savings Plans**

Retirement savings plan	Leave funds in same plan <sup>a</sup>	Transfer funds to another plan or retirement savings vehicle <sup>b</sup>	Withdraw funds as a lump sum <sup>c</sup>
Canada’s Pooled Registered Pension Plans (PRPPs)	available option	available option	available option
Lithuania’s Pension Accumulation Plan	available option	available option	not applicable
The Netherlands’ Occupational Pension Plans	available option	available option	not applicable
New Zealand’s KiwiSaver	available option	available option	not applicable
Quebec’s Voluntary Retirement Savings Plan	available option	available option	available option
United Kingdom’s Qualifying Workplace Pension Plans (e.g., National Employment Savings Trust)	available option	available option	not applicable

Legend: ✓ = Available option, — = Not applicable

Source: GAO summary of information from selected international retirement representatives and plan web sites. | GAO-22-105102

<sup>a</sup>In Lithuania, because workers are not connected to their retirement savings accounts through their employer, changing jobs does not affect their connection or ability to contribute to the same plan. In the Netherlands, a worker can remain with the same retirement savings plan only if they change jobs within the same industry (e.g., health care). In New Zealand, KiwiSaver allows workers the option to leave funds with the same provider.

<sup>b</sup>A worker in Canada can transfer funds to another PRPP, to a registered pension plan, or to a locked-in savings vehicle—where funds typically cannot be withdrawn before retirement—once no longer employed by the employer that offered the PRPP. In the Netherlands, a worker can transfer funds to a different plan only if they move to a different employer within a different industry.

<sup>c</sup>In Canada, where the PRPP allows, participants with small balances may withdraw funds in a lump sum. Additionally, PRPP participants may use the funds to purchase an annuity.

While the various options in our selected international plans provide participants with flexibility to decide how best to manage retirement contributions and investment earnings when leaving an employer, retirement representatives also noted potential trade-offs (see table 4).

**Table 4: Examples of Trade-Offs for Plan Participants When Changing Employers, as Implemented in Selected International Retirement Savings Plans, Identified by Retirement Representatives**

Option	Examples of trade-offs
Leave funds in same plan	<ul style="list-style-type: none"> <li>Representatives from Canada said that while leaving funds in the same plan after changing employers would allow a participant to continue to take advantage of low fees and professional management of the Pooled Registered Pension Plan (PRPP), it could lead to the individual needing to manage multiple retirement savings vehicles.</li> </ul>
Transfer funds to another plan or retirement savings vehicle	<ul style="list-style-type: none"> <li>The United Kingdom (UK) National Employment Savings Trust (NEST) official told us that while there are no apparent barriers to consolidating funds across defined contribution retirement plans, transfers can be complicated, expensive and time-consuming, presenting barriers to individuals wishing to consolidate funds.<sup>a</sup></li> <li>Quebec Voluntary Retirement Savings Plan (VRSP) representatives identified the following criteria members may wish to consider when deciding whether to transfer funds to another VRSP or pension plan:               <ul style="list-style-type: none"> <li>Fees: VRSPs limit fees whereas other pension plans do not</li> <li>Investment options: default investments and additional funds available to participants may vary across VRSP providers</li> <li>Management simplicity: whether participants prefer assets managed by a single provider or multiple plan providers</li> </ul> </li> </ul>
Withdraw funds as a lump sum	<ul style="list-style-type: none"> <li>According to Canadian officials, a member with a small balance (less than 20 percent of the year's maximum pensionable earnings) may receive a lump sum payment with no restrictions on the use of the funds, if the PRPP allows. However, the government taxes the funds upon withdrawal.</li> <li>Quebec VRSP officials said that because withdrawn contributions are taxable for Quebec and Canada and cannot be invested as a new contribution in a registered retirement plan, there is generally no advantage in withdrawing contributions, other than for a financial necessity (with few exceptions, such as for a home-buyers' plan).</li> </ul>

Source: GAO summary of information from selected international retirement representatives. | GAO-22-105102

<sup>a</sup>NEST participants may transfer funds to another registered pension scheme or a qualifying recognized overseas pension scheme. The options available under NEST apply to all eligible employees enrolled in a qualified workplace pension plan, and not just NEST—the public plan option open to any employer wishing to use it.

## Ability to Stop Contributions

Each of our selected international retirement savings plans with automatic enrollment also allows eligible participants to temporarily pause or stop contributions, according to retirement officials (see fig. 4).<sup>55</sup> For example, a participant might pause contributions during a time of financial strain.

<sup>55</sup> In our selected country without automatic enrollment—the Netherlands—plan participants cannot pause or stop their contributions, which are based on collective agreements between employer organizations and trade unions, according to the retirement representative.

**Figure 4: Participants' Eligibility to Pause or Stop Contributions, as Implemented in Selected International Retirement Savings Plans**

	When participants are eligible	How long contributions can be paused
Canada's Pooled Registered Pension Plan	<i>If enrolled for at least 12 months</i>	3 months to 5 years <sup>a</sup>
Lithuania's Pension Accumulation Plan	<i>At any time after enrollment</i>	Up to 12 months <sup>b</sup>
New Zealand's KiwiSaver	<i>If contributed for at least 12 months</i>	3 months to one year <sup>c</sup>
	<i>If contributed less than a year</i>	3 months to one year <sup>d</sup>
Quebec's Voluntary Retirement Savings Plan	<i>At any time after enrollment</i>	Not specified <sup>e</sup>
UK's Qualifying Workplace Pension Plans (e.g., NEST)	<i>At any time after enrollment</i>	Not specified <sup>f</sup>

Source: GAO summary of information from selected international retirement representatives and plan web sites. | GAO-22-105102

**Accessible Data for Figure 4: Participants' Eligibility to Pause or Stop Contributions, as Implemented in Selected International Retirement Savings Plans**

Category	When participants are eligible	How long contributions can be paused
Canada's Pooled Registered Pension Plan	<i>If enrolled for at least 12 months</i>	3 months to 5 years <sup>a</sup>
Lithuania's Pension Accumulation Plan	<i>At any time after enrollment</i>	Up to 12 months <sup>b</sup>
New Zealand's KiwiSaver	<i>If contributed for at least 12 months</i>	3 months to one year <sup>c</sup>
New Zealand's KiwiSaver	<i>If contributed less than a year</i>	3 months to one year <sup>d</sup>
Quebec's Voluntary Retirement Savings Plan	<i>At any time after enrollment</i>	Not specified <sup>e</sup>
UK's Qualifying Workplace Pension Plans (e.g., NEST)	<i>At any time after enrollment</i>	Not specified <sup>f</sup>

<sup>a</sup>Participants in Canada's Pooled Registered Pension Plans may repeat their pause indefinitely.

<sup>b</sup>Pension plan participants in Lithuania's Pension Accumulation Plan may pause contributions up to 12 months total until the time at which they apply for pension benefits.

<sup>c</sup>KiwiSaver members who have contributed for at least 12 months may repeat their pause indefinitely.

<sup>d</sup>KiwiSaver members who have contributed for less than 1 year may apply for an early savings suspension in order to pause contributions, if they are experiencing, or likely to experience financial hardship. Members may receive suspensions up to one year, depending on circumstances.

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**Letter**

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<sup>e</sup>According to Quebec representatives, the VRSP Act stipulates that members can modify their contribution rate at any time. However, employees participating in a VRSP offered by their employer are limited to two modifications per year unless the employer agrees to more.

<sup>f</sup>In the United Kingdom (UK), employers may automatically re-enroll participants in their qualifying workplace pension plan as part of the employer's re-enrollment duty, according to the National Employment Savings Trust (NEST) representative. Employers must re-enroll any eligible worker who opts out 3 years after they were last enrolled, if they still work for the same employer.

The use of this flexibility, however, varied widely among the international retirement plans for which data were provided.<sup>56</sup> For example, according to UK's NEST, a small percentage of members (about 2 percent) have ceased contributions between the start of automatic enrollment and March 2021 (about 335,000 members in all).<sup>57</sup> In contrast, Quebec retirement officials said that approximately 40 percent of VRSP members had suspended contributions as of December 2020, suggesting that a large proportion of workers automatically enrolled in a VRSP end up withdrawing. Canadian officials expressed concern that the flexibility to set contribution rates to 0 for up to 5 years, and repeat indefinitely, may result in some workers setting minimal rates, minimizing asset growth and efficiency.

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## Early Withdrawals of Funds

### Hardship Distributions

In the United States, 401(k) plans may, but are not required to, provide for hardship distributions. According to the Internal Revenue Service, 401(k) plans that provide for hardship distributions must provide the specific criteria used to make the determination of hardship. For example, a plan may allow a distribution only for medical or funeral expenses, but not for the purchase of a principal residence or educational expenses.

Source: IRS. | GAO-22-105102


Many of the international retirement plans also allow participants early withdrawals of retirement funds for non-retirement purposes, and, in most cases, for particular circumstances, according to retirement representatives (see fig. 5). In contrast, representatives from Lithuania and the Netherlands said that their retirement savings plans do not allow early access to retirement savings for emergency purposes.

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<sup>56</sup> Data on the percentage of plan participants who have paused or stopped contributions were unavailable for Canada and Lithuania, according to retirement representatives.

<sup>57</sup> According to NEST Insight's 2021 annual research report, workers may have been reluctant to stop contributions during the pandemic or the figures may reflect less job turnover than is typical; more time is needed to compare 2020/21 data against previous years. See Richard Notley (Nest Insight), and David Mann (Nest Corporation), *Retirement saving in the UK 2021*.

**Figure 5: Reasons for Early Withdrawals, as Implemented in Selected International Retirement Savings Plans**



	<b>Reasons for Early Withdrawal</b>
<b>Canada's Pooled Registered Pension Plan</b>	<ul style="list-style-type: none"> <li>• Shortened life expectancy</li> <li>• Small balance</li> <li>• Non-residency</li> </ul>
<b>New Zealand's KiwiSaver</b>	<ul style="list-style-type: none"> <li>• First home</li> <li>• Serious illness with a life-shortening condition</li> <li>• Significant financial hardship</li> <li>• Moving overseas</li> </ul>
<b>Quebec's Voluntary Retirement Savings Plan</b>	<ul style="list-style-type: none"> <li>• Employee contributions are accessible</li> </ul>
<b>UK's Qualifying Workplace Pension Plans (e.g., NEST)</b>	<ul style="list-style-type: none"> <li>• Age 55</li> <li>• Terminal illness</li> <li>• Incapable of work due to illness or physical or mental impairment</li> </ul>

Source: GAO summary of information from selected international retirement representatives and plan web sites. | GAO-22-105102

**Accessible Data for Figure 5: Reasons for Early Withdrawals, as Implemented in Selected International Retirement Savings Plans**

<b>Category</b>	<b>Reasons for Early Withdrawal</b>
Canada's Pooled Registered Pension Plan	<ul style="list-style-type: none"> <li>• Shortened life expectancy</li> <li>• Small balance</li> <li>• Non-residency</li> </ul>
New Zealand's KiwiSaver	<ul style="list-style-type: none"> <li>• First home</li> <li>• Serious illness with a life-shortening condition</li> <li>• Significant financial hardship</li> <li>• Moving overseas</li> </ul>
Quebec's Voluntary Retirement Savings Plan	<ul style="list-style-type: none"> <li>• Employee contributions are accessible</li> </ul>
UK's Qualifying Workplace Pension Plans (e.g., NEST)	<ul style="list-style-type: none"> <li>• Age 55</li> <li>• Terminal illness</li> <li>• Incapable of work due to illness or physical or mental impairment</li> </ul>

Source: GAO summary of information from selected international retirement representatives and plan web sites. | GAO-22-105102

Note: Early withdrawals may have tax consequences that vary by country. For example, according to representatives in Canada, early withdrawals from Pooled Registered Pension Plans (PRPPs) are taxed as income similar to other withdrawals, whereas in New Zealand, all KiwiSaver withdrawals are tax-free.

Retirement representatives we interviewed spoke of the importance of limiting the circumstances under which plans permit early withdrawals as key to preserving funds for retirement. For example, a Canadian official

noted that PRPP funds are generally restricted to ensure income will be available over a participant's entire retirement, but the PRPP Act allows lump-sum withdrawals in special cases to provide some degree of flexibility. Likewise, according to New Zealand retirement officials, KiwiSaver withdrawals, by design, are difficult to access; even so, the officials said there has been an increase in hardship withdrawals recently during COVID-19. There have also been petitions to increase access to retirement funds, for example, to study or start a business; however, the government has declined to take such actions, according to the officials. On the other hand, Quebec's VRSP offers participants a great deal of flexibility to withdraw accumulated funds as needed, including while employed.<sup>58</sup> For example, participants may transfer VRSP funds to another savings vehicle that allows withdrawals for a lifelong learning plan or homebuyer's plan.

**Prior GAO Work: Early Withdrawals**

In our prior work, we reported that early withdrawals of U.S. retirement savings may have short-term and long-term impacts on participants' ability to accumulate retirement savings. In the short term, individual retirement account owners and participants in 401(k) plans who received a withdrawal before reaching age 59½ generally pay an additional 10 percent tax for early distributions in addition to income taxes on the taxable portion of the distribution amount. The Internal Revenue Code exempts certain distributions from the additional tax, but the exceptions vary among 401(k) plans and individual retirement accounts. Early withdrawals of any type can result in the permanent removal of assets from retirement accounts thereby reducing the amounts participants can accumulate before retirement, including the loss of compounded interest or other earnings on the amounts over the participant's career.

Source: [GAO-19-179](#). | GAO-22-105102

Plan officials also noted concerns related to early withdrawals. For example, officials from some of these plans identified "leakage" of retirement funds as a concern. According to Quebec representatives, leakage occurs because accumulated funds may be used for other purposes and participants may spend money otherwise needed for

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<sup>58</sup> Employee contributions in Quebec's VRSPs are not considered locked-in and remain accessible, whereas employer contributions, if any, are locked in and unable to be withdrawn before age 55 or in exceptional circumstances, such as disability.

retirement. According to KiwiSaver's 2021 annual report, members withdrew about NZ\$1.4 billion for first homeownership, reducing KiwiSaver balances but building other assets. In the UK, where NEST participants may withdraw funds beginning at age 55, the plan official noted concerns about those who withdraw too much of their funds too soon and risk running out of funds later in retirement, a common concern in defined contribution pension systems. The official also said that fund managers, generally, want the ability to manage pension assets over a 30-year horizon. If members withdraw cash, they inhibit the optimized allocation for a private fund, as fiduciaries and investment managers that operate on behalf of savers need long time horizons to maximize fund returns.

Some retirement representatives also identified tax and other consequences of early withdrawals. For example, in Quebec, withdrawn funds are subject to federal and provincial tax, and VRSP members may face additional fees. In the UK, withdrawals for individuals suffering from serious ill health (life expectancy of less than 1 year) and under age 75 are tax free; however, for those age 75 or older and suffering from ill health, withdrawals are taxed at the individual's income tax level for that year.<sup>59</sup>

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<sup>59</sup> According to the retirement representative, these tax implications apply generally to defined contribution accounts in the UK, including NEST. In addition, for those under age 75, the individual's full pension entitlement is compared to the life time allowance (currently £1,073,000), and any amount in excess of the allowance is taxed at the rate of 55 percent.



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**Prior GAO Work: Efforts to Reduce Long-term Effects of Early Withdrawals**

We have also reported on policies and strategies in the United States that might reduce long-term effects of early withdrawals from 401(k) plans, such as building emergency savings features into retirement plans.

Source: [GAO-19-179](#). | GAO-22-105102

Some of our selected countries are taking steps to further help participants balance retirement and emergency savings, according to retirement representatives, which could serve to attract additional savers. For example, legislation is pending in the Netherlands that will make it possible for participants to withdraw a maximum of 10 percent of their accrued pension as a lump sum on their retirement date, according to the Netherlands' retirement representative.<sup>60</sup> Officials in New Zealand said that a recent review of retirement has led to the proposal of a new emergency savings provision for KiwiSaver members to save an additional 1 percent of income into an emergency account until funds reach NZ\$3,000. They said this potential change could help those who think the funds are currently too restrictive, noting there are many who do not contribute to KiwiSaver (e.g., suspended their contributions, etc.). This proposal is still under consideration by officials.

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## Options for Drawing Down Funds

**Prior GAO Work: 401(k) Plans**

We have previously reported that in the United States, 401(k) plans generally offer participants only one option—a lump sum payment—leaving participants on their own to identify and develop strategies to manage retirement risks. Although some 401(k) plan sponsors may offer other options to participants, most do not offer annuities or programmed withdrawals similar to the systematic or formalized options offered in other countries. As a result, U.S. plan participants typically take a lump sum payment, and then have to make difficult choices in order for their financial assets to last throughout retirement.

Source: [GAO-14-9](#). | GAO-22-105102

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<sup>60</sup> This is expected to be introduced into law on July 1, 2023, according to the Netherlands' representative.

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Our selected international retirement savings plans with automatic enrollment generally offer participants multiple options to draw down funds at retirement, according to retirement representatives (see table 5).<sup>61</sup> For example, by the time PRPP participants in Canada reach 71 years of age, they must either transfer their retirement funds to another locked-in retirement savings plan, use the PRPP funds to purchase a life annuity, or leave the funds in the plan and draw down variable payments.<sup>62</sup> Beginning at age 65, KiwiSaver members in New Zealand are eligible to withdraw some or all of their funds, without specific requirements around distributions (e.g., requirements to purchase an annuity). However, according to New Zealand retirement representatives, rules around drawing down funds may also depend on requirements of particular fund providers.

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<sup>61</sup> The table does not include options that may be available for early retirement.

<sup>62</sup> Funds in locked-in retirement plans typically cannot be withdrawn before retirement.

**Table 5: Selected Options for Drawing Down Funds at Retirement, as Implemented in Selected International Retirement Savings Plans**

Retirement savings plan	Options at retirement	Age
Canada’s Pooled Registered Pension Plans (PRPPs)	Transfer funds to a locked-in retirement savings plan, such as a Life Income Fund with a financial institution Use funds to purchase a life annuity Leave funds in the plan to draw down as variable payments	By 71 years
Lithuania’s Pension Accumulation Plan	Purchase a life annuity Receive periodic payments Receive a lump sum payment <sup>a</sup>	64 years 8 months (men) 63 years 8 months (women) <sup>b</sup>
New Zealand’s KiwiSaver	Withdraw funds, in part or whole	65
Quebec’s Voluntary Retirement Savings Plan	Transfer funds to an individual plan that provides for minimum annual payment Purchase an annuity	By 71 years
United Kingdom’s Qualifying Workplace Pension Plans (e.g., National Employment Savings Trust)	Withdraw funds as cash Purchase a life annuity or other form of drawdown product	By 75 years <sup>c</sup>

Source: GAO summary of information from selected international retirement representatives, plan web sites and plan materials. | GAO-22-105102

<sup>a</sup> Draw-down options at retirement depend on the amount of funds accumulated in the plan, according to the Lithuanian retirement representative.

<sup>b</sup> The Lithuanian retirement representative said that every year the retirement age for men and women increases until it reaches 65 years for both men and women in 2026.

<sup>c</sup> Participants may withdraw funds beginning at age 55.

As individuals enter retirement, they face the challenge of ensuring that their accumulated resources last throughout retirement. For example, those with defined contribution accounts must determine how best to manage and draw down their funds over their remaining lifetime. Individuals who have been able to accumulate substantial resources in employer-sponsored plans may also face challenges, including a series of complex decisions on how to draw down their accumulated assets, to make their resources last throughout their retirement.

Withdrawing funds from international retirement savings plans may have tax consequences for participants to consider. As previously noted, some of the plans we reviewed, including those from Quebec, Canada, and the UK, tax participants upon funds withdrawal.<sup>63</sup> In considering the various options available to spend funds, the UK NEST official told us that

<sup>63</sup> According to UK’s NEST, 25 percent of the funds participants withdraw is usually available tax free, while the remainder is taxed according to guidelines. See <https://www.nestpensions.org.uk/schemeweb/memberhelpcentre/retirement-pot/what-happens-after-taking-money-out.html#>.

because cash withdrawals and drawdowns of funds are taxable at an individual's marginal rate of income tax, those who withdraw large sums at once may be liable for large tax bills.

Some international retirement representatives told us that financial literacy education is important to help plan members make decisions about their retirement. Specifically:

- In the UK, NEST withdrawals in retirement are largely open to individual choice, according to the NEST official, and those with higher incomes or greater funds are more likely to access financial advice. The official said members may use £500 of their funds to pay for financial advice, but take-up has been limited. Similarly, a government-funded service that offers individual guidance at the time members access pension funds has also had limited use, and the government is exploring ways to increase it.
- Quebec VRSP officials said that efforts to educate members about financial security after retirement and the means to achieve it should be included in all group and individual savings plan offerings. In particular, they said, low-income retirees should consult a financial advisor to understand the best way to draw down funds, taking into account income supplements and other financial programs for which they may qualify.
- A representative from Canada said that retirees have to manage the drawdown of retirement income while assuming longevity and investment risks, which can present a significant challenge, especially for those without ready access to financial literacy education. Specifically, this requires knowledge not previously required while contributing to plans.<sup>64</sup>

Some international retirement representatives also identified ongoing shifts in their countries' retirement systems and limited outcome data on plans, making it difficult to determine how these plans, and their various provisions, are likely to affect overall retirement savings. For example, in Lithuania, according to the retirement representative, government long-

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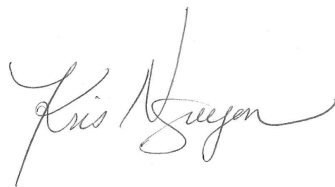
<sup>64</sup> According to the Canadian representative, the federal government has recently consulted on legislative and regulatory changes to federal pension legislation to allow federally regulated PRPPs, as well as defined contribution plans, to offer variable payment life annuities (VPLAs), a retirement income vehicle that allows annuitants to pool their investment and mortality risk. According to the representative, VPLAs would provide retirees from PRPP and defined contribution plans with a stream of lifetime income payments that would fluctuate based on the fund's investment returns and mortality experience.

term projections indicate that this plan will comprise an increasing share of retirement income over time. However, because the plan is so new, the official said, it is difficult to know what retirement plan savings will look like in 40 years. In addition, a KiwiSaver official said that an increasing number of people now work past age 65 and do not withdraw all of their funds when they become eligible. However, the official said that, while KiwiSaver balances have increased, they are likely insufficient alone for retirement.

Officials from Quebec and Canada referenced current data limitations in their respective plans. For example, Quebec representatives said that they do not have reliable data on group savings plan offerings and the participation of Quebec workers in these plans. Since the implementation of the VRSP Act is recent, the impact of VRSPs on savings has not been observed as the data needed to measure this impact objectively are not yet available. Canadian officials said that while data on automatic enrollment in PRPPs are unavailable, due to the limited uptake to date, PRPPs have likely not supplemented or displaced funds from other retirement plans.

We are sending copies of this report to the appropriate congressional committees, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-7215 or [nguyentt@gao.gov](mailto:nguyentt@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.



Sincerely yours,  
Tranchau (Kris) T. Nguyen, Director  
Education, Workforce, and Income Security Issues

**Appendix I: Eligibility for Automatic Enrollment in Selected International Retirement Savings Plans**

# Appendix I: Eligibility for Automatic Enrollment in Selected International Retirement Savings Plans

**Table 6: Eligibility for Automatic Enrollment, as Implemented in Selected International Retirement Savings Plans**

<b>Retirement savings plan</b>	<b>Employee Eligibility</b>	<b>Employer Eligibility</b>
Canada's Pooled Registered Pension Plans	Employee eligibility is set by the employer	Optional
Lithuania's Pension Accumulation Plan	Anyone under 40 years old who reports an income to the Lithuanian government	No employer involvement
New Zealand's KiwiSaver	New employees from 18 to 65, who have worked or plan to work for more than 28 days and are New Zealand citizens	All employers, unless they have a pre-existing and qualifying retirement plan <sup>a</sup>
Quebec's Voluntary Retirement Savings Plan (VRSP)	Employees over 18 who have worked for more than one year in an eligible job	All employers with 10 or more employees must offer a workplace retirement plan; the VRSP is one of several options
UK's Qualifying Workplace Pension Plans (e.g., NEST)	Employees over 22 to state pension age (currently age 66) who make more than 10,000 pounds per year <sup>b</sup>	The United Kingdom's (UK) automatic enrollment program established mandatory automatic enrollment requirements for all employers of their eligible employees into a qualified workplace pension plan and established a public plan option—National Employment Savings Trust (NEST)—as one qualifying plan open to any employer wishing to use it.

Source: GAO summary of information from selected international retirement representatives. | GAO-22-105102

<sup>a</sup>As of 2021, 120 employers have pre-existing plans in place and are able to offer a private plan, as opposed to the KiwiSaver plan, to their employees.

<sup>b</sup>Employers must automatically enroll any worker earning over the equivalent amount per pay period: £10,000 per year, £833 per month, or £192 per week. Workers are enrolled the first time they reach their pay-period threshold but only contribute in pay periods where they are subsequently over the threshold.

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## Appendix II: Related GAO Products

*401(K) Retirement Plans: Many Participants Do Not Understand Fee Information, but DOL Could Take Additional Steps to Help Them.* [GAO-21-357](#). Washington, D.C.: July 27, 2021.

*Retirement Savings: Additional Data and Analysis Could Provide Insight into Early Withdrawals.* [GAO-19-179](#). Washington, D.C.: March 28, 2019.

*Retirement Plan Investing: Clearer Information on Consideration of Environmental, Social and Governance Factors Would Be Helpful.* [GAO-18-398](#). Washington, D.C.: May 22, 2018.

*The Nation's Retirement System: A Comprehensive Re-evaluation Is Needed to Better Promote Future Retirement Security.* [GAO-18-111SP](#). Washington, D.C.: October 18, 2017.

*Retirement Security: Low Defined Contribution Savings May Pose Challenges.* [GAO-16-408](#). Washington, D.C.: May 5, 2016.

*Social Security's Future: Answers to Key Questions.* [GAO-16-75SP](#). Washington, D.C.: October 27, 2015.

*401(K) Plans: Clearer Regulations Could Help Plan Sponsors Choose Investments for Participants.* [GAO-15-578](#). Washington, D.C.: August 25, 2015.

*Retirement Security: Federal Action Could Help State Efforts to Expand Private Sector Coverage.* [GAO-15-556](#). Washington, D.C.: September 10, 2015.

*Private Pensions: Participants Need Better Information When Offered Lump Sums That Replace Their Lifetime Benefits.* [GAO-15-74](#). Washington, D.C.: January 27, 2015.

*Pension Plan Valuation: Views on Using Multiple Measures to Offer a More Complete Financial Picture.* [GAO-14-264](#). Washington, D.C.: September 30, 2014.

*401(K) Plans: Other Countries' Experiences Offer Lessons in Policies and Oversight of Spend-down Options.* [GAO-14-9](#). Washington, D.C.: November 20, 2013.

*401(K) Plans: Labor and IRS Could Improve the Rollover Process for Participants.* [GAO-13-30](#). Washington, D.C.: March 7, 2013.

*Private Pensions: Some Key Features Lead to an Uneven Distribution of Benefits.* [GAO-11-333](#). Washington, D.C.: March 30, 2011.

*Retirement Savings: Automatic Enrollment Shows Promise for Some Workers, but Proposals to Broaden Retirement Savings for Other Workers Could Face Challenges.* [GAO-10-31](#). Washington, D.C.: October 23, 2009.

*401(k) Plans: Policy Changes Could Reduce the Long-term Effects of Leakage on Workers' Retirement Savings.* [GAO-09-715](#). Washington, D.C.: August 28, 2009.

*Private Pensions: Low Defined Contribution Plan Savings May Pose Challenges to Retirement Security, Especially for Many Low-Income Workers.* [GAO-08-8](#). Washington, D.C.: November 29, 2007.



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## Appendix III: GAO Contact and Staff Acknowledgments

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In addition to the individual named above Michael Collins (Assistant Director), Avani Locke (Analyst in Charge), Andrew Emmons, Charles Ford, and Amelia Stastney made key contributions to this report. Also contributing to this report were Andrew Bellis, Susan J. Irving, James R. McTigue Jr., SaraAnn Moessbauer, Mimi Nguyen, Jessica Orr, Stephen Sanford, Marylynn Sergent, Frank Todisco, Carolyn Voltz, Walter Vance, Adam Wendel, Seyda Wentworth, and Amber Yancey-Carroll.

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