Challenges to Canada's Retirement Income System

Simplified Enrolment in Retirement Savings Plans

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Introduction

Canada's retirement income system involves a balance between mandatory and voluntary savings. While Canada's retirement income system has performed relatively well for current seniors, there are concerns about the prospects for certain groups of future retirees. Though there is some debate on the magnitude of the problem, there exists a general agreement that a significant proportion of the population is undersaving. This is especially true of middle and higher-income workers in the private sector, many of whom are not covered by a pension plan and may not be saving adequately through individual retirement saving schemes (Mintz, 2009; LaRochelle-Côté et al., 2010; Schellenberg & Ostrovsky, 2010; Wolfson, 2010). Furthermore, most studies agree that the situation is likely to worsen for future retirees, because of secular trends such as higher life expectancy, delayed labour force entry, declining personal savings rates, declining employer pension coverage, and lower real rates of return on capital with a shrinking labour force (Kesselman, 2010).

Problems of retirement income inadequacy are not confined to those individuals without private pension coverage. For example, the security and viability of defined benefit (DB) pension plans were exposed during the recent financial crisis when several large firms filed for bankruptcy protection and employee expectations for a financially secure retirement were not met. In general, underfunding and solvency issues continue to plague DB plans, and some would argue that the favourable demographic and market conditions that allowed DB plans to thrive in the past are no longer present. In this climate, many private sector employers are seeking to reduce their exposure to risk by either cutting pension plans entirely or shifting employee plans from a DB model to a capital accumulation model (Gougeon, 2009). Capital accumulation plans (CAPs) include defined contribution (DC) pensions, group RRSPs, and deferred profit sharing plans (DPSPs).

The decreasing trend in pension coverage – and, for those who are covered, increasing movement from DB plans to CAPs – shifts the decision-making burden and risk from employers to individuals. Individual savers may be ill-equipped to adjust savings levels to risks associated with longevity, inflation or volatile stock markets. Indeed, there is evidence that many of those without pension coverage are saving inadequately through personal savings vehicles. About two-thirds of Canadian workers in the three middle income quintiles are without RPP coverage – of these, less than a third have RRSPs. That leaves almost half of the middle-income Canadian workforce covered by neither an RPP nor an RRSP (Moussaly, 2010). Of those who have only an RRSP, savings levels are likely to be inadequate for most since RRSP contribution amounts are unevenly distributed and heavily concentrated among the wealthiest (Ambachtsheer, 2009). In addition, to the extent that employer plans are shifting to a CAP model, in which individuals are required to make decisions about participation (if the plans are voluntary), contribution amounts, and investment allocation, the proportion of those making poor savings decisions is only likely to increase.

In light of these findings, several kinds of reforms have been proposed, including expansion of public plans (CPP/QPP), creation of new, privately delivered supplementary DC plans, and reforming the traditional DB model. Five provinces – British Columbia, Alberta, Ontario, Quebec, and Nova Scotia – have recently had review panels and commissions report on possible reforms. Three provinces – Ontario, Quebec and Nova Scotia – have recommended variants of a so-called target benefit plan, which

combines elements of DB and DC plans (Régie des rentes du Québec, 2005; Ontario Expert Commission on Pensions, 2008; Nova Scotia Pension Review Panel, 2009). In these kinds of plans, levels of benefit payouts that appear to be safely achievable are targeted and employers make defined contributions (based on a percentage of employee wages) accordingly. Employers have no further commitment; targeted benefit levels are adjusted upward or downward depending on the funding status of the plan.

In a joint report, the Alberta and British Columbia expert panel (Alberta/British Columbia Joint Expert Panel on Pension Standards, 2008) recommended a new provincial ABC plan, a simple voluntary DC plan available to any employer, employee, or self-employed person. The size of the plan would allow for greater pooling of assets and risks, lower management expense ratios, lower administrative burdens for employers, and greater access to products and expertise not available to small pension plans and individual investors. Existing plans based on a multi-employer model have already targeted small- and medium-sized enterprises (SMEs) where coverage rates are typically much lower – for example, the Simplified Pension Plan (SiPP), a DC plan introduced in Quebec (Plamondon, 2010). However, these kinds of plans tend to be hampered by poor marketing and regulatory restrictions.

With a view to address the challenges facing Canada's retirement income system, in June 2010, federal, provincial and territorial (F-P/T) Finance Ministers committed to working together to further develop policy options in three areas: innovating measures to improve the private pension system, addressing Canadians' financial literacy, and expanding the Canada Pension Plan (CPP).

In October 2010, the Senate Committee on Banking, Trade and Commerce recommended that the federal government work with provinces and territories to establish a Canada-wide voluntary plan to bridge gaps that exist between those with and without an occupational pension plan, between those in DB and DC plans, and between those in the public and private sector (Senate Committee on Banking, Trade and Commerce, 2010).

A proposed framework for defined contribution Pooled Registered Pension Plans (PRPPs) was announced in December 2010, with the goal of improving the range of retirement saving options for Canadians, especially those who do not have the benefit of an employer-sponsored pension plan. Although final details are left to individual provinces or territories, the proposed Framework identifies two classes of plan members: employed members, i.e. employees of an employer that offers a PRPP[1] and individual members will include the self-employed and employees of an employer that does not offer a PRPP. In its 2011-12 Budget tabled in March 2011, the Quebec government announced its intention to introduce the Voluntary Retirement Savings Plan (VRSP). Through the VRSP, Quebec would be the first province to establish concrete measures of this nature.

In February 2011, the Task Force on Financial Literacy, launched by the Minister of Finance in June 2009, tabled its report and provided advice and recommendations to the Minister of Finance on a national strategy to strengthen the financial literacy of Canadians, including examining the relationship between financial literacy and planning for retirement.

[1] See Framework for Pooled Registered Plans, Department of Finance Canada, December 2010 at http://www.fin.gc.ca/activty/pubs/pension/prpp-irpac-eng.asp

While some Canadians may lack basic financial literacy, mounting evidence also suggests that retirement saving decisions may be undermined by behavioural factors – for example, a tendency to procrastinate when faced with complex, long-term saving decisions that require knowledge beyond even what many relatively financially literate people seem to possess. These kinds of behavioural factors can be exacerbated by the way voluntary, employer-based retirement plans are structured and designed, especially with respect to enrolment procedures. Simplifying enrolment procedures may facilitate access into retirement savings plans, especially for those with low levels of financial literacy. Thus, there may be a rationale for public intervention in the context of pension plan design.

This report assesses the feasibility of testing the effectiveness of pilot schemes that involve simplified enrolment procedures for employees' participation in employer-sponsored pension plans. The report discusses options for the design of capital accumulation plans that can enable higher participation and better decision-making among eligible employees, and proposes rigorous evaluation methods to assess the effectiveness of such schemes using an experimental design.

Making retirement saving decisions

Planning for retirement is a complex process: there are often many potential alternative options to select from, a considerable amount of information available about each alternative and many factors and aspects to consider when making a choice. The complexity of the process of financial planning makes it difficult for most people to "make the right choices," that is to make a well-informed decision that best helps them achieve their goal.

Much of the thinking about retirement saving issues among economists has been influenced by life-cycle theory. This theory frames saving decisions within a life-cycle model where individuals trade-off current versus future consumption. According to the model, people should seek to smooth consumption over their life-cycle, by saving (spending less than they earn) during their peak earning years, which allows them to dissave (spend more than they earn) during their later lower earning years. This standard model of rational economic behaviour is based on assumptions that individuals are rational planners of their consumption and saving needs over their lifetimes, and that they seek to maximize their self-interest or lifetime utility. It assumes that individuals have complete information and understanding of all available saving vehicles and have complete information and understanding of the full implications (including the tax implications) of all possible decisions they can make with regards to saving options.

Two types of literature – financial literacy and behavioural economics – suggest that for most people, actual behaviour differs from the life-cycle model for a number of reasons, which results substantially lower amounts of saving than would be predicted under a model based on lifetime utility maximization.

Lessons from financial literacy and behavioural economics

Research on financial literacy reveals that substantial proportions of the population lack basic numeracy skills and knowledge of fundamental financial principles. For example, results from the 2004 U.S. Health and Retirement Study (covering those aged 50 or older) show that at least half of respondents are unable to correctly answer simple multiple choice or true/false questions on compound interest, inflation, and risk diversification (Lusardi and Mitchell, 2006).[2]

[2] The questions are:

1. Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow: more than $102, exactly $102, less than $102?

2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?

3. Do you think that the following statement is true or false? "Buying a single company stock usually provides a safer return than a stock mutual fund."

Similarly, a study on early baby boomers aged 51 to 56 showed that only 55% correctly answered a simple numeracy question – among those who answered correctly, more than half subsequently answered an interest accrual question incorrectly by basing their calculation on simple rather than compound interest. Performance on the basic numeracy question and the compound interest question were both important predictors of retirement planning even after accounting for demographic factors such as age, sex, education, etc. (Lusardi and Mitchell, 2007).

These and other studies on financial literacy show that a significant portion of the population may lack elementary knowledge that would begin to enable and inform a decision to save. However, basic knowledge may not be enough. Evidence for the effectiveness of programs that seek to increase levels of basic financial knowledge in the context of retirement planning is mixed at best. Those who attend retirement planning seminars may often intend to raise their levels of saving as a result of the information they received, but most do not implement their plans, at least not in the short term (e.g., Choi et al., 2001; Clark and D'Ambrosio, 2008).

Providing relatively simple information about basic principles of finance and saving may not be adequate, given the complexity of the decision-making process individuals are then faced with. Furthermore, when it comes to making saving decisions, individuals are not only limited by what they know, but there are also limits to what they can know. Even the most financial knowledgeable may find it difficult to select among an increasingly broad array of potential saving vehicles, given uncertainties about future rates of return, inflation trends, and interest rates, as well their own longevity, among other things. Thus their capacity to make completely rational decisions, smooth their consumption and maximize lifetime utility is constrained by uncertainties around some of the parameters required to make the necessary calculations. In the language of behavioural economics, they are operating under conditions of bounded rationality.

People making decisions under bounded rationality are also often hampered by bounded self-control – that is, even if they understand the need to save more, they may often lack the motivation or willpower to do so, for a variety of reasons. The behavioural economics literature suggests that individuals' saving decisions are often characterized by myopia, procrastination, inertia, and loss aversion.[3]

Myopia and procrastination result when immediate costs or benefits are perceived as more salient than future costs or benefits. This may lead to time-inconsistent behaviour in that people may admit, for example, that the benefits of saving outweigh the costs of making savings decisions, but because the benefits are delayed while the costs are immediate, saving decisions may be postponed indefinitely. Thus, the gap between long-term goals and short-term behaviour may result in myopic agents entering retirement with fewer savings than they need to maintain adequate living standards. In addition, once a savings decision is made, people tend to stick with it even when a better alternative may be available –

[3] Altruism – sometimes referred to as bounded self-interest – where people are willing to sacrifice their own interest to help others, is another factor that can explain departures from the standard model of rational economic behaviour. Loss aversion, optimism, overconfidence and extrapolation are other behaviour that arise from people making decision under bounded rationality and bounded self-control. For a thorough discussion of these concepts and their application to saving decisions, see Mullainathan and Thaler (2000), Thaler and Benartzi (2004) and Benartzi and Thaler (2007).

a phenomenon known as status quo bias or inertia. In general, inertia may be explained by the fact that people tend to fear errors of commission more than errors of omission, and that possible losses tend to be perceived as more salient than possible gains associated with a change in behaviour (loss aversion). Thus savings decisions tend to be postponed and, once made, rarely altered.

Though research on the link between bounded self-control and financial literacy is lacking, it seems reasonable to assume that that saving decisions may be especially costly for the financially illiterate, either in terms of time and effort required to acquire the necessary knowledge, or risk if adequate time is not taken. If so, then those with lower levels of financial literacy may be more susceptible to myopia, procrastination, and loss aversion. However, given the complexity of the information required to make an optimal saving decision, the associated costs – and resulting issues with bounded self-control – are likely to be non-negligible even for those with relatively high levels of financial knowledge.

Pension plan designs

There is substantial evidence that people making saving decisions are influenced by the way decisions are framed and by the default options they are offered. Seemingly simple changes in enrolment procedures have been shown to greatly influence people's choices about whether to enrol in their employers' pension plan (participation), what percentage of income to put into the plan (contribution rate), and which allocation of investment options to choose (investment allocation).

Under standard enrolment procedures, employees have to take active measures to participate in an employer-sponsored plan: they may have to locate and provide an identification number, call the plan administrator or log into the plan's website, indicate their desire to participate, and make contribution rate and investment selections for their savings. Failure to undertake any of these actions will result in them not being enrolled in the employer's pension plan. Standard enrolment procedures make opting into a plan more costly in terms of time and effort than staying out of it. Consequently, they may result in procrastination among workers who were interested in saving but unsure what path to follow. A number of design features have been proposed and implemented to remove these kinds of obstacles, simplify decision-making, and make it easier for employees to start saving.

Automatic features

The most common of these design features are automatic features, in which employees are automatically enrolled into a plan as the default option unless they explicitly take active measures to opt out of the plan. Approaches based on auto-features seek to "nudge" passive individuals into increasing their savings simply by making joining a plan the path of least resistance. Typically, automatic enrolment schemes stream participants into default contribution and investment choices made by the plan sponsor, while allowing more active ones to opt out of these defaults and make their own choices.

As voluntary defined contribution (DC) plans have become the central component of the private sector retirement system in the United States (US), policy makers, plan sponsors and service providers have increasingly turned to automated schemes to induce higher levels of savings.[4] A series of legislative steps were taken to encourage individual plan sponsors to incorporate automation into their DC plan designs. In 1997, the Internal Revenue Service issued regulations permitting automatic enrolment features to be built into voluntary DC plans, but it was not until the Pension Protection Act (PPA) of 2006 that automated plans began to increase in popularity.

The PPA encourages employers to include desirable features in their defined DC plans, including automation features and relatively generous employer contribution. Under the PPA, employers who adopt auto-features and sufficiently generous employer contribution are exempt from having to demonstrate compliance with a set of regulations designed to ensure that highly-paid employees do not disproportionally benefit from the retirement plan. The use of quality default investment options such as life cycle or target date funds, balanced funds and professionally managed accounts are also encouraged. Life cycle or target date funds provide age-adjusted balanced portfolios that become more conservative – they gradually shift from equities to fixed income assets – as individuals approach retirement age. These types of funds are considered to be the default option that is most likely to meet the needs of a large proportion of potential savers and so are formally sanctioned by the PPA. In practical terms, the utilization of these types of plans as the default investment allocation relieves plan fiduciaries of liabilities for losses.

Auto-enrolment in the U.S.

Since the adoption of PPA in 2006, the use of automatic enrolment has grown rapidly. Vanguard, one of U.S. major service providers of employer-sponsored capital accumulation plans, reports that usage of automatic enrolment increased from 5 per cent among all its plans in 2005 to 21 per cent in 2009. Adoption of auto-enrolment is highly correlated with plan size: in 2009, 43 per cent of Vanguard plans covering more than 1000 members featured auto-enrolment, compared to only 14 per cent among those with fewer than 1000 members.[5] The majority of employers who use automatic enrolment procedures set default contribution rates at only 3 per cent and, in most cases, the default rate is lower than the rate up to which employers will match an employee contribution (Fidelity Investments, 2007; Vanguard Institutional Investor Group, 2010). Life cycle or target date funds are the default option of the majority of plans with automatic enrolment. The percentage of auto-enrolment plans administered by Vanguard that used target date funds as the default investment option increased from 42 per cent in 2005 to 90 per cent in 2009.

[4] While up until the 1970s, most firms who provided employer-sponsored pension plans did so using traditional defined-benefit (DB) schemes, in the 1980s, the landscape began to change in response to a new laws and regulations under the Employee Retirement Income Security Act (ERISA) of 1974 which made it more costly for employers to offer DB plans.

[5] See Nessmith et al. (2007).

Automatic enrolment plans have proved to be quite successful in increasing participation. Automatic deductions to 401(k) plans in the U.S., whereby employees are automatically enrolled unless they take active measures to opt out, have dramatically increased employee participation compared to plans that require participants to opt in. Madrian and Shea (2001) found that participation rates jumped from 37 per cent to 86 per cent for new hires after automatic enrolment was introduced by one large US firm. The largest effects were seen among those with the lowest participation rates, i.e., Blacks, Hispanics, the young and those with lower compensation rates. Beshears et al. (2006) found that participation rates among new hires increased by 35 percentage points three months after a medium-sized firm adopted auto-enrolment. Though the effect diminished with time, it was still 25 percentage points after two years of tenure. Similar effect sizes were observed when auto-enrolment was applied for existing non-participating employees.

Nessmith et al. (2007) compare the saving behaviour of employees hired over a 33 month period by firms with standard enrolment procedures and firms with automatic enrolment. Participation rates were almost double in the latter group: 86 compared to 45 per cent. The difference decreased with time, but was still greater than 20 percentage points among employees 36 months after being hired. Though these results are non-experimental, and thus may have been partly caused by differences in characteristics of firms that offer auto-enrolment and those that do not, the results hold across income and age groups, and differences are especially pronounced for younger and lower-income employees.

Auto-enrolment in New Zealand

An example of an almost fully automated program is the procedure by which New Zealand's KiwiSaver plan is offered to new hires. Under this plan, it is mandatory for all new employees to fill out an automatic deduction form as soon as they are hired. The form does not include an "opt out" provision; instead, new employees are given a narrow opt out window (not less than 2 weeks and not more than 8 weeks after being hired), which requires submitting a separate online form.[6] Automatic enrolment is only applied to new hires. Other employees who do not have coverage – and indeed any citizens who are eligible, which includes most New Zealanders under the age of 65 – can also opt-in to the plan by asking their employers for the deduction form, or by joining directly with a provider. Government matching subsidies provide a strong incentive to opt in, or for those who have been automatically enrolled, to stay in the plan.[7]

For those joining through an employer, contribution rates and investment allocations are automated to a certain degree. When filling in the deduction form, new employees are given a choice of three contribution rates, 2, 4, or 8 per cent, and also informed that failure to choose one will result in a default rate, currently set at 2 per cent.

6 See KiwiSaver form in Appendix A. See also http://www.kiwisaver.govt.nz/.

7 The government contributes an initial NZ$1,000 to each member's account as well as a matching tax credit contribution of up to NZ$1,042.86 per year. These subsidies, as well as the low rate of employer pension coverage prior to the implementation of KiwiSaver, may explain the relatively high numbers of those opting in to the plan despite not being automatically enrolled as new employees (Evaluation Services 2010).

Participant contributions are invested, by default, into an employer-selected fund or one of six government-appointed funds. The default allocation is provisional in the sense that there is a three month waiting period during which contributions are held by Inland Revenue before being invested in the default scheme, which gives participants a chance to choose their own investment scheme. In practice, more than 80 per cent of automatic enrolees stay with the default scheme.

Auto-escalation of contributions

While automatic enrolment increases participation, there is empirical evidence to suggest that it may also lead to lower contribution rates, as automatically enrolled participants who would have voluntarily saved at a higher rate tend to stay anchored at the lower default rate, even when this is unlikely to be the best choice for them. The same behavioural factors that help to keep them from opting out of the plan – inertia and procrastination – likely also keep a significant number from opting out of the default contribution rate and maximizing the employer match.[8]

For example, in New Zealand's KiwiSaver plan, the default contribution rate was set at 4 per cent prior to April 2009 and 2 per cent thereafter. Member contribution rates shifted in accordance with the defaults – 70 per cent of participants who joined prior to April 2009 are currently contributing at a rate of 4 per cent, while 78 per cent of participants who joined after April 2009 are currently contributing at a rate of 2 per cent. This illustrates the power of defaults – even defaults that are presented in conjunction with alternative choices may be taken as implicit advice, and lead to a significant number of savers contributing less than they would have otherwise.

Similarly, a recent study by Nessmith et al. (2007) show that newly-hired employees who were automatically enrolled contributed a median of 2.9 per cent of their earnings, while those who enrolled voluntarily contributed a median of 5 per cent.[9] Interestingly, the authors find that quit rates for employees who have been automatically enrolled are no higher when default contributions are set at 6 per cent than when they are 3 per cent or lower, suggesting that employees would not necessarily be averse to higher default contribution rates. This result echoes that of Beshears et al. (2008) who found that participation rates under automatic enrolment do not depend on whether the default contribution rate is 3 or 6 per cent.

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8 Lower contribution rates may also arise under automatic enrolment if automatically enrolled participants tend to have lower savings preferences than those who enroll voluntarily.

9 One study by Hewitt (2002) suggests that when employees freely choose contribution rates, they tend to cluster around multiples of 5 per cent, the maximum rate offered by the plan, and/or the rate that maximizes the amount contributed by the employer. In the case of the particular U.S. company studied, contribution rates clustered around three modes: 6 per cent (the maximum up to which the employer contributes), 10 per cent (multiple of 5), and 16 per cent (the maximum allowable contribution).When the cap on contribution limits was removed through the Economic Growth and Tax Relief Reconciliation Act of 2001, contribution rates did not climb as expected. Among those who joined the new plan, there was a 7 percentage point shift to rates higher than the previous limit of 16 per cent; however there was an even larger 9 percentage point shift to lower rates 10 and 15 per cent. The authors suggest that since following the rule of maximizing contribution rate was now untenable for most (since it was essentially 100 per cent), people shifted to the multiple-of-5 rule.

Madrian and Shea (2001), Beshears et al. (2006), and Choi et al. (2009) also provide evidence that asset choices tend to be clustered at the default contribution rate (usually low) set originally by the employer. Typically, it takes more than two years for the median worker to opt out of a 2 per cent or 3 per cent contribution rate default. Automatically enrolled employees also tend to stay with the default asset allocation set by the employer, which previously resulted in clustering around overly conservative options such as money market funds, though recently age-appropriate target date funds have become the default of choice.

Some elegant solutions have been proposed and implemented to address the concern that with automatic enrolment, many employees excessively delay opting out of low default contribution rates. Plans with auto-enrolment procedures have increasingly begun to incorporate automatic increases in contribution rates, usually 1 per cent on an annual basis. Usage of automatic enrolment plans that offered auto-escalation of contributions increased from 31 per cent among all Vanguard plans in 2005 to 75 per cent in 2009 (Vanguard Institutional Investor Group, 2010).

Save More Tomorrow™ is one example of a program which combines automatic enrolment with automatic escalation of savings as participants' earnings grow.[10] Save More Tomorrow has been incorporated into thousands of employer plans. The success of this scheme is remarkable: Thaler and Benartzi (2004) find that workers enrolled in Save More Tomorrow™ have achieved contribution rates of more than 13 per cent versus an average of 5 to 6 per cent for workers who did not.

Active decisions with simplified options

Though legislation has facilitated the adoption of automatic enrolment in the U.S., there are indications that the resulting increase in proportion of firms that use auto-features may be levelling off. More than half of all firms that offer retirement plans – and the great majority of smaller firms – have not introduced automatic enrolment procedures. Some of these may be concerned about costs, since as automatic enrolment plans increase in prevalence, so too do the costs borne by employers who offer such plans, especially costs associated with matching employee contributions. Soto and Butrica (2009) showed that match rates for firms with automatic enrolment are 7 percentage points lower than among those without it, after controlling for industry, plan size, and whether the firm also offers a DB plan. This may mean that either firms lower match rates as a result of auto-enrolment, or that auto-enrolment is more likely to be adopted by firms with lower match rates. Either way, it illustrates the tension between wanting to help employees save for retirement and needing to control costs. These kinds of tensions may be especially common in smaller firms, and may be a factor in their much lower adoption of auto-enrolment designs.

Plan providers that use auto-enrolment procedures generally use it only for new hires and not for existing eligible non-participating employees. For example, one large service provider reported that 87 per cent of automatic enrolment plans were applied to new hires only (Nessmith et al., 2007). This may be partly attributable to employers seeking to phase in the increased costs of auto-enrolment gradually, but it may also have to do with employee resistance to having to take active measures to opt

[10] Save More Tomorrow is a registered trademark of Shlomo Benartzi and Richard Thaler.

out of an automatic reduction in their take-home pay. New hires, having not yet received a paycheque, may be less likely to perceive this kind of deduction as a loss.

Others employers are philosophically opposed to making choices on behalf of their employees, especially since default choices provide a one-size-fits-all solution to what may be highly variable savings needs. Some service providers and plan sponsors have thus designed and implemented simplified enrolment procedures that give potential members opportunities to make active decisions with respect to participation in their employer pension plan, while also incorporating mechanisms to reduce the costs of opting in and to accelerate decision making. These types of plan have also yielded interesting results.

One example of such a scheme is Quick Enrollment™, which requires employees to opt in, but also takes steps to make opting in easier and quicker. Under one version, new hires could initiate participation by simply checking a box on a postcard within a prescribed deadline, rather than the previous method of applying anytime via a toll-free call to the benefit administrator or through the benefits administration website. New hires were simply sent a form that said "Yes, I want to enrol and begin saving in the (company) saving plan" at a preselected asset allocation and contribution rate, and they had a two-week deadline to return the form. Failure to return the card was treated as a negative response. In another implementation, established employees were given the opportunity to participate using a web-based Quick Enrollment interface. Employees chose their own contribution rate but could elect to invest in a preselected asset allocation.

Choi et al. (2009) and Beshears et al. (2006) have studied this scheme and found that it increased participation rates by 10 to 25 percentage points relative to standard enrolment procedures. These increases in participation rates arise from reducing the costs of opting into the plan by providing a more convenient way to enrol and by simplifying the complex process of choosing contribution rates and investment allocations.

Carroll et al. (2009) present the results from a natural experiment based on a similar design which required new employees to submit forms stating their enrolment preferences (yes or no) within 30 days of being hired. This potentially accelerated decision making even more than under the Quick Enrollment™ version because employees were required to submit the form regardless of whether they wished to enrol or not. In other words, the decision was framed to make it appear that there would be no default choice assumed for those who did not submit the form on time; in practice, failure to submit was treated as a decision not to enrol, but this non-enrolment default was not publicized. In addition, the form was part of packet that included other forms (e.g., tax withholding forms) whose submission was legally required. Though there was no tangible penalty for not submitting the form, these various mechanisms resulted in a 95 per cent compliance rate. Interestingly, the requirement to make active decisions was extended to contribution and investment choices; there were no default options to which employees could anchor. Thus, the only way the scheme could have affected employee behaviour was by reducing the cost of opting in and by accelerating decision making through its use of firm deadlines with no default.

Results by Carroll et al. (2009) are striking: three month participation rates for new hires under the active decisions procedure were close to 30 percentage points higher than they were under a standard opt-in enrolment procedure (69 per cent vs. 41 per cent). As a result of the higher participation levels,

employees immediately chose a contribution rate similar to what they would have taken up to 30 months to attain under standard enrolment procedures, without the clustering that would be expected under a plan that included default contribution rates. These results echo those of Choi, Laibson, and Madrian (2009) who found that schemes that combine simplified opt-in or active enrolment decisions with active choice rather than automation of contribution rates result in much less clustering and higher savings.

Carroll et al. (2009) present a model that derives conditions under which active decision regimes are likely to result in better outcomes than automated regimes, and vice versa. They find that active decisions are best when individuals have relatively heterogeneous savings preferences and a strong tendency to procrastinate. In theory it is possible to imagine cases where savings preferences would be homogeneous. If most employees have a low optimal savings rate – if, for example, the company employs mainly low-wage workers who stand to get a high income replacement rate from publicly-provided income transfers (e.g., benefits under Old Age Security and Guaranteed Income Supplements), or mainly younger workers who would prefer to save at a lower rate in the present because they expect future income growth, or if the company pension offer includes a generous DB component – then standard opt-in enrolment or auto-enrolment with conservative contribution defaults may work well. However, the authors show that active contribution decisions are optimal when there is even a small amount of heterogeneity in savings preferences, but savers have a strong tendency to procrastinate and tend to anchor themselves to contribution defaults for prolonged periods of time. These kinds of conditions are likely to apply to contribution rate decisions at most firms.

Another finding from the model proposed by Carroll et al. (2009) is that defaults may work better than active decisions when the level of expertise savers are likely to have is low relative to that of plan sponsors and service providers. Though savers are likely to be better informed about their optimal savings rates than planners, planners are better informed about allocation options, suggesting that well-chosen default investment allocations are likely to result in better outcomes than designs that require employees to make active allocation decisions. Indeed, Benartzi and Thaler (2007) provide evidence that most plan members tend to use simple rules of thumb when face with high number of risky options offered in a menu of funds, such as naive diversification strategies whereby savings are simply divided up evenly among available options, leading to inadvertently high exposure to risk. Benartzi and Thaler (2001) and Cronqvist and Thaler (2004) find that diversification strategies used by planners typically outperform those used by individual savers.

An interesting argument put forward by Choi et al. (2009) is that though an active decision regime would increase the number of contribution rate options, it would not increase the complexity of the decision much since different contribution rates are alignable outcomes in that they can easily be ordered along one dimension – low to high – and thus are easily comparable. In contrast, different investment allocations are non-alignable outcomes that vary across multiple dimensions. The authors suggest that hybrid plan designs that incorporate active contribution rate decisions with well-chosen investment defaults may be optimal for large numbers of savers.

Participant engagement strategies

Given the challenges of designing appropriate default options for a wide variety of savers who may have different needs, a complementary strategy might focus on improving financial literacy through employer- or provider-based education schemes. Approaches based on financial literacy education seek to increase engagement among potential plan members and enable them to make better active choices. As pointed out by a number of analysts, including (Boisclair, 2010), numerous financial education tools are available, but little is known, especially in Canada, on the impact of financial education on retirement planning, or more importantly financial outcomes.

The American literature provides some evidence that workplace-based education programs result in increased financial knowledge among employees who are nearing retirement, and that some employees altered retirement plans based on this knowledge (Clark, 2010). However, there is also evidence that simply acquiring knowledge may do little to help potential savers overcome bounded self-control and translate awareness into action. Choi et al (2001) show that at one U.S. firm, all employees who attended a savings education seminar indicated that they would join the firm's 401(k) plan – however, only 14 per cent did so over the next 6 months.

Saliterman and Sheckley (2004) find that an educational program designed in accordance with adult learning principles such as active learning was associated with a significant increase in program take-up. The program was based on an extensive analysis of participant needs, goals, and learning styles and included topics that were identified to be of interest to the target audience. Participants were engaged in a process of problem solving and "re-cognition" that allowed them to think through how the information pertained to their individual retirement situations. A comparison of contribution levels made by employees who participated in re-designed workshops based on adult learning principles versus employees who participated in traditional workshops based on passive transmission of information suggests that an adult learning format is positively associated with increased contribution behaviour. Similarly, positive impacts on contributions were observed when a savings information service centre changed the way it handled caller questions from simple responses to a more consultative approach involving three interactive steps: assess, educate, and influence.

Similarly, Lusardi et al. (2008) used extensive data collection – including employee surveys, focus groups, and in-depth interviews – to inform the design of a planning aid to be distributed to new hires during employee orientation. The planning aid sought to reduce the existing online enrolment process into small, manageable steps. It also provided information intended to overcome barriers to saving, such as describing the range of contribution amounts employees could make, and the life cycle default investment fund provided by the employer. Pictures and messages to convey the importance and benefits of saving were also incorporated, to increase prospective participants' motivation levels. The result was a roughly 15 percentage point increase in participation 2 months after hiring among those who received the planning aid compared to a previous cohort of new hires who did not receive it.

In general, educational tools that raise financial literacy through active learning, planning, and engagement can supplement other initiatives that use the principles of behavioural economics to facilitate decision-making and translate knowledge into action.

Employer-sponsored pension plans in Canada

Unlike the United States (U.S.), where private sector, defined contribution (DC) plans have grown to become the most common form of employer-sponsored retirement plan, the pension landscape in Canada is still characterized by the predominance of public sector, defined benefits (DB) plans. A recent study by Towers Watson (2010) reveals that among the 13 countries studied, Canada is the only country where DC assets have fallen compared to DB over the last ten years.[11]

Nevertheless, DC plans in Canada are growing steadily, having increased their share of members of registered pension plans (RPPs) from 5 per cent in the 1970's to approximately 16 per cent today (Gunderson and Wilson, 2009; Gougeon, 2009). These figures underestimate the growth of all employer-administered capital accumulation plans (CAPs) in Canada since they do not include group Registered Retirement Saving plans (RRSPs). Baldwin (2008) estimates that 50 per cent of private-sector workplace plan members are covered by either a DC plan or a group RRSPs.[12]

Capital accumulation plans landscape

The most common employer-sponsored CAPs in Canada are formal DC pension plans and group RRSPs. Group RRSPs are simply a collection of individual RRSPs into which an employer arranges for employees to make contributions through regular paycheque deductions. In practice, group RRSPs are quite similar to DC plans, though not subject to pension standards legislation.

In a study published in 2008, Sun Life Financial, Canada's largest service provider, reports that most CAPs are made up of DC plans (41 per cent of all 7500 plans studied in 2008) and group RRSPs (30 per cent). Deferred profit sharing plans (DPSPs) are next highest at 9 per cent, though DPSP's are usually a mechanism by which employers make contributions in conjunction with other kinds of plans.[13] There is no solid data on the proportion of these various kinds of plans that allow voluntary participation as opposed to requiring mandatory participation; however, data based on surveys of small numbers of plan sponsors suggest that DC plans are more likely to be offered by larger firms, and more likely to be mandatory (CAP Benchmark Report, 2009).

Different types of plans are sometimes combined to offer employees multiple layers of options. Some employers may require employees to participate in a DB plan, but also offer a supplementary DC plan on a voluntary basis. Other employers may require the participation of all employees to a mandatory DC plan, but also offer a voluntary group RRSP. Other will have mandatory DB, DC, or group RRSP and offer a supplementary DC or group RRSP plan on a voluntary basis. The level of coverage provided by

11 The 13 countries included in the Towers Watson (2010) study are: Australia, Brazil, Canada, France, Germany, Hong Kong, Ireland, Japan, Netherland, South Africa, Switzerland, United Kingdom and United States.

12 Accurate information on group RRSP coverage is difficult to obtain. It is not included in the Pension Plans in Canada database, and must instead be estimated from employee survey data.

13 See Sun Life Financial (2008).

the mandatory component of a multi-layered plan may vary widely. Employees may be more likely to enrol in the voluntary component if the mandatory component provides minimal coverage and is unlikely to lead to retirement income adequacy without additional savings.

Different types of plans may have different characteristics that affect their appeal to employees. For example, DC plans are subject to stricter regulations than group RRSPs, with the result that most DC plans require employer contributions, while group RRSPs do not. When employers do make contributions, the rates at which they contribute vary. Eligibility requirements, vesting schedules, i.e., when employees gain rights to employer contributions, and locking-in conditions also vary widely between plans.[14]

Pension legislation in most provinces allows employers to restrict the vesting of their contributions for up to two years (with the exception of Quebec, which requires immediate vesting). Immediate vesting can make a plan seem more attractive to newly hired employees and encourage participation. However, when Quebec is excluded, only about one third of plans administered by Sun Life Financial that require employer contributions (DCs and DPSPs) offer immediate vesting.

Pension legislation also requires that once vested, both the employer and employee contributions to a DC plan are locked-in, i.e., employees are not allowed to withdraw their pension funds until they formally retire. Group RRSPs, however, are not subject to pension legislation, and thus lack provisions for locking in and employer-imposed vesting periods. Employers who contribute to a group RRSP can only do so indirectly, by adding the desired contribution amount to the employee's gross pay. The additional pay is then deducted as an RRSP contribution, and in theory is immediately available for the employee to do with as they wish. However, some employers impose penalties for withdrawals prior to retirement. Others may implement a combined group RRSP/DPSP plan, so that employees make contributions through the RRSP, while the employer makes matching contributions through the DPSP, which allows them to impose a two-year vesting period.

Plan design issues

Features that target decision-making inertia such as automatic enrolment are still rare in Canada, for two major reasons. First, many Canadian DC plans and some group RRSPs require mandatory employee participation. Second, there are legislative barriers to incorporating auto-features into voluntary plans. In particular, federal and provincial employment standards legislation prohibits automatic paycheque deductions without employee consent, except in limited circumstances such as authorization by collective agreement. Automatic enrolment – in which employee consent is implied so long as the employee chooses not to opt out – would in most instances contravene the current legislative requirements for express consent.[15]

[14] For example, among group policies administered by Sun Life Financial, employers' contribution rates vary from 1 to 10 per cent, with 3 and 5 per cent being the most common rates. A minority of plans (45 per cent) allow employees eligibility within 1 month or less of service; for the other 55 per cent, eligibility periods may extend to 1 year, or in rare cases up to 2 years. See Sun Life Financial (2008)

[15] See Sargezi and Duxbury (2010) for discussions and international comparisons of these issues.

Canadian experience with simplified enrolment procedures is limited, and evidence on their impacts is lacking. Some plan sponsors are implementing simplified procedures intended to facilitate employee participation within the legislative boundaries of existing consent requirements. These schemes make consent forms – in which employees either agree to contribute a specified percentage of pay to the savings program, or check off the "no" option on the form – part of a standard package of materials provided to new hires and/or non-participating employees. These types of simplified procedures are often described as a form of auto-enrolment by Canadian commentators, though there is a crucial distinction to be made: under a true U.S.-style auto-enrolment scheme, employees who do not return the form would be enrolled into the plan by default, whereas in Canada, the requirement for express consent means that employees cannot be enrolled until they return the form. Therefore Canadian simplified enrolment procedures are more akin to American active decisions schemes such as Quick Enrollment.

Consultations with a number of representatives from service providers revealed that contribution rates are a concern, as a significant proportion of employees are not taking full advantage of the employer contribution match, and most do not contribute more than their employer is willing to match. These kinds of problems are likely to be exacerbated by simplified enrolment schemes that target increased participation, but leave employees anchored to low default contribution rates. Decisions regarding investment allocations are seen as less of a problem, as better-designed default options start to become more widely available. Balanced funds are beginning to outstrip low-risk, low-return options like money market funds in popularity. A recent trend shows members and sponsors increasingly converging towards life cycle or target date funds as a preferred choice, although these funds are less common in Canada than in the U.S.

Considerations of how plan design may affect member decision-making are likely to become increasingly important, as pension reform discussions have recently focused on ways to provide a widespread, voluntary, low cost option for employees (and self-employed) that do not currently benefit from workplace pension coverage. These discussions have culminated in the Finance Minister's recent proposal of defined contribution Pooled Registered Pension Plans (PRPPs), a large scale, low cost option in which many of the responsibilities that employers bear in existing pension plans would be taken on by third-party private sector providers. The resulting reduction in governance responsibility would likely make PRPPs attractive for many employers that might not have otherwise offered a pension plan.

These important advances notwithstanding, a broad-based delivery mechanism would only solve part of the problem. Member decision-making will be a crucially important determinant of the success of any plan that is based on a voluntary, capital accumulation model. Currently, there is a vigorous debate in the U.S. (and increasingly in Canada) on the relative merits of incorporating auto-features into workplace CAPs. In Canada, the use of such features would likely require widespread legislative change, but less paternalistic measures such as simplified enrolment procedures that require active decision making might be just as effective. Currently there is little evidence to inform this debate in Canada. Procedures designed to facilitate decision-making are being rolled out piecemeal on a small scale. A more systematic consideration of simplified enrolment options and rigorous evaluation of these options in the context of voluntary plans would have important implications for the design of future plans.

Research design, methodology and feasibility

Our review of the literature as well as consultations with experts in the fields point to a number of key observations and lessons which inform our design of possible interventions to increase individuals' saving in employer-provided capital accumulation plans (CAPs).

Lesson 1: Though automatic enrolment is currently not legally permissible in Canada, there may be alternative ways to boost participation in voluntary plans. Some evidence shows that implementing simplified enrolment procedures can facilitate and accelerate active decision making by reducing the costs of opting in within a prescribed deadline (Beshears et al., 2006; Carroll et al., 2009; Choi et al., 2009).

Lesson 2: Pre-set (default) contribution rate and investment allocation choices are typically incorporated into auto-enrolment or simplified enrolment schemes. Default choices may facilitate participation by lightening the decision-making burden, but they may also encourage procrastination and inertia as participants anchor to default options. In some cases, anchoring to defaults may result in undersaving, if participants cluster around low default contribution rates and/or overly conservative default investment options (Madrian and Shea, 2001; Beshears et al., 2006; Nessmith et al., 2007; Choi et al., 2009; Evaluation Services, 2010).

Lesson 3: When it comes to contribution rates, active decisions may generate better outcomes than default options, especially when potential participants have relatively heterogeneous savings preferences and strong tendencies towards procrastination and inertia once enrolled. Schemes that allow active contribution rate choices lead to less clustering and higher average saving rates (Carroll et al., 2009; Choi et al., 2009).

Lesson 4: Well chosen default investment allocations are likely to result in better outcomes than designs that require employees to make active allocation decisions, since active decision making requires participants to compare choices along multiple, non-alignable dimensions (Carroll et al., 2009; Choi et al., 2009). Diversification strategies used by planners typically outperform those used by individual savers (Benartzi and Thaler, 2001; Cronqvist and Thaler, 2004; Benartzi and Thaler, 2007).

Proposed interventions

Based on the four lessons above, one of the major challenges in choosing a voluntary plan design is finding the appropriate balance between simplification/automation and more engaged decision making. In this context, more research on hybrid (semi-automated) approaches is likely to be especially relevant and fruitful. Our proposed interventions focus on developing and testing the impact of simplified enrolment procedures, in conjunction with either a default contribution rate or active choice of contribution rate. Our scope for developing interventions targeted at various parameters associated with investment allocation choice is likely to be limited. Testing the impact of providing default investment choices rather than requiring employees to make active decisions would be difficult if most employers already provide default options. Interventions focused on developing more appealing and better-performing default funds or changing the number of fund options to reduce decision-making

complexity would be administratively too complex to implement. Moreover, since service providers are already increasingly using life cycle or target date funds as defaults and on making active investment choices easier for those who opt out of default funds – for example, by encouraging savers to complete risk profiles online, so that those who wish to make active investment choices can more easily compare among options that are alignable along the risk/equity exposure dimension – there is less of a need to address those issues.

It is important to reiterate that truly U.S.–style automatic enrolment procedures where plan providers rely on implied consent to enrol participants unless they actively opt out of the plan would currently contravene employment standards legislation in Canada. Therefore, the interventions we propose are limited to those that help firms with voluntary plans transition from standard enrolment (with a zero-savings default) to simplified enrolment schemes that facilitate decision-making.

SimpliSave basic model

The first proposed intervention is modelled on simplified enrolment procedures implemented in the U.S. Our proposed Canadian version is a simplified enrolment procedure whereby employees are required to submit a form stating their enrolment preferences – yes or no – within a prescribed deadline. For new employees, the deadline could be within 30 days of being hired. Employees would be required to submit the form regardless of whether they wished to enrol or not, although there would be no tangible penalty for not submitting the form. Documentation provided along with the form or information provided by human resource representatives to employees would suggest that there would be no default choice assumed for those who did not submit the form on time; however, in practice, failure to submit would be treated as a decision not to enrol – in other words a zero contribution default. For new employees, the form would be part of a packet that includes other forms the submission of which would be legally required upon hiring. Existing employees could also be alerted that the company has simplified its pension plan enrolment procedure and invited to participate with the same kind of facilitating devices.

Contribution rates would be pre-set: when filling in the enrolment form, employees would be given the default contribution rates but would be informed that they can choose a different rate. Information on employers' contribution, if any, would also be provided especially so that participants have information about the employee's contribution rate that maximizes the amount contributed by the employer. By default, participants' contributions would be invested into an employer-selected fund.[16]

SimpliSave active decision model

The second proposed intervention builds upon the basic model described above by simplifying enrolment while at the same time transitioning away from default contribution rates to an active decision scheme based on an array of choices. Such a scheme may not raise decision making complexity

[16] One such scheme called Express Enrolment has been piloted in Canada by Sun Life Financial. This scheme is similar to the U.S.-based Quick Enrollment, in that it offers a simplified form through which employees are enrolled at a default contribution rate into a default allocation unless they check a box indicating that they do not wish to participate.

by more than a negligible amount and thus may have little or no impact on participation rates. The goal is to prevent the clustering of savings outcomes that typically occurs at the default rate when the contribution decision is automated.

When filling in the enrolment form, employees would be presented with an array of employer-prescribed options – for example, 2, 4, 6 or 8 per cent. Alternatively, they could be invited to fill in the blank with their own preferred rate or amount. Again, information on employers' contribution, if any, would be provided so that participants have information about the employee's contribution rate that maximizes the amount contributed by the employer. By default, participants' contributions would be invested into an employer-selected fund.

Potential Variants

Potential variants could be designed to include supplementary informational supports aimed at engaging employees through active learning activities and increasing the perceived value of saving. For example, services that increase financial literacy, perhaps consultative services in the context of telephone services or on-line assistance, could be provided to those with questions about their newly established plans. Another approach would be to address the issue that some employees may not be aware that they are paying less tax as a result of contributing to a pension plan, because tax reductions are "hidden" within the usual array of paycheque deductions. Access to an online tax calculator could improve decision-making by making the tax advantages of contributing more visible. The online calculator would allow employees to realize that the percentage of before-tax salary they are losing by contributing is actually considerably less than their nominal contribution rate.[17]

As an illustration, a 5 per cent contribution rate for an employee working in Ontario at a pre-tax salary of $60,000 paid biweekly would result in a deduction of $115 per paycheque. However, it would also result in a tax reduction of $36 per paycheque, so the net amount deducted from the paycheque is $79, or only 3.4 per cent of the employee's gross salary (less than the nominal 5 per cent contribution rate). In other words, the employee would be paying $79 to save $115 or only 69 cents for each dollar saved. These kinds of figures might make saving seem like a "better bargain". Clearly showing that paycheque deductions would be smaller than the nominal contribution rate serves to address both people's tendency to weigh losses significantly more heavily than gains (loss aversion) and their tendency to think of currency in nominal, rather than real terms (money illusion).

Research design

An experimental design to evaluate the impacts of each of the proposed interventions – or treatments – would involve the formation of three experimental groups:

Group A: Standard enrolment, opt-in required. Default investment allocation may be provided for those who opt in.

[17] See for example the Payroll Deductions Online Calculator provided by the Canada Revenue Agency http://www.cra-arc.gc.ca/esrvc-srvce/tx/bsnss/pdoc-eng.html.

Group B: SimpliSave Basic Model, with simplified enrolment procedure, default contribution and investment allocation.

Group C: SimpliSave Active Decision Model, with simplified enrolment procedure, active choice of contribution rate, and default investment allocation.

Group A would act as the control group, revealing baseline outcomes that would be expected when employees are assumed by default to be uninterested in saving unless they opt-in to a plan.

Comparing Groups A and B would allow us to assess the impact of providing an enhanced enrolment procedure that facilitates opting-in to the plan. To some extent, provision of a default contribution rate and investment option may also have an impact by reducing the complexity of decision-making, though many employers may already provide a default investment option for those who opt-in under standard enrolment. The simplified enrolment intervention may result in higher participation rates in Group B compared to Group A, but lower contribution rates among participants, if Group B participants anchor to the default rate provided (Hypothesis 1).

Group C would allow us to assess the incremental impacts of replacing default contribution options with active choice of contribution rate. If active choice prevents participants from anchoring to the conservative default contribution rate favoured by most employers, but increases the complexity of decision making to the extent that some potential savers – especially those with low levels of financial literacy – put it off, then Group C might have higher contribution rates among participants but lower participation rates compared to Group B (Hypothesis 2).

Target population

The target population of interest is Canadians with no pension coverage, principally those at middle income levels who are not likely to achieve adequate income replacement rates after retirement. In theory, a new program could be targeted at all members of the general population who lack pension coverage as was done in New Zealand with KiwiSaver. However, there is currently no mechanism to deliver and administer such a program at the national or provincial level in Canada.[18]

For the moment, the only realistic option is to hitch new interventions onto existing service delivery and administrative models in the context of employer-sponsored pension plans. Conceptually, the proposed interventions could target mandatory plans – for example, employees who are not taking full advantage of the employer match. However, a program encompassing the full range of interventions, including those aimed at boosting enrolment, could only be targeted at voluntary plans.

[18] The Saskatchewan Pension Plan is an example of a current province-wide program, but unlike KiwiSaver, it caps annual contributions at $600, which greatly lessens its appeal among middle-to-high income earners, and there are no matching government contributions.

The New Framework for Pooled Registered Pension Plans: An opportunity?

The announcement by the Federal, provincial and territorial Ministers of Finance to work together towards the establishment of defined contribution Pooled Registered Pension Plans (PRPPs) across Canada constitutes an important contextual development in light of any plan to conduct the experiment proposed here. Would our proposed experiment be useful to inform the implementation of new provincial programs as proposed already by Ontario and Quebec?

Although final details are left to individual provinces or territories, the proposed Framework identifies two classes of plan members: (1) *Employed Members* which regroup the employees of employers interested to join a PRPP (2) *Individual Members* which include self-employed individuals and employees of an employer that does not offer a PRPP.

The Individual Members category is of limited interest for assessing the impact of simplified enrolment procedures on the decision to participate to a pension plan or not. Indeed, the implementation of a PRPP would require that employers or employees self-identify and manifest an interest to participate in such plans. Individual Members who approach a financial institution or a service provider to take part in a PRPP have already made their mind about participation: they have made a decision to save for their retirement. Hence, a simplified enrolment procedure would not make much difference on their participation rate. As for testing out a the role of active decision making on contribution rates, one can presume that Individual Members approaching a financial intermediary would already have a notion of what they want to contribute to their pension scheme. The absence or presence of a default rate would seem to have limited relevance in such context.

In the case of the Employed Members category, the situation is akin to the circumstances of the target groups of employees discussed in this report. While their employers may have made the choice to introduce or join a new plan, employees have not. To the extent that adherence to PRPPs would remain voluntary, the need to find best approaches to nudge the employees in making the decision to participate becomes very relevant. Therefore, the results of the proposed experiment would be extremely informative for employers and service providers who are considering offering PRPPs when they become available. Similarly, any information on the use of default rate versus active contribution rates would be highly relevant to the introduction of PRPP for this class of plan members.

Could the experiment make use of the introduction of upcoming new PRPPs scheme to recruit participants? The class of Employed Members would be ideal participants to the proposed experiment. The project could benefit from the introduction of a new provincial PRPP scheme that attracts several new employers to apply for participation. These employers could be randomly assigned at the time they contact the service providers to one of the three research groups we propose our experiment. A standard enrolment procedure, the SimpliSave procedure or the SimpliSave Active Decision procedure would be presented to eligible employees of these new employers depending on the group to which they were assigned.

In Canada, voluntary plans consist mainly of group RRSP's and voluntary DC plans, though other kinds of plans such as DPSP's may also be applicable. A potential caveat is that some voluntary plans may be offered as supplements to boost mandatory plan members' savings, as for example when employees who contribute to a mandatory DC plan are also offered to participate in an optional group RRSP component. These kinds of multi-layered plans may not represent the target population very well, since they target supplementary savings among those who already have coverage. Furthermore, savers are not as incentivized to contribute to the voluntary component of a multi-layered plan as they would be if their entire coverage depended on voluntary contributions. Nonetheless, some multi-layered plans may offer a reduced level of mandatory coverage, so that participation in the voluntary component would be needed for employees to achieve an adequate level of savings. While a case could be made to include employees in these types of plans in the target population, we feel that in order to simplify recruitment and implementation procedures our focus should be on employer-sponsored voluntary DC plans.

Random assignment design

Outcomes like pension plan participation and choices of contribution rate are dependent on many variables, and so it can be difficult to isolate the impact of changes in enrolment procedure. It is not sufficient to simply compare participation before and after the intervention. Changes in personal circumstances of workers or economic conditions facing the firm can lead to increases or decreases in participation over time, which may make the impact of an intervention seem larger or smaller than it actually is. Similarly, the rate at which changes in outcomes of interest occur may be a function of various firm and employee characteristics. For example, the rate of change in participation may vary according to employee age and income distributions, the firm's initial enrolment procedures and informational supports, employer matching rates, number of investment options, availability of a default investment option, pension vesting schedules and eligibility requirements. The effect of these variables is confounded with any effect that the interventions might have on individual outcomes.

To isolate the effects of the intervention from all other variables, a reliable counterfactual is required to provide an accurate measure of what would have occurred in the absence of the intervention. Simple, after-the-fact comparisons between employees who did and did not receive the intervention are not sufficient, since these two groups may differ in a variety of other ways as described above.

It is widely accepted that the best way to construct a counterfactual and thereby a measure of true program impacts is through the use of random assignment in a field experiment. Randomized field experiments assign individuals or groups of individuals at random to a program group that is eligible to receive the intervention being tested or to a control group that is not eligible. Random assignment ensures that the program and control groups do not differ systematically in terms of any other characteristics, even if these characteristics are unobserved, immeasurable or totally unknown to researchers. The only way the two groups differ is that one group is eligible for the intervention and the other is not. As a result, any differences that are observed over time in the experiences of the two groups can be attributed with confidence to the intervention.[19]

[19] Strictly speaking, random assignment ensures that the program and control groups will not differ systematically, but it does not guarantee that they will be identical. In a random assignment design the

Unit of analysis and unit of random assignment

Random assignment could be done at individual employee level, firm level, or even a sub-unit of the firm such as locations or work sites. In theory, measures of the impacts could be derived at any of these levels as well, though the primary research questions in this study are centered on individual-level outcomes in terms of participation and contribution rates. When the individual employee is the unit of analysis, random assignment of individuals is the preferred method since it would generate more participating individuals than participating firms. A large number of randomly assigned units increases statistical power, meaning it can detect smaller program impacts that would qualify as statistically significant. However, random assignment of individuals would mean that employees within the same firm would be subject to different enrolment procedures which could raise some issues with employers who may prefer to avoid treating employees differently. Random assignment of individual employees within a firm may also lead to problems of contamination if, for example, control group members' interactions with employees who receive one of the treatments influence their savings behaviour. With contamination, impact estimates could be biased downward if control group members benefit from the interaction and start participating or contributing more than they otherwise would have.

These kinds of issues can be minimized if random assignment is carried out at the firm level, so that each employee within a firm receives the same program option. However, the main disadvantage of randomly assigning firms is that it is statistically less powerful at detecting impacts because individuals within a firm behave more similarly than individuals chosen at random. In other words, when employees are randomly assigned as a group, as they would be when randomly assigning firms, a larger sample is required to detect a given program impact. The loss in statistical power can be somewhat mitigated by randomly assigning a large number of firms with fewer individuals in each rather than a few firms with many individuals in each. As a result, it may be more efficient to recruit a substantial number of smaller firms rather than a few large firms.

A second disadvantage of randomly assigning firms rather than individuals is that the number of units of random assignment will be much smaller, so that the probability of chance differences arising between experimental groups despite random assignment is higher. For example, it is possible in a small sample that all firms sharing a certain characteristic (for example, province or size) get assigned by chance to the control group, thus creating a systematic difference between groups that has nothing to do with the intervention and compromising the goal of random assignment. In principle, this can be resolved with a stratified assignment strategy, where firms are grouped by various characteristics (e.g., by province and size), then random assignment is carried out within each group. In practice, random assignment will be easier to implement as the number of firms in the sample increases.

A third concern with random assignment of firms is that some firms may balk at being randomly assigned to the control group and so see very little benefit in participating in the study, resulting in

expected values of the averages for all pre-existing characteristics of the program group and the control group are the same, although their actual values may differ somewhat, especially in small samples. However, larger sample sizes will reduce these chance differences. Data on the characteristics of the sample that are collected prior to random assignment can be used subsequently in regression models to reduce chance differences as well as improve the precision of the estimates.

withdrawals. The need for and structure of possible employer incentives, including financial incentives, would have to be considered to convince them that their continued participation is beneficial in that they could use the results to structure their future enrolment procedures at very little cost.

One possible solution may be to restrict the offer to firms with multiple locations or worksites, and randomly assign by location. For example, a firm with three locations would receive the full range of program options, one per location. More generally, each firm would receive some kind of intervention for at least some of its locations or worksites. This might facilitate the recruitment of firms because it reduces the possibility that a firm would perceive no benefit at all for its participation in the study. This type of research strategy would support the recruitment of firms large enough to have multiple locations, rather than simply a large number of small, one-location firms. There might still be some small risk of contamination, however, if employees move frequently between locations or work at more than one location.

Recruitment strategy

The proposed recruitment strategy would target employers rather than individuals. Some level of pre-screening of employers would apply to ensure that existing enrolment procedures correspond to the assumed baseline condition of a standard opt-in enrolment procedure. Another factor to consider is the firms' eligibility policy: as discussed above, some firms allow employees to enrol immediately, while others have a waiting period which can last up to a year or more. Though a waiting period could influence intervention impacts, restricting the sample to firms that offer immediate eligibility might lower the applicability of the results.

The recruitment strategy could target two groups of employers: (i) those who do not currently offer pension plans, but who are in the process of designing a voluntary plan, and (ii) those for whom the proposed interventions could be add-ons to existing, voluntary plans. Relying on the first option alone would result in a much longer implementation window; adding components to an existing plan would be simpler and faster, and allow immediate access to a much larger sample. Even though the second option would evaluate impacts on non-participants who have access to pension coverage, the results would still be quite relevant since they could inform the design of voluntary plans for those without current access to coverage.

At the employee level, two kinds of samples might be considered among those in voluntary plans: a flow sample of newly hired employees or a stock sample of established employees who are not plan members. Most interventions in other jurisdictions have focused on new hires, largely due to reluctance among employers in the U.S. to implement automatic enrolment for existing employees. It is not clear whether this reluctance is motivated primarily by the extra costs of auto-enrolling existing employees, or by a perceived resistance among employees to being required to opt out of an automatic reduction in their take-home pay. Since automatic enrolment is not possible in Canada under current legislation, resistance among established employees to an offer that facilitates active choice may not be as much of a factor. If so, targeting established employees, who are likely to provide larger samples and thus more statistical power than new hires, might be considered. However, implementation may be easier among new hires, for whom optional plan enrolment could be timed to coincide with mandatory payroll and

benefits enrolment. In addition, employers might prefer to test an option for limited period of time with new hires before implementing it for all their employees.

It is important to note that the two pools of employees – new hires and established workers – represent distinct populations at different stages of the savings decision, and intervention impacts on each pool would have to be interpreted accordingly. Interventions targeted at new hires would potentially accelerate responsiveness among short- and medium-term procrastinators, though long-term procrastinators may be less immediately affected. Interventions targeted at established employees, on the other hand, may miss the short-term procrastinators, since many of them may have enrolled at some point in their tenure, and may instead finally push some longer-term procrastinators into enrolling.

Recruitment of participating employers would be facilitated by the involvement of a number of service providers. Firms that are a client of those service providers and meet the selection criteria of having a voluntary capital accumulation plan offered to employees from a relatively heterogeneous workforce could be recruited with an outreach strategy in which an offer to participate in the study is made, explaining program options and the random assignment design.

Research sample sizes

Required sample size is usually based on estimates of the minimum number of participant necessary to achieve a statistically significant and policy relevant test of the proposed intervention. The larger the sample size, the greater researchers' ability to detect statistically significant differences in outcomes of interest between control and program group members. However, the larger the sample, the more time and effort have to be devoted to recruitment. Ideally researchers would like to select a sample of sufficient size to allow them to detect the smallest possible impacts that have policy relevance. These kinds of impacts are called minimum detectable effects (MDEs). Small MDEs (which require larger samples) give the evaluator confidence that even if the program produces relatively small impacts, they will be detected. Large MDEs (obtainable with smaller samples) mean that the impacts produced by the program will need to be large in order for the study to have a good chance of detecting them.

Calculations of MDE's for various sample sizes are based on a number of assumptions: the significance level is usually set at 0.05, which represents an acceptable risk of false positives, while the likelihood of detecting a difference when it is true (or power) is generally set at 80 per cent, corresponding to a manageable risk of false negatives of 20 per cent. Estimates of the mean and variance of the key outcomes of interest at baseline are generally needed as well. In the case of a discrete outcome – whether or not the employee enrols in the plan – conservative assumptions set the standard deviations at 50 per cent (the largest possible value); for contribution rates, a continuous variable, calculations from existing data suggest that the standard deviations are usually less than 1 percentage point.

Calculation of MDEs also depends on whether random assignment is done at the individual or the firm level. With random assignment of worksites or establishments, MDE calculations have to account for the correlation between individual employees within a worksite. This intra-cluster correlation can be the result of "peer effects" or some unobserved site specific characteristics. The size of the correlation is unknown without data, and so MDEs are usually calculated for various levels of correlation that may appear. In practice, the intra-cluster correlation coefficient seldom exceeds 0.2 if an adequate number

of characteristics are observed and controlled for in the estimations. Under the conservative assumptions for significance, power, variance, and intra-cluster correlation specified above, estimated MDEs under various sample collection scenarios are presented in Table 1.[20]

Table 1 presents 10 scenarios of data collection: it is assumed that 10 workers from each worksite would participate in the research in the first three scenarios; 20 people per worksite in scenarios four to six; 30 workers in scenarios seven and eight; and 45 and 60 in the scenario nine and ten, respectively. The number of worksites in each program group ranges from 25 to 90 for a total number of individuals ranging from 750 to 9,000.

The variations of the MDEs by the sample composition scenarios provide a guide to the sample size required for the experiment. For example, under the first scenario, a total of 75 worksites with 10 employees at each worksite are recruited to participate in the experiment. The 750 employees recruited are assigned in one of the three experimental groups: the Standard enrolment group (group A), the SimpliSave Basic Model group (group B) or the SimpliSave Active Decision Model group (group C). Suppose a typical level (0.10) of intra-cluster correlation and an attrition rate of 20 per cent of the sample at follow-up (i.e., response rate of 80 per cent). Such sample would be able to detect an 18.6 percentage point increase in the proportion of employees who enrol in the plan as a result of the intervention. Studies on the impact of alternative enrolment procedures have shown impacts in the range of 10 to 20 percentage points. Therefore, this relative small sample is adequate if impacts are on the higher side; however, the sample is too small to detect a 20 percentage point impact on participation rates if the intra-cluster correlation is higher.

As the number of worksites and the sample size increase, MDEs decrease, as shown in scenarios one, two and three: with a total of 2,700 participants, i.e., 90 worksites of 10 people in each of the three experimental groups (group A, B and C), it would be possible to detect an 8.3 percentage point impact of the program on participation rates at a typical level of intra-cluster correlation (0.1).

Sampling is more efficient when large numbers of worksites but relatively few people per worksite are recruited than when smaller number of worksites but more people per worksite are recruited. This is apparent by comparing the MDEs in scenarios four and seven to the MDEs in scenario three when all three scenarios have a total of 2,700 participants. For example, the MDE is 8.3 percentage points when each program group is composed of 90 worksites of 10 people, it increases to 11.8 percentage points when each group contains 45 worksites of 20 people and 13.6 percentage points when each group contains 30 worksites of 30 people.

[20] Calculations are based on the statistical formula presented in Howard S. Bloom (2005) Learning More From Social Experiments: Evolving Analytic Approaches. Russell Sage Foundation Publications.

Table 1 Minimum detectable effects under various sample composition scenarios

	Hypothetical Scenarios of Sample Composition									
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Number of participants per worksite	10	10	10	20	20	20	30	30	45	60
Number of worksites per experimental group	25	60	90	30	45	65	30	55	50	50
Number of participants per experimental group	250	600	900	600	900	1,300	900	1,650	2,250	3,000
Total number of worksites (3 experimental groups)	75	180	270	90	135	195	90	165	150	150
Total number of participants	750	1,800	2,700	1,800	2,700	3,900	2,700	4,950	6,750	9,000
Total number of respondents (at 80% response rate)	600	1,440	2,160	1,440	2,160	3,120	2,160	3,960	5,400	7,200
Minimum detectable effects (percentage points)										
Variable: Enrolment Percentage										
by intracluster correlation coefficient:-										
0.00 (no peer effect)	14.3	9.1	5.2	9.2	7.5	6.2	7.5	5.5	4.7	4.1
0.10 (typical peer effect)	18.6	11.9	8.3	14.5	11.8	9.8	13.6	10.0	10.0	9.8
0.20 (strong peer effect)	22.2	14.1	10.5	18.4	14.9	12.4	17.8	13.0	13.3	13.2
Variable: Average contribution rate										
by intracluster correlation coefficient:-										
0.00 (no peer effect)	0.29	0.18	0.10	0.18	0.15	0.12	0.15	0.11	0.09	0.08
0.10 (typical peer effect)	0.37	0.24	0.17	0.29	0.24	0.20	0.27	0.20	0.20	0.20
0.20 (strong peer effect)	0.44	0.28	0.21	0.37	0.30	0.25	0.36	0.26	0.27	0.26

Scenarios three, six, eight, nine and ten show the number of people required to detect a 10 percentage point impact on participation rate when the number of worksites decreases. When the number of worksites recruited decreases from 90 to 50 per group, the total number of participants required to detect a roughly 10 percentage point impact increases from 2,700 to 9,000.

Therefore, recruiting a relatively large number of worksites (or a smaller number of firms with multiple worksites) would be the preferred option. A sample of 2,700 participants from 135 worksites (i.e., 45 worksites per group; scenario five) would yield an MDE of 12 percentage points at a typical level of intra-cluster correlation, and not worse than 15 percentage points in the unlikely case of strong intra-cluster correlation. If recruiting worksites proves more difficult than anticipated, a sample of 2,700 people from a total of 90 worksites (or, for example, 30 firms with 3 worksites each) would yield an MDE of 14 percentage points at a typical level of intra-cluster correlation, and not worse than 18 percentage points in the unlikely case of strong intra-cluster correlation (scenario seven). These are within the expectation of the intervention's impacts based on previous studies.

Timelines for enrolment offers and data collection

New hires

Intervention impacts on new hires are likely to attenuate with job tenure. For example, in the U.S., the participation rate difference between new hires who are auto-enrolled and those who enrol under standard opt-in procedures may typically be reduced by half over a period of 30 months or so. A small part of this is due to automatically enrolees opting out with time, but it is mostly a catch-up effect, as opt-in enrolees end their procrastination (Nessmith et al., 2007).

To assess longer-term as well as short-term outcomes of interventions on new hires would require an extended period of data collection. Enrolment offers would also need to be made for a period long enough to acquire a sample of sufficient size. For example, with 135 worksites hiring at an average rate of 2 employees per month, a sample size of 2,700 employees would be reached after 10 months. Data on short-term impacts (immediately following the offer to enrol) for newly hired employees could be collected starting in month 1 and ending in month 11. The assessment of short term impact could then take place. Assessment of intermediate or long-term impacts would require a longer period of data collection.

As Table 2 shows, depending upon the rate at which new employees are hired (which itself likely depends largely on firm size), data collection to assess 18-month impacts for a sample of 2,700 new hires could be completed within 21 to 29 months depending on the length of the recruitment period.

Table 2 Timelines for assessment of short and long-term impacts

Worksites	Average hires per month	Number of months to reach sample of 2,700	Data collection period for short-term impact (1 month after enrolment)	Data collection period for short-term impact (18 month after enrolment)
135	2	10	Month 1 to Month 11	Month 19 to Month 29
	5	4	Month 1 to Month 5	Month 19 to Month 23
	10	2	Month 1 to Month 3	Month 19 to Month 21

Established employees

Interventions targeted at established employees could take place simultaneously with those targeting new hires. Acquiring a sufficiently large sample would likely be less difficult, since the pool of immediately available non-participating employees will likely be larger than the monthly inflow of new hires. Since interventions could be applied immediately to the entire sample, impact periods would correspond exactly with data collection periods.

As discussed previously, established non-participating employees and new hires represent two different populations at different stages of saving. Interventions on new hires may largely affect short- and medium-term procrastinators, while longer-term procrastinators may likely be less affected; in contrast interventions on long-tenure non-participants would affect only longer-term procrastinators, since short-term procrastinators would likely have started participating at some point earlier in their tenure. As a result, intervention impacts on the two samples would not be pooled, but would be evaluated separately. Hence, the need for doubling whichever sample size is selected as per Table 1 above if similar minimum detectable effects are being sought. In sum, recruiting established employees would take much less time than new hires but if they are to be part of the experiment, overall employers and employees participation rates in the experiment would have to double.

Data requirements

The two key outcomes of interest are employees' participation rates and contributions; however, the assessment of these two variables may require more data than service providers normally have. For example, service providers often have data on the number of employees who participate, but not the number who were eligible to participate. Similarly, providers usually have data on contribution amounts per employee, but may have a limited ability to calculate contribution rates. Access to administrative data at the employer level may thus be required to measure critical outcomes. This may have consequences on the need for employee consent since measuring outcomes may require data which is not normally released to providers. Depending on whether there is an arrangement in place between employees and employers that allows sharing of this kind of data, proper procedures will have to be in place to obtain employees' consent to having their data shared. However, given that program options represent procedural and informational enhancements and no services are being withheld or foregone by employees, who continue to have free choice in all their savings decisions, obtaining employees' informed consent to participate in the study may not be necessary.

Additional data collection of both individual and firm-level variables would be desirable as well. Information on individuals' basic demographics such as age, sex, income, job tenure for established employees, and on firm-level characteristics such as pre-intervention participation and contribution rates, number of investment options offered, default investment option, matching contribution rate, and eligibility schedule would serve to establish a baseline description of individuals and firms that were recruited into the study. More importantly, it would allow us to assess whether random assignment was successful in generating a program comparison groups with similar observable characteristics. Baseline data can also be used to examine an intervention's effect on various subgroups,

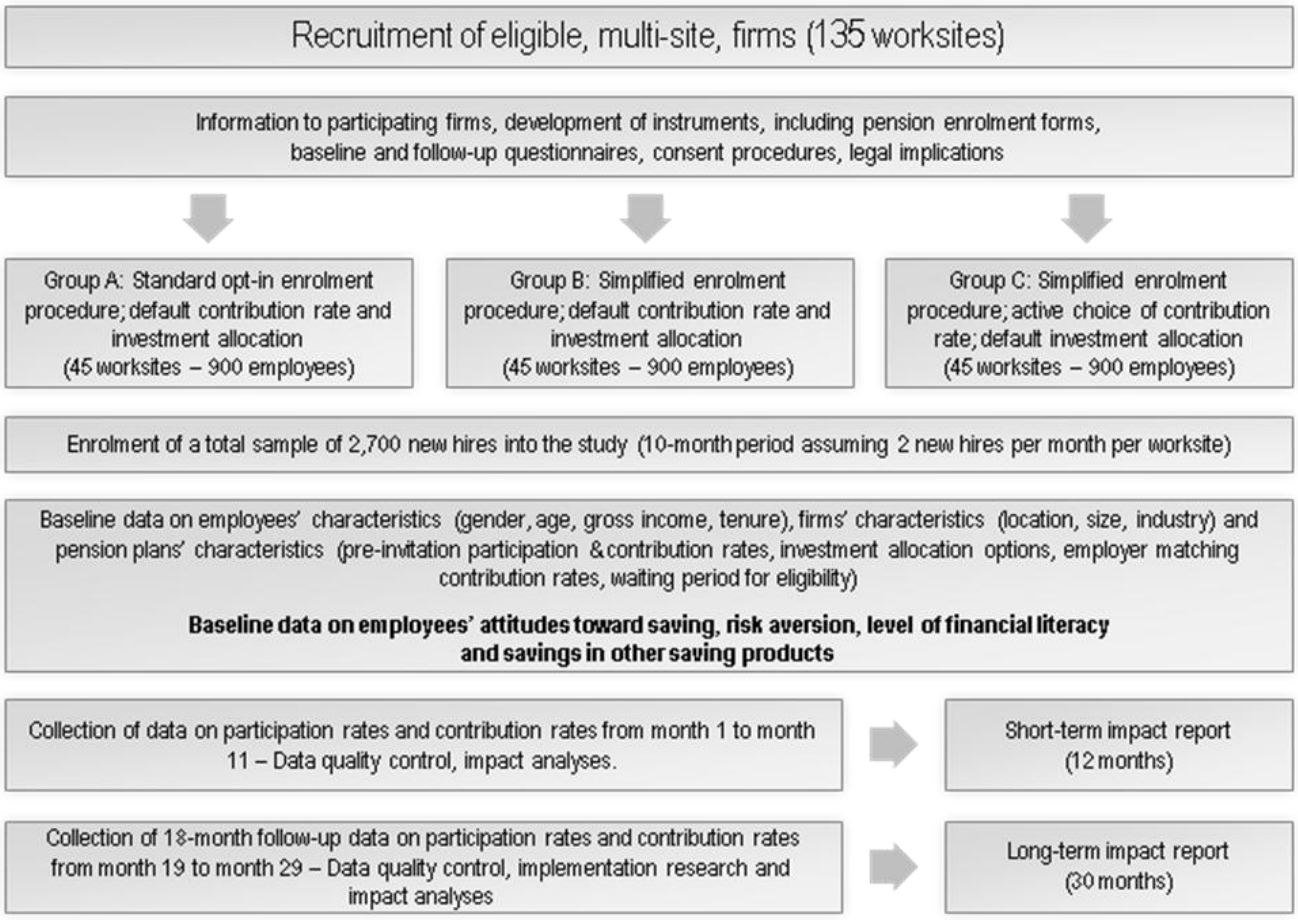
and in the application of regression techniques to reduce the variation in the sample data and increase statistical power. In the likely event that service providers do not have complete data on some of these baseline characteristics, employer surveys or access to administrative data may be required.

Employee baseline surveys could also provide useful data on key variables such as savings outside of the employer-sponsored plan, tendency to think about long term goals (future orientation), and degree of financial literacy, which are known to have impacts on savings behaviour. These kinds of data could provide useful information on the extent to which the proposed interventions target those who would otherwise be least likely to save adequate amounts for retirement – that is, those who generally don't plan for the future, don't save, and have low levels of financial literacy. The proper timing of an employee baseline survey would be critical in order not to influence the decision of participants regarding their enrolment in a proposed pension plan. Interviewing participants about their attitudes towards savings or long term goals, for instance, could raise awareness and prompt some of them to be more pro-active when they see an invitation to enrol in a pension plan shortly after. For this reason, any baseline survey of employees participating in the experiment should be conducted shortly after the deadline for enrolment has been reached.

Project flowchart

The graphic below represents and summarizes the various steps that would be required to implement the experimental project proposed above: from firm recruitment, to random assignment of these firms to the three experimental groups, to the enrolment of 900 employees per groups, and to the three points of data collection – two from administrative data and one from the employers and employees baseline surveys. This stylized model is restricting the enrolment and analysis to new hires.

Figure 1 SimpliSave project flowchart



Conclusion

To achieve retirement income adequacy, people increasingly need to identify the best choices for them from an array of saving options. Making the necessary decisions confers immediate costs while benefits are delayed, by decades in some cases. That, combined with uncertainty around potential saving options and the perceived consequences of making the wrong choice, may lead people to postpone the decision indefinitely, even as they acknowledge their need to save more, and in a timelier fashion. There is ample empirical evidence to suggest that low saving rates stem, at least in part, from the way choices are offered and presented.

For instance, participation rates in workplace pensions are heavily influenced by enrolment procedures and default choices. Under standard enrolment, employees are presented with a default contribution rate of zero and are given the option to take active measures to increase this rate, by opting in to the company plan. Under automatic enrolment, on the other hand, employees have a default contribution higher than zero and are given the option of taking active measures to change this rate, including opting out of the plan altogether. Thus procrastination leads to non-participation under standard enrolment, but participation under automatic enrolment, since employees who do nothing are enrolled automatically. As a result, participation rates are much higher under automatic enrolment.

Some would say that these higher participation rates are achieved at the cost of lowering the level of engagement required from employees and giving them less incentive to take an active role in their own saving. Others counter that attempts to raise levels of knowledge and engagement among employees rarely translate into higher saving rates. Recently, hybrid enrolment procedures that combine elements of simplification with active decision-making have begun to find favour. Under such schemes, employees are generally presented with no default but instead must actively choose whether or not to participate. Choice is facilitated by simplified enrolment procedures that reduce the costs of opting in and make procrastination more difficult. Contribution rate and investment options may either include pre-set default choices or require active choice, depending on the plan design.

It is not yet clear what the impact of such simplified active decision schemes on saving rates is likely to be, relative to that of standard and automatic enrolment. Firms differ greatly across a number of factors that may influence saving decisions – e.g., employer match rates, eligibility requirements, vesting schedules, number of investment options, employee age, income, etc. – making it difficult to generalize from the few published case studies.

In this report, we discuss the feasibility of a randomized field experiment to assess the potential impacts of two variants of an active decision scheme – one that combines simplified enrolment procedures with default contribution rate and investment options, and another that allows active choice of contribution rate. This would be the first study to experimentally isolate the true impacts of such simplified enrolment schemes from all the other potential influences on employee saving.

Recent and upcoming discussions around the introduction of new schemes such as Pooled Registered Pension Plans (PRPPs) or the Voluntary Retirement Savings Plan (VRSP) announced by the Quebec government constitute an important contextual development in light of any plan to conduct the

proposed experiment discussed in this report. The results of the proposed experiment and, in particular, any information on the use of default rate versus active contribution rates, would be extremely informative for governments and also employers and service providers who are considering offering PRPPs when they become available.

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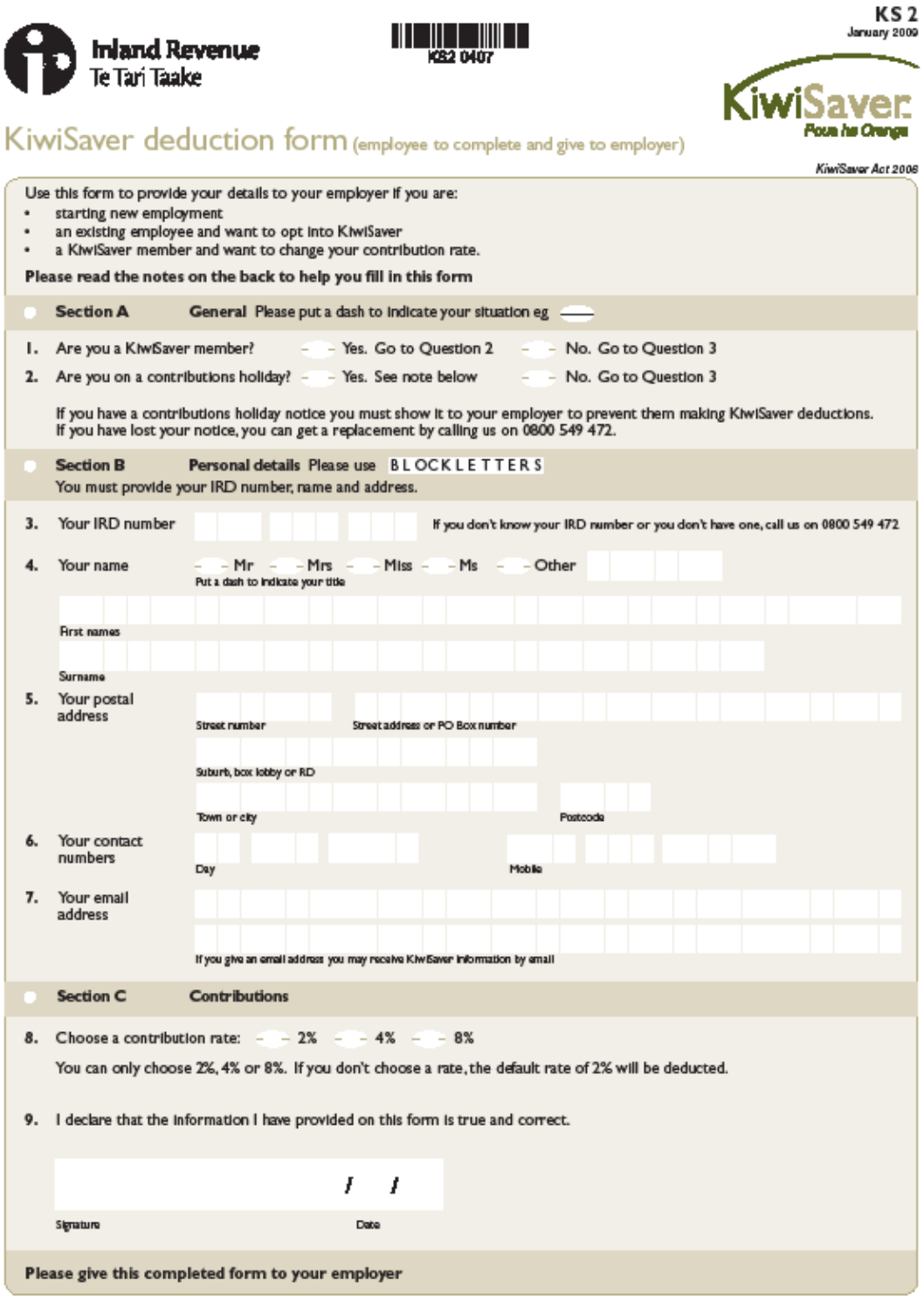
Appendix A: KiwiSaver enrolment and opt-out forms



Inland Revenue
Te Tari Taake

KS2 0407

KS 2
January 2009

KiwiSaver
Pūtea hū Ohanga

KiwiSaver Act 2006

KiwiSaver deduction form (employee to complete and give to employer)

Use this form to provide your details to your employer if you are:

- starting new employment
- an existing employee and want to opt into KiwiSaver
- a KiwiSaver member and want to change your contribution rate.

Please read the notes on the back to help you fill in this form

Section A **General** Please put a dash to indicate your situation eg —

1. Are you a KiwiSaver member? – Yes. Go to Question 2 – No. Go to Question 3
2. Are you on a contributions holiday? – Yes. See note below – No. Go to Question 3

If you have a contributions holiday notice you must show it to your employer to prevent them making KiwiSaver deductions. If you have lost your notice, you can get a replacement by calling us on 0800 549 472.

Section B **Personal details** Please use BLOCK LETTERS
You must provide your IRD number, name and address.

3. Your IRD number — If you don't know your IRD number or you don't have one, call us on 0800 549 472
4. Your name – Mr – Mrs – Miss – Ms – Other
   Put a dash to indicate your title
   First names
   Surname
5. Your postal address
   Street number
   Street address or PO Box number
   Suburb, box lobby or RD
   Town or city
   Postcode
6. Your contact numbers
   Day
   Mobile
7. Your email address
   If you give an email address you may receive KiwiSaver information by email

Section C **Contributions**

8. Choose a contribution rate: – 2% – 4% – 8%
   You can only choose 2%, 4% or 8%. If you don't choose a rate, the default rate of 2% will be deducted.
9. I declare that the information I have provided on this form is true and correct.
   Signature
   Date

Please give this completed form to your employer

Inland Revenue
Te Tari Taake

KS10 0407

KS 10
April 2007

KiwiSaver
Pour le Orange

New employee opt-out request

KiwiSaver Act 2006

Use this form to opt out if you have been automatically enrolled and you don't want to be a member of KiwiSaver. **Or go to www.kiwisaver.govt.nz to complete our online form. Please read the notes on the back to help you fill in this form.**

Section A Personal details Please use BLOCKLETTERS

1. Your IRD number — If you don't know your IRD number or you don't have one, call us on 0800 549 472
2. Your name — Mr Mrs Miss Ms Other
   Put a dash to indicate your title
   First names
   Surname
3. Your postal address
   Street number — Street address or PO Box number
   Suburb, box lobby or RD
   Town or city — Postcode
4. Your contact numbers
   Day — Mobile
5. Your email address
   If you give an email address you may receive KiwiSaver information by email
6. Bank account details
   Bank — Branch — Account number — Suffix
   Name of account holder
7. I wish to opt out of KiwiSaver
   Signature — Day — Month — Year

Section B Employment details Please use BLOCKLETTERS

8. Employer's IRD number — If you don't have your employer's IRD number ask them for it or leave it blank.
9. Employer's business name
10. Employment start date — Day — Month — Year

Give this form to your employer or send it to Inland Revenue.

Section C Late opt-out Please read the notes on the reverse

11. If your request to opt out is more than 8 weeks after you started employment, please give a reason for your late opt-out request.

If you are requesting a late opt-out send this form directly to Inland Revenue