

# The New York Times

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## How They Do It Elsewhere

By [STEVEN GREENHOUSE](#)

THE United States can boast that it has the world's best basketball players, fighter jets and country and western singers. But hardly anyone would ever boast that the United States has the world's best retirement system.

Fifty-eight percent of American workers are not even in a pension or 401(k) plan. The [Social Security](#) system faces the threat of a huge shortfall. One-third of America's retirees get at least 90 percent of their retirement income from Social Security, with annual benefits averaging a modest \$15,000 for an individual. And just ask any participant in a 401(k) plan about the scary roller-coaster ride of the last six years.

Scores of other countries have elaborate retirement systems, and some of them avoid the biggest pitfalls of America's retirement system.

In [Australia](#), there is nearly universal participation among workers in a 401(k)-type retirement plan because of a government mandate. In the [Netherlands](#), pension laws require that workers' 401(k)-like plans be converted into lifetime annuities to ensure they do not spend down all their savings before they turn 75 or 80.

In [Britain](#), the government has pressed retirement fund managers to keep administrative fees on many plans to less than half the average in the United States.

A new report ranking various countries' retirement systems gives the United States a C, considerably worse than the A received by [Denmark](#) and the B-plus given to the Netherlands and Australia. The study, by the Mercer consulting firm and the Australian Center for Financial Services, weighs adequacy of benefits, breadth of coverage and other factors, and points to numerous weaknesses in the American system.

Those shortcomings include contribution rates too low to assure adequate retirements for middle-class Americans and many workers withdrawing large sums from their 401(k)'s before they retire.

The report also cites poverty-level retirement benefits for many low-income workers and pensions that fail to keep up with inflation. It also points to the common practice of retirees withdrawing large sums from their 401(k)'s soon after retiring, leaving many without an adequate income stream if they live past 80.

Lia van Wijk, 58, the chief financial officer at a policy research center in Amsterdam, praises the Dutch retirement system, which combines a Social Security-like fund with a nearly universal pension system to which employers contribute.

"It's rather a good system," she said, noting that she had at first worried that she would not have a large enough pension because she had once spent many years traveling abroad. But now she feels reassured, having steered additional money into her pension fund.

Ms. Van Wijk likes the Dutch system of converting workers' pension reserves into an annuity upon retirement. "There are real advantages to taking an annuity," she said.

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She complained, however, that the Netherlands had increased its retirement age from 65 to 66 1/2. Fearing budget deficits and large unfunded retirement liabilities, the Netherlands has joined Britain, [Italy](#), the United States and other countries in raising its retirement age, a move that increases contributions to the system while holding down outlays.

“The Dutch realize that there can be too much leakage,” said Peter Kiveron, director of the Holland Financial Center, a research group, insisting that the United States and other countries make it too easy for people to take large amounts out of their 401(k)’s long before they retire and as soon as they retire, causing people to run out of funds well before they turn 75 or 80. “The Dutch have learned their lessons and have a very rigid system.”

Even a cursory study of retirement systems abroad makes clear that many countries are far more willing than the United States to mandate painful steps by employers and workers.

[Chile](#) requires workers to contribute 10 percent of each paycheck to a 401(k)-type fund. In Australia, employers must contribute 9 percent of each worker’s salary into a retirement fund, and that contribution is set to rise to 12 percent in 2020. Australia’s politicians, conservative and liberal, concluded that the country’s version of social security was providing retirees with too paltry a basic retirement check.

In the United States, such moves would prompt many to denounce heavy-handed grabs of workers’ pay and expensive burdens on employers. But experts say it would be wise to study other nations’ systems for tips on strengthening America’s system.

John A. Turner, director of the Pension Policy Center in Washington, said some foreign features might not fit American culture, like mandated participation in the pension system as in Australia and Chile. He does not advocate such a mandate.

“We’re quite different from many other countries,” he said. “There’s an emphasis on individual freedoms and rights and responsibilities versus collectivism — although I admit we will never have high pension coverage without some form of mandate.”

“In the United States, collective is a four-letter word,” agreed Harry Smorenberg, head of a Netherlands-based consulting firm on pensions and founder of the World Pension Summit.

The United States does have some mandates, although they are often overlooked. Employers must pay 6.2 percent of each employee’s salary into Social Security, and every employee must also contribute that amount.

A second pillar of America’s retirement system — 401(k)’s — is voluntary, although some employers have embraced automatic enrollment for their employees while giving them the right to opt out. The third pillar is individual savings, including individual retirement accounts or [I.R.A.’s](#). The Center for Retirement Research at Boston College [warned that 53 percent](#) of American households [were at risk](#) of not having enough to maintain their living standards in retirement.

Teresa Ghilarducci, a professor of economics at the New School, said America’s voluntary system was badly broken because nearly six out of 10 workers were not in pension or 401(k) plans. She favors an Australia-type mandate.

“We use our tax code far more than other countries to try to encourage socially beneficial behavior,” she said. “We’re spending hundreds of billions of dollars to incent people to save for retirement through 401(k)’s and I.R.A.’s. That costs us a huge amount of money without much effect on getting people to save for retirement.”

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Other countries' systems offer a variety of contrasts:

¶ In [France](#), the retirement age is 60, rising to 62 in 2017. In Britain, it is 67, with some calling that callously high. (Americans born from 1943 to 1959 qualify for full retirement benefits at age 66, and those born in 1960 or later qualify at 67, although people can begin receiving reduced retirement benefits at age 62.)

¶ In Chile, when women give birth, the government makes a special bonus contribution into their 401(k)-type plan to compensate for the months away from their job when they would not be contributing to those plans.

¶ In [Sweden](#), if the nation's overall social security financing worsens from one year to the next, that country's fiscal guardians — to prevent huge, unfunded liabilities — set a slightly lower annual retirement benefit for all who reach retirement age that year (remaining unchanged until they die). And if Sweden's social security finances improve the following year, there is a recalculation, and those who reach retirement age the next year will receive slightly higher benefits throughout retirement.

¶ In Britain, when young workers first sign up for a 401(k)-type plan, the default option in the government's main new savings plan has them investing mainly in bonds — while in the United States young workers are advised to invest mainly in stocks.

"In the U.K., they say first-time savers are very sensitive to losing money early on, so they put them in bond funds so they'll have positive returns," said David C. John, an economist at the AARP's Public Policy Institute. "As time goes on, they'll be moved more into equities."

¶ In the Netherlands, if a company is deemed unable to finance its long-term pension obligations, the central bank can order reduced benefits for current and future retirees to help keep the company afloat. United States law bars companies from reducing pension benefits they have contractually agreed to.

"We took drastic action to get these plans back into a safety zone," Mr. Smorenberg, the Dutch pension consultant, said.

¶ [Singapore](#) requires employees to contribute 20 percent of their pay and employers 16 percent toward a savings fund for retirement, health care and housing. The government guarantees a 2.5 annual return. Despite the high percentage contributed, many Singaporeans end up without enough money for retirement because they withdraw large sums to buy houses.

Despite such disparate strategies, many countries have similar worries. "Every country is worried about workers saving enough and about increasing longevity," Professor Ghilarducci said. "Every country is worried about investing retirement funds correctly, and every country wants to minimize risks to the taxpayer so there aren't large, unknown bills in the future."

In 1986, when Australia's social security program provided average retirement benefits of just one-third of preretirement pay, Parliament, pushed by labor unions, began requiring employers to contribute 3 percent of employee earnings into a 401(k)-like fund. When that still left many Australians near poverty in retirement, legislators increased the contribution to 9 percent.

Alan Matheson, 75, a retired social worker and minister who lives near Melbourne, said the Australian system had been good to him and his wife, Barbara, 69, a retired nurse. Both receive social security benefits while drawing from their retirement savings. "The system works well if you own a house," he said. "But if you don't own your own house or if you're single, things will be more difficult for you."

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He said Australians backed the plan to raise retirement contributions to 9 percent and then 12 percent because “there’s a widespread acceptance by the population that with the aging of the population, the government is not going to be able to pay its Age Pension,” the Australian name for the social security system.

Australian workers have several investment options, including investment funds set up by companies and unions, and “retail” funds, much like [mutual funds](#). Experts estimated that an Australian worker who contributes for 30 years into such a fund will have retirement income equal to 70 percent of preretirement pay — the percentage that many experts recommend.

“Before compulsion we found that most people didn’t save enough for retirement,” said Ian Silk, chief executive of AustralianSuper, a multi-employer pension fund. He called the mandate “the single most important feature of the Australian system.”

Dana M. Muir, a pension expert at the University of Michigan, opposes a compulsory plan like Australia’s, but she said the United States should borrow one aspect of the Australian system: no legal liability if a company makes imprudent decisions in setting up a 401(k)-type plan. The risk of legal liability, Professor Muir said, is a big reason many American businesses decide not to set up 401(k) plans — and a major reason the American participation rate is so low.

Although Australia’s plan is praised, experts say it has one major flaw. It does not provide an annuity option for most retirees, meaning many run the risk of emptying out their retirement fund long before they die.

In 2007, [New Zealand](#) created the world’s first nationwide, government-sponsored savings plan that automatically enrolls workers, while giving them the option not to participate.

The “KiwiSaver” plan — built alongside the basic social security-type system — gives employees the option of contributing 3, 4 or 8 percent of their pay, with employers required to contribute 3 percent. Workers choose which investment funds to put KiwiSaver money in, and those who do not choose are steered into six conservatively invested funds.

To encourage participation, the government provides a \$1,000 tax-free “kick-start” contribution for each new participant upon enrollment, as well as a housing down payment of up to \$5,000 after someone has participated in the program for three years.

The government determines investment offerings, but there are not dozens, as in the United States. “If you look at the U.S. experience,” said Mr. John of the AARP, “having tons of investment alternatives drives some people away from participating.”

Chile reformed its retirement system during the dictatorship of Gen. Augusto Pinochet. In 1981, he largely replaced the country’s traditional social security-type plan with a 401(k)-type plan for everyone who entered the work force from that year onward.

Under the plan, 10 percent of each employee’s salary was automatically deposited into a 401(k)-type retirement fund, with workers having a choice of investment options. Today more than 90 percent of Chilean workers are in the system, which resembles, but goes further than, the partial Social Security privatization that President George W. Bush pushed unsuccessfully.

Patricio Navia, a professor of political science at the Diego Portales University in Chile, said the system was effective in getting most Chileans to save significant amounts for retirement. But he said there were shortcomings. The number of major investment funds has shrunk to six, from 15, leaving limited competition that has resulted in high fees.

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And those unemployed for long stretches or working in the informal economy often did not save enough for retirement, causing the government to adopt a supplementary system in 2008 to top up the retirement funds of low-income retirees.

Another problem: As many Chileans paid into their new 401(k)-type plans instead of social security, that strained the financing of the pay-as-you-go social security plan. “For the U.S., making such a transition would be extremely costly,” Professor Navia said. “You can’t meet all your obligations in the pay-as-you-go system without receiving the money from people who are still working.”

In Britain, the government long had a voluntary savings program to supplement its main social security system. But officials grew alarmed that just a third of Britain’s workers were participating, so it enacted a 401(k)-type program that all employers must participate in unless they already have pension plans.

Under the program, employers must enroll all their employees in a retirement plan, although workers can opt out. The employer contributes 3 percent of each worker’s pay, the worker contributes 4 percent and the government 1 percent. The goal is to raise the worker participation rate to at least 70 percent.

“So far the opt-out rate is low — that’s very encouraging,” said Jane Vass, director of public policy at Age UK, Britain’s version of the AARP.

Many participants are not even choosing from the array of investment options. “The research shows that many employees didn’t want a large amount of choice because that makes decisions more difficult,” Ms. Vass said. “So the vast bulk of people go for the default scheme,” often a target date fund.

Senator Tom Harkin, an Iowa Democrat, has proposed creating a mandatory retirement savings plan much like Britain’s, with modest contributions by employers and employees. But in a country with a distaste for government mandates, his proposal could face rough going.

Mr. John of AARP said the United States could borrow only so much from other countries’ ideas. “Each country’s retirement system reflects their culture, their identity and their history,” he said. “It would be a mistake to assume that because something works in country ‘X’ it will work in the United States.”