All eyes Down Under: Lessons from Australia's pension model

Chloe Whelan takes a look at the Australian pension system and explores the practical steps for the UK potentially implementing a similar model

Summary
• The UK is considering adopting a 'pot for life' pension model to allow savers to keep a single pension pot throughout their careers, inspired by Australia's superannuation system.
• Experts acknowledge the benefits of the pot for life model for personal pension ownership and informed decision-making.
• However, the change would require significant infrastructure, regulatory and educational changes.
• Australian superannuation funds are increasingly investing in the UK, facilitated by the UK-Australia trade agreement and the scale of Australia's pension industry.

Following the government's proposal of a 'pot for life' or 'lifetime provider' pension model, the pension industry's gaze has turned to Australia, considering how the UK might adapt its own system to reflect Australian practices.

Then Chancellor, Jeremy Hunt, confirmed in his 2024 Spring Budget that the government would "at the earliest opportunity ... continue to explore how savers could be allowed to take their pension pots with them when they change jobs".

The government's interest aligns with significant public approval. Over half

(54 per cent) of Brits view the pot for life proposals as a positive change, while just 15 per cent view it negatively, according to Barnett Waddingham.

However, the feasibility and desirability of implementing a pot for life model in the UK remains contentious. To gauge industry sentiment, *Pensions Age* spoke with several experts – by and large, they say the concept had merit but acknowledged it would be no easy feat.

The Australian pension system, explained

Australia's pension system, refined over more than 30 years, offers valuable insights for the UK's defined contribution (DC) framework.

At the heart of Australia's model is the superannuation guarantee, whereby employers must contribute a percentage of an employee's earnings into a superannuation fund. In this way, the system resembles UK auto-enrolment (AE) – although the concept arrived in the UK a full two decades later.

However, unlike the UK system, Australian employees have the freedom to choose their superannuation provider and can switch providers if they wish. The model heavily emphasises pension consolidation; while Australians can have multiple superannuation pots, they are encouraged to consolidate with a single provider for easier management and lower fees. Consolidation is managed by the Australian Taxation Office (ATO), lessening the administrative burden on individuals, who simply have to fill out a form online.

"What's really driven Australia's success over 30 years is the existence of large, sector-wide super funds"

This pot for life model, also known as the lifetime provider model, allows individuals to keep a single retirement savings account throughout their careers. The Lang Cat director of public affairs, Tom McPhail, says it contrasts favourably with the 'pot follows member' approach, whereby an individual's pension savings are transferred to their new employer's scheme with each job change.

"Pot for life gives the individual ownership of their pension pot. It becomes my personal pension pot that I take with me every time I move, giving me greater agency over my retirement savings," McPhail says.

"It also allows individuals to develop long-term relationships with their pot and their provider, which I believe results in people making better-informed decisions about their savings."

Crucially, Australians cannot opt out of superannuation. The system is mandatory for almost all working adults, including full-time and part-time workers and temporary residents, all of whom are entitled to super contributions from their employers.

Why the UK is looking to Australia

The UK pension industry is increasingly turning to Australia for inspiration, due in large part to the pot for life model.

McPhail describes the UK's interest in pot for life as a symptom of AE, which has led to an explosion of small pension pots. The UK is home to over 12 million pension pots worth less than £1,000 which are no longer being paid into, according to the Department for Work and Pensions.

These pots are difficult for savers, in that they're easier to lose and can rack up considerable fees. They're also difficult for the industry, which is tasked with managing low-profit pots with a projected administration cost of around a third of a billion pounds per annum by 2030.

"AE has become a victim of its own success. We saw this problem ahead of us 10 years ago and failed to do anything about it," McPhail says.

"Firstly, we need mass consolidation to remove those small pots from the market. Then we need a lifetime provider model to stop them from continuing to spawn."

People's Partnership chief commercial officer, David Meliveo, notes that a lifetime provider model could result in consolidation at both the pot and scheme level, complementing the regulatory push for fewer, bigger pension schemes.

He says: "There is a clear drive from the government for consolidation. Fewer providers mean better value for money and better infrastructure, and it's easier for regulators to manage."

IFM director of public affairs, Gregg McClymont, agrees, adding that "bigger is better" when it comes to pension investing.

"Economies of scale allow pension providers to invest in a range of asset classes to achieve risk diversification and more stable returns," he says.

"It helps providers avoid putting all their eggs in one basket, which increases savers' returns in the long term."

Implementing the Australian model in the UK

While adopting Australia's pot for life model may be a compelling goal, it would require a broader overhaul of the UK's pension ecosystem. As McClymont puts it: "Get first to a system of a smaller number of big funds with effective default arrangements for savers. Then you can consider innovations like a single pot for life."

Understanding the full Australian context is crucial. The country's pension successes did not stem from a single innovation but rather from a series of systemic changes beginning in 1992, when the superannuation guarantee was introduced. The pot for life model wasn't introduced until 2021 and is thus a much more recent piece of the puzzle.

"What's really driven Australia's success over 30 years is the existence of large, sector-wide super funds that channel their profits back to savers rather than company shareholders," McClymont says.

"Those mega-funds provide scale and value for money, meaning the default retirement option for Australian savers has substantial diversification across unlisted asset classes."

Standard Life retirement savings director, Michael Ambery, highlights other critical factors in Australia's success: Pension adequacy and comparability between providers.

Australian employers must pay a super contribution of at least 11.5 per cent, compared to the 3 per cent required

Australian pension companies investing in the UK

While the UK looks to Australia for inspiration in pension reform, Australian superannuation funds are increasingly eyeing the UK for investment opportunities.

In March, Australia's largest superannuation fund AustralianSuper announced plans to invest £8 billion in the UK, bringing its total investment in the country to over £18 billion by the end of the decade.

Similarly, Aware Super has committed A$10 billion (£5.27 billion) to investments in the UK and Europe. The fund, which opened its first international office in London last year, has already invested A$17 billion (£8.96 billion) in the region. This included Aware Super's entry into the UK residential property market, with a 22 per cent stake in Get Living, a leading UK developer and operator of build-to-rent neighbourhoods.

The increased interest from Australian funds in UK assets has been attributed in part to the UK-Australia trade agreement, which came into effect in May last year and helps improve access to UK markets for Australian investors.

But several industry experts say the interest was also a result of Australia's booming pension industry. Australia's superannuation assets were worth A$3.9 trillion (£2.05 trillion) at the end of the March 2024, compared to the approximate £741 billion held in UK private DC and public defined benefit and hybrid (DBH) schemes – a particularly impressive feat considering Australia's much smaller population.

McClymont says: "Australia's superannuation system is growing so fast that domestic markets simply aren't big enough to absorb the levels of investment that are needed. It's a natural development to see these funds investing more offshore."

Ambery agrees, adding that the UK was a natural investment choice given the close ties between the two countries.

"Our shared history, language and cultures means Australian companies can consider investment in the UK almost immediately and those investment conversations can accelerate very quickly," he says.

by UK AE. Additionally, Australian providers' fees and investment track records can be compared via just a few clicks on a government website.

Ambery says: "First, we need to look at pension adequacy to close the retirement savings gap.

"Then, we need to develop value for money metrics so that the average person has a fair shot at understanding which provider suits their needs."

The practical steps

Practically speaking, the transition to a lifetime provider model also requires significant adjustments to the UK's pension infrastructure, regulation and consumer education.

Payments infrastructure

A critical component would be the establishment of a robust payments infrastructure to simplify the process for both employers and pension funds. This would help streamline pension transfers between funds, as well as contributions from employers and their employees' many varied providers.

McPhail suggests practical steps, such as modifying payroll processes or introducing a clearinghouse system.

He says: "Employers currently make a single payment to one provider for all employees. A lifetime provider model would require employers to manage multiple payments and data files, unless a clearinghouse or enhanced payroll system were implemented to handle those complexities."

Regulation

When a saver only has one pension fund, the performance of that fund becomes all the more critical. As such, UK pension regulators would also need to be empowered to act more aggressively to secure the best outcomes for members.

In Australia, for instance, regulators are empowered to forcibly close underperforming schemes to new business, as well as to write to their customers to inform them of the scheme's poor performance.

"That more aggressive role helps prompt greater levels of engagement from savers," Ambery says.

"Poor performance is flagged and it's a very clear sign that savers can get a better deal, which may influence them to move their retirement savings."

Consumer education

Finally, as the pot for life model centres around saver choice, members must be empowered to make educated decisions about their retirement savings.

Meliveo emphasises: "Consumers need to understand the difference between providers and what value for money means. Small differences in charges can significantly affect retirement outcomes, but many consumers are unaware of those details."

While efforts must be made to educate consumers about their savings, Meliveo also attributes Australia's pension success to the compulsory nature of its superannuation system.

"As soon as things start to become more difficult for individuals, you run the risk that they become apathetic and opt out," he says.

"A crucial part of Australia's system is that there is no opt-out option."

In an ideal world, this compulsory nature promotes higher levels of engagement among savers. However, as outlined above, even the least engaged savers must be guaranteed a higher level of pension performance.

Evidently, the complexities of implementing a pot for life system are significant, and as Meliveo notes, UK pension policy is notoriously slow to change. "This is a process that may take years," he says. "In Australia, it took decades."

However, the UK has a blueprint to follow.

"I'm not dismissing the disruption and complexity caused by introducing this change into an existing system, but we also know from Australia's experience that it is doable," McPhail says.

"It's just a question of getting over those hurdles for the benefit of savers."

Written by Chloe Whelan, a freelance journalist