An Roinn Coimirce Sóisialaí
Department of Social Protection

Automatic Enrolment (‘AE’) Retirement Savings System

Presentation to the Irish Institute of Pensions Management (IIPM)

23rd June 2022

Current Position

- 29th March 2022 - **Cabinet approval** received for the final design of the automatic enrolment ('AE') retirement savings system
- **Explanatory paper**: '*The Design Principles of Ireland's Automatic Enrolment Retirement Savings System*' published on www.gov.ie
- New system to be ready by end 2023, with enrolments from **early 2024**
- **Current focus:** legislation, payroll and data, tendering for business consultancy, administration services and investment services.

Why are we introducing Auto-enrolment (AE)?

- Supplementary pension coverage in Ireland is **relatively low** (35% of private sector workers), so future retirees are exposed to risk of significant **reductions in standards of living**
- The **State Pension** (Pillar 1) will remain the bedrock of the pension system, but better supplementary pension coverage (Pillars 2 and 3) is required
- Ireland is the **only country in the OECD** without a mandatory or quasi-mandatory occupational pension system
- Key goal: a move from a voluntary opt-in model to a quasi-mandatory **opt-out model**.

Who will be Auto-enrolled?

- Those to be **automatically** enrolled are an estimated **750,000+ workers** who are:

  - Employees
  - Aged between 23-60 years
  - Earning €20,000 gross per annum across all employments
  - Who are without a current **occupational** pension

- **Voluntary opt-in** possible for employees outside age and income thresholds

- Those currently **excluded**:

  - Self-employed
  - Non-earning
  - Those currently paying into an *acceptable* occupational pension scheme

What contributions will be paid?

- AE will be implemented on a **phased basis** over a decade
- Starting 2024, employees will initially contribute **1.5%** of their gross earnings
- Employers will be required to **match** the employee contribution
- Contribution rates will rise by 1.5 percentage points **every three years** until maximum rate of **6%** reached in **Year 10**
- The **State** will provide a **top-up** financial incentive at a rate of €1 for every €3 paid by employee
- State and employer contributions **capped** up to income threshold of €80,000
- Total contribution rate - mature AE system - from Year 10 onwards = **14% of gross salary** (i.e. 6% employee + 6% employer + 2% State incentive)

Tax Treatment at Various Stages

- No tax relief for employees on contributions – State top-up being provided instead – considered **analogous to tax relief at 25%**
- No tax applied to **fund growth** as per existing arrangements
- **Employer tax relief** on contributions will work as per traditional occupational pensions
- Tax to be applied to **lump sums and drawdowns** as per existing arrangements
- Therefore, no *real* change from the **EET** approach currently applied

Rationale for Approach to Financial Incentives

- Current incentive for pension contributions is though **Tax Relief System,** which is:

  a. Not well understood

  b. Vulnerable to criticism of inequity if applied to AE

  c. Vulnerable to criticism of unfairness if tax relief changed

- Therefore, conclusion reached that a **dual financial incentive** is necessary i.e. tax relief for existing/traditional pension arrangements in parallel with a State top-up for AE

- The two systems are <u>not</u> expected to interact or overlap in the short to medium term

Where will contributions go?

- A new **Central Processing Authority (CPA)** will be established
- **Custodianship** responsibility
- **Register** each participant - **collect** pension contributions - **allocate** State top-up - **pools and distributes** to '**Registered Providers**' - pools and distributes **returns** to participants
- Operate an **online portal**
- Essential to **pot-follows-member** unique feature
- **Charges to be capped** at a maximum of 0.5% of assets under management

How will investment work?

- The Registered Providers will offer investment products in compliance with CPA standards

- **‘Blind accounts’** approach

- Four fund types currently envisaged:
    - **Default Fund** (composite, medium risk, lifestyle/lifecycle basis)
    - Conservative risk
    - Moderate risk
    - Higher risk

- **Drawdown** aligned with State Pension age

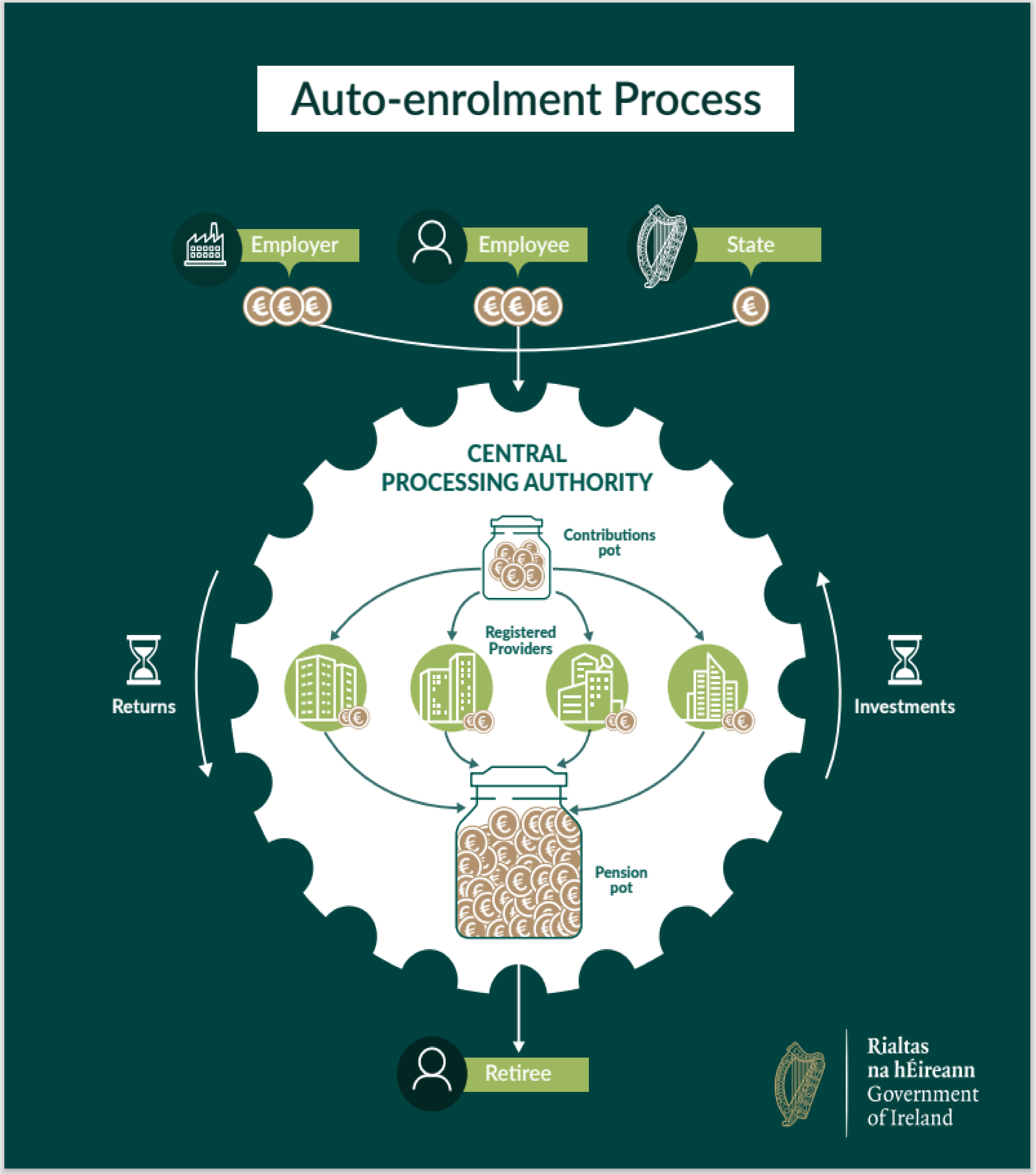
‘Quasi-mandatory’

- Three opt-out/suspension options will be provided for:

    - Option 1: **Six months after enrolment** (within months 7-8)
    - Option 2: **Six months after a contribution rate change** (within months 7-8)
    - Option 3: a contributor may suspend participation **once** at any other time

- These options are followed by further **automatic re-enrolment after two years**

- **Inertia** as a feature of pensions landscape (95% retention rate?)


Auto-enrolment Process
Employer
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State
CENTRAL
PROCESSING AUTHORITY
Contributions pot
Registered Providers
Pension pot
Returns
Investments
Retiree
Rialtas na hÉireann
Government of Ireland

Thank You
Discussion?