An Roinn Gnóthaí Fostaíochta
agus Coimirce Sóisialaí
Department of Employment Affairs
and Social Protection

Design of an Automatic Enrolment Retirement Savings System

Update and next steps

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Introduction

In February 2018 the Government published its 'Roadmap for Pension Reform 2018 – 2023'[1]. The key goals of the Roadmap are to 'create a fairer and simpler contributory pension system where a person's pension outcome reflects their social insurance contributions, and in parallel, create a new and necessary culture of personal retirement saving in Ireland, whilst keeping the State Pension as the bedrock of the Irish pension system.'

The Roadmap includes a commitment to develop and implement a State sponsored 'Automatic Enrolment' (AE) supplementary retirement savings system by 2022. Under AE, employees without personal retirement savings and who meet certain age and earnings criteria will be automatically enrolled into a State sponsored quality assured supplementary retirement savings system, with freedom of choice to opt-out.

The reforms being introduced will, therefore, address the barriers that prevent people saving and make it easier for them to access savings options to help meet their own income expectations for when they retire. The policy objective of the AE system, then, is to encourage long term saving amongst those who may otherwise suffer an unwanted and significant reduction in living standards at retirement.

In August 2018 the Government of Ireland published a 'Strawman Proposal for an Automatic Enrolment Retirement Savings System'. This set out a detailed draft of a design to deliver Automatic Enrolment in Ireland and was based on extensive domestic research and analysis of systems internationally. The Strawman proposal formed the basis of a national consultation process, which concluded in March 2019.

Taking into account the findings from the consultation process and additional analysis conducted by the Automatic Enrolment Programme Management Office, this document sets out an update on the progress made in designing the AE system, including confirmation of a significant proportion of the system's key design features and the approach to finalising those design features that remain to be decided on.

[1] Available on the Department of Employment Affairs and Social Protection's website at the following link: https://www.welfare.ie/en/pressoffice/pdf/PensionsRoadmap.pdf

Automatic Enrolment design features – confirmed

Prior to the publication of the Strawman the Government had confirmed as policy that:

- Implementation of AE retirement savings system will begin by 2022;
- AE will supplement the State pension and will complement existing private pension provision;
- AE will be an earnings related workplace savings system where employees will retain the freedom to opt-out if they so choose;
- AE will entail a Defined Contribution model with personal accounts;
- Members will have the option to choose from a specified range of retirement savings products;
- Employees, employers and the State will each make a contribution to the member's account.

The focus of the consultation process was then framed around the principal design features of the AE system, in terms of the key factors that determine enrolment (age and earnings criteria), contributions (rates and opt-outs), the administrative and operational processes, the appropriate investment strategy and the arrangements which should be made in respect to savings draw-down in retirement.

Elements of the design of Automatic Enrolment confirmed in principle

Taking into account the underlying key policy decisions, the feedback from the consultation process and findings from additional research, the following elements of the AE design have been settled on in principle by Government. In this regard, it should be noted that these elements may be subject to some change as work progresses in finalising the approach to other areas of design, the phasing of implementation and the development of the necessary legislation.

Target membership

- Current and new employees aged between 23 and 60 years of age and earning €20,000 or above per annum (across all employments) will be automatically enrolled.
- Those earning below €20,000 per annum (across all employments) and those employees aged under 23 and over 60 will be able to 'opt-in' to the system.
- There will be no employee waiting period before enrolment.
- Employees who are existing members of a pension scheme/contract which meets prescribed minimum standards and contribution levels will not be automatically enrolled for the employment to which that pension relates.

Contributions

- During the phased roll-out of AE, employees will be required to make initial minimum default contributions of 1.5% of qualifying earnings, increasing by 1.5 percentage points every 3 years thereafter to a maximum contribution of 6% at the beginning of year 10.
- Employers will be required to make a matching (tax deductible) contribution on behalf of the employee at the specified contribution rate.

- Employer contributions will be limited to a qualifying earnings threshold of €75,000 – which will be reviewed over time.

Policy for opt-out and re-enrolment

- Contributions during the first six months of membership will be compulsory.
- Member opt-out of the system will be facilitated in a two month 'opt-out window' (between the start of the 7th and the end of the 8th month).
- Members who opt-out during this opt-out window will receive a refund of personal contributions paid up to the point of opt-out.
- Additional opt-out windows will be available six months after each increase in the contribution rates.
- Thereafter, a limited number of 'Savings Suspension periods' will be facilitated for members who wish to temporarily cease making contributions. Employer and State contributions will also cease in this scenario.
- Members who opt-out will be automatically re-enrolled after three years but will have the ability to opt-out again under the same circumstances outlined above.
- Early access to accumulated retirement savings may be provided on the grounds of ill health and enforced workplace retirement.

Administrative arrangements and organisational approach

- A Central Processing Authority (CPA) will be established by the State and will be responsible for sourcing, on a competitive basis via an open tender, a limited number of Registered Providers to provide a defined suite of retirement savings options.
- The CPA will establish minimum standards for service delivery and product features required of all providers, e.g., the number of investment fund options for members, service response times, etc.
- Employees will be automatically enrolled with the Central Processing Authority by their employer on commencement of employment.
- Employees (rather than employers) will be responsible for selecting a provider and a savings fund option. In the absence of any savings decision, the enrolled employee will be automatically allocated to the default fund of one of the Registered Providers on a carousel basis.
- The initial contract period for service delivery by AE Register Providers will operate for a period of ten years.
- The CPA will seek to set annual administrative, management and investment charges of no more than 0.5% of assets under management. This charges cap will apply to all providers.
- Member account portability between employments will be facilitated by a 'pot-follows-member' approach.

Investment options

- Each Registered Provider will be obliged to offer a similar range of 'standard choice' savings fund options including a default fund for those who elect not to exercise choice.
- These funds will operate on a Defined Contribution basis.
- These products may incorporate a 'lifestyle' or 'target date fund' investment approach and will be defined by reference to risk profile.

- Members will be entitled to transfer funds accumulated in the automatic enrolment system (contributions plus investment returns minus investment and management fees) between the savings products.

Automatic Enrolment design features still under consideration

There are five main areas where work is continuing in order to produce design options for Government to consider. These areas are related to the design of:

1. the scope and role of the Central Processing Authority (CPA);
2. the nature and functions of the Registered Providers;
3. the investment framework and funds to be offered by Registered Providers (including, importantly, the design of the default fund);
4. the decumulation or pay-out phase; and
5. the State financial incentive.

In relation to the first our areas listed above, namely, the CPA, the Registered Providers, the wider investment framework for AE and the pay-out phase, the Department of Employment Affairs and Social Protection is receiving technical support from the EU-Structural Reform Support Service (EU-SRSS). While the project's work programme provides for the various strands to progress in parallel, priority is currently being afforded to the operational arrangements of the CPA. In this regard, proposals for the design of the CPA will be prepared for Government before the end of the year. Proposals on the design of the nature of Registered Providers, the investment framework and the pay-out phase will be submitted to Government for consideration in Q1, 2020.

With respect to a State financial incentive, the Strawman proposal gave the illustrative example that the State could contribute €1 for every €3 contributed by the individual to their pension fund. However, the level of the State incentive and its interaction with the existing marginal rate of tax relief scheme for occupational pensions was one of the issues that generated much debate in the consultation process.

Although the proposed matching contribution approach, as set out in the Strawman document, was supported by a number of contributors to the consultation process on the basis of being equitable, with the incentive the same for all income levels, and easier to understand, concerns were raised by other stakeholders as to how such an approach might operate alongside the existing marginal tax relief scheme for private supplementary pension contributions.

While the issue of State incentives within wider supplementary pensions is under the remit of the Department of Finance, it formed part of the Interdepartmental Pensions Reform and Taxation Groups (IDPRTG) Consultation on Supplementary Pensions Reform, whose work on this issue was recently completed. On the basis of the findings from this review and the responses to the Strawman consultation, further work is being undertaken examining the design of the State financial incentive for the AE system and a set of options on how to proceed will be brought to Government in Q1, 2020.

Phasing of Implementation

The Roadmap for Pension Reform commitment is to commence the implementation of an automatic enrolment retirement savings system in 2022. While the full implementation of an AE system[2] to give effect to this commitment was widely recognised in the public consultation process, and in the Department's consultation with international experts, as extremely ambitious, it is believed that a phased introduction, similar to the approach taken in other countries is achievable.

For example, in the UK the approach adopted was to commence AE with larger companies being enrolled first, followed by smaller companies some years later. Implementation could also be phased based on employee characteristics, for example starting AE for employees only, and extending to the self-employed and those outside of the labour force in later years. Another option is to limit the number of investment options to a basic or default fund in the early years but expand the funds available over a number of years. Similarly transfers from private pension provision into AE and vice versa could be restricted for a number of years thus simplifying administration during the start-up period.

All of these options are currently being considered and a proposal will be finalised for consideration by Government in advance of bringing the necessary legislation forward for publication.

[2] This can be understood in the context of the length of time that will be required to draft and enact complex legislation, conduct the required tender processes, establish the needed organisational structures, develop the necessary IT infrastructure and data interchanges, and get the employer market to adopt the necessary process and payroll changes to facilitate the system.