Rialtas na hÉireann
Government of Ireland

Summary of progress in the design of an Automatic Enrolment Retirement Savings System for Ireland and next steps

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INTRODUCTION

In February 2018 the Government published its 'Roadmap for Pension Reform 2018 – 2023'. The Roadmap includes a commitment to develop and implement an 'Automatic Enrolment' retirement savings system by 2022, whilst keeping the State Pension as the bedrock of the Irish pension system.[1]

The Central Statistics Office's most recent figures in relation to Q3 2018 show that only 47% of the working population is making contributions to an occupational or personal pension. If measures are not taken to address this low rate of supplementary pension coverage, many future retirees will experience unwanted reductions in living standards when they reach retirement.

Automatic Enrolment (AE) is a system where employees who do not have a private pension are automatically enrolled into a retirement savings scheme. They can leave the scheme or 'opt-out' under certain conditions if they wish to do so.

In August 2018, the Minister for Employment Affairs and Social Protection, Regina Doherty T.D., published a Strawman proposal outlining how the AE system could be designed. The Strawman proposal formed the basis of a national consultation process, which concluded in March 2019.[2]

Drawing on the findings from the consultation process and additional research and analysis, the Government can now confirm a significant proportion of the AE system's key design features. The main elements are described below – further detail is available on the Department's website. There are also a number of design features that remain to be decided on and the approach to finalising these features is also described in this booklet.

1 Available at the following link:
https://www.welfare.ie/en/pressoffice/pdf/PensionsRoadmap.pdf

2 Available at the following link:
https://www.welfare.ie/en/downloads/Automatic_Enrolment_Strawman_Proposal.pdf

ELEMENTS OF THE DESIGN OF AUTOMATIC ENROLMENT CONFIRMED IN PRINCIPLE

Who will be automatically enrolled?

- Employees aged between 23 and 60, who earn more than €20,000 a year (across all employments) and are not already contributing to a workplace pension, will be automatically enrolled. Employees outside these age and earnings criteria will be able to 'opt-in' to the system.

What will the contribution rates be?

- Employees who are members of the AE system will initially contribute a minimum of 1.5% of gross earnings – that is, earnings before tax and PRSI deductions – for the first three years. The contribution rate will increase by 1.5 percentage points every three years, to a maximum contribution rate 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. The employer contributions will be limited to a qualifying earnings threshold of €75,000, which will be reviewed over time.

Can employees opt-out?

- Employees will pay contributions during the first six months of membership on a compulsory basis. Employees will be free to opt out of the system during months seven and eight of membership. Employees 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.

- 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.

How will the AE system be run?

- The State will establish a new Central Processing Authority (CPA). This body will be responsible for contracting a limited number of 'Registered Providers' to offer a defined range of retirement savings products. The CPA will establish minimum standards for service delivery and product features required of all providers.

- 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.

- The initial contract period for service delivery by AE Register Providers will operate for a period of ten years.

How will automatic enrolment operate?

- Employees will be automatically enrolled with the CPA by their employer when they start their job.

- Employees (rather than employers) will be free to choose from a range of retirement savings fund options from Registered Providers. If an employee does not pick a Registered Provider or fund they want their savings to go to, the system will allocate their contributions to one of the funds provided by a Registered Provider on their behalf.

- The system will operate on a 'pot-follows-member' approach: each member will be able to take their account or 'retirement pot' with them when they move jobs.

What types of investment funds will be provided?

- Each Registered Provider will be required to offer three 'standard choice' savings fund options, with an appropriate risk profile. Each of these options may incorporate changing investment approaches over the course of the savings phase. They may reduce any investment risk the member is taking in the years closer to retirement.

- The Registered Providers will provide fund options on a defined contribution basis, where each member has their own individual retirement savings account. The ultimate value of the savings at retirement will depend on:

  - how much money the employee has paid into the system, alongside contributions from the employer and the State; and

  - the investment return achieved, less any fees and charges.

- Members will be entitled to transfer their funds between the savings products offered in the AE system.

While these key features outlined above are settled in principle, they may be subject to some change as work progresses in finalising the design features still under consideration, and the development of the necessary legislation.

AUTOMATIC ENROLMENT DESIGN FEATURES STILL UNDER CONSIDERATION

There are four 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 Central Processing Authority (and linked to this, the functions to be undertaken by the Registered Providers);

2. the investment framework and funds to be offered by Registered Providers (including, importantly, the design of the default fund);

3. the pay-out phase; and

4. the State financial incentive.

The Department of Employment Affairs and Social Protection was successful in obtaining technical support from the EU-Structural Reform Support Service (EU-SRSS). Work on the operational arrangements of the CPA is currently being prioritised so that proposals for the design of the CPA will be prepared for Government before the end of the year. Proposals on the design of the investment framework and the pay-out phase will be submitted to Government for consideration in Q1, 2020.

In relation 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 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. On the basis of the findings from this review and the responses to the Strawman consultation, further work is being undertaken to examine the design of the State financial incentive for the AE system. A set of options on how to proceed on this issue 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 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. Alternatively, 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.

Figure 1: Indicative timeline