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agus Coimirce Sóisialaí
Department of Employment Affairs
and Social Protection

Overview of findings from the Strawman Public Consultation Process for an Automatic Enrolment Retirement Savings System for Ireland

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Introduction

Under Strand 2 of the Roadmap for Pension Reform, 'Building Retirement Readiness', the Government confirmed its intention to develop, and begin implementation of, a State sponsored supplementary retirements savings system in which employees without personal retirement savings will be automatically enrolled. This approach is designed to address the low coverage rate in the current and purely voluntary supplementary pension system, particularly amongst those on lower incomes. Under this reform employees will be automatically enrolled into a quality assured retirement savings system, with freedom of choice to opt-out. The policy objective of automatic enrolment is therefore to encourage long term saving amongst those who may otherwise suffer an unwanted and significant reduction in living standards at retirement.

This document summarises the main themes emerging in a consultation process that took place between August 2019 and March 2019 on a proposed approach to an Automatic Enrolment retirement savings system. The main findings that emerged from the consultation process are outlined under the headings that were set out in the Automatic Enrolment Strawman proposal as follows:

1. Administrative Arrangements and Organisational Approach;
2. Target Membership;
3. Employer and Employee Contribution Rates;
4. Financial Incentives Provided by the State;
5. Investment Options;
6. Policy for Opt-out and Re-enrolment;
7. Arrangements for Benefits and the Pay-out Phase.

Overview of the consultation process

On 22nd August 2018 a 'Strawman' proposal for an Automatic Enrolment retirement savings system was published. The 'Strawman' proposal contained a possible approach to an Automatic Enrolment (AE) system and provided the basis for a wide ranging national public consultation process on the operational structure and design of the system. The closing date for written submissions was 4th November 2018 and a total of 107 written submissions were received from a diverse range of stakeholders including employer and employee representatives, industry bodies, advocacy groups and interested individuals.

In addition to the written submissions, a series of regional public consultation seminars was held, chaired by the Minister of Employment Affairs and Social Protection, Regina Doherty TD. The seminars took place in October 2018, with two sessions held in Dublin, and one each in Galway and Cork. The total number of people who attended was over 170. Participants at these seminars were also invited to take part in an on-line survey on the structure and design of the system. In total 71 responses to the on-line survey were received.

The consultation process concluded with a series of focus groups, which were held in March 2019. The focus groups were held so as to obtain the views of those likely to be included in the AE target population, but who would be unlikely to respond to a call for submissions on the Strawman proposals. In total 48 people participated in six focus group meetings. The participants were reflective of the characteristics of the AE target population: private sector workers, with annual earnings that were close to or below average industrial earnings, and mainly employed in the services sector, with retail and accommodation and food services predominating.

There was significant interest and engagement throughout the consultation process and this was reflected in the level of detail in the submissions received. This report provides an overview of the principal findings. Separate reports have been prepared for each of the separate components of the consultation process, where further detail on the views of stakeholders can be found.

Overview of findings

A consistent finding over all four elements of the consultation process is that there is an overwhelming acknowledgement of the need to reform of the current purely voluntary nature of Irish supplementary pensions and that there is almost universal support for the introduction of an AE retirement savings system. This level of support was reflected amongst the participants of the focus groups, where 45 of the 48 participants thought that the AE proposal was a good idea. In general the participants liked the simplicity of the AE proposal and that it made choosing a pension less complex.

However, also across all elements of the consultation process, stakeholders advanced a diverse and often conflicting range of views around the precise manner in which the system should operate and its interaction with current pension provision. While there were many diverging views on how exactly an AE system should be structured and delivered, one area where there was general agreement was that the proposed timeframe for the introduction of AE by 2022 is ambitious and aggressive.

1. Administrative Arrangements and Organisational Approach

1.1 Central Processing Authority

Responses from the consultation process[1] point to a significant majority of stakeholders supporting the idea of a Central Processing Authority (CPA) as a State body which would have overall responsibility for ensuring the system operated and services were provided in the best interests of members and members alone.

However, views diverged significantly on the preferred scope of such an agency's responsibilities e.g. whether the CPA should handle member data, contributions, account administration and/or investment management. Some stakeholders were concerned that the scope of the CPA could be too far reaching and expressed the view that the State already has agencies, such as Revenue and the National Treasure Management Agency, that could perform the functions of a CPA.

Whilst the broad policy approach of a CPA as a facilitating and oversight structure for AE was widely endorsed, it was recognised that further detailed evidence building will be

[1] It should be noted that focus groups were not asked for their views on the Strawman proposals regarding the administrative arrangements of AE.

required to determine the optimum role and scope of a CPA and the required human, financial and infrastructural costs attached. The need for a detailed organisation scope, specification and costings for the CPA was raised in a proportion of responses.

1.2 The number of Registered Providers

Across the written submissions, the on-line survey and the consultation seminars, there was a slight majority in favour of limiting the number of Registered Providers to reduce the possibility of choice paralysis. There was also a general acceptance of the need to structure the system so that large schemes could be formed to deliver economies of scale and better outcomes for member. However, a significant minority of stakeholders (mainly from the pensions industry) were not in favour of restricting the number of Registered Providers and thought that as Ireland is a small market, there are unlikely to be many providers who have the scale to deliver AE services.

Among those who favoured a system of limited Registered Providers, there were calls for initial contract periods to be longer than the five to ten years terms in the Strawman proposal, so as to cover the operational set-up costs and ensure commercial viability. Some stakeholders also pointed toward the potential cost and time involved in running tender processes too frequently.

1.3 Employee versus Employer Choice and Carousel Approach

The Strawman proposal of employee rather than employer choice was generally accepted, as was the carousel approach whereby those unwilling or feeling unable to make a choice of Registered Provider/Fund would be automatically allocated to one in rotation.

2. Target Membership

2.1 Earnings Thresholds

While many stakeholders thought the eligibility criteria in terms of earnings (€20,000+) are about right, others argued that thresholds should not feature and that the scheme should apply to all employees, or that the thresholds should be higher.

Of those who advocated for the lowering or removal of the proposed earnings threshold, concerns included that the proposed earnings criteria may exclude a greater share of female employees, given the higher proportion of females in lower paid jobs and part-time employment.

In terms of the views of the target population, expressed through the focus groups, some participants thought that there should be a higher earnings threshold as there were concerns about the affordability of contributions for people on this level of income. However, it was felt that the ability for a person to opt-out would address such concerns. Some employers and other groups also advocated for a higher earnings threshold.

2.2. Age Thresholds

In each of the four elements of the consultation process, there were mixed views on the lower and upper age thresholds suggested in the Strawman proposal. Of those who advocated for lowering or removing the age threshold, the need to instil a ‘savings habit’ within all employees was cited, noting that it is never too early to start saving. Others advocated individuals be enrolled from their first instance of employment, to mitigate potential adverse effects from being enrolled into AE at the age of 23 after working for a number of years and thereby seeing a material drop in earnings of up to 6% which may prompt opt-out behaviour.

Some stakeholders advocated a higher (upper) age threshold, and suggested that if older individuals were made sufficiently aware of the benefit they could derive from employer and State contributions, on top of their own contributions, they would be able to accumulate a retirement fund which would make their participation in the system worthwhile. However, this was countered by those who raised concerns about enrolling those within a few years of retirement (i.e. over 60), who would be unlikely to accumulate an adequate fund size based on the proposed contribution levels.

2.3 The Self-employed and those outside the Workforce

While there was strong support for the principle in the Strawman proposal of allowing the self-employed to opt-in, most submissions acknowledged that this is a complex issue to solve within the presented AE structure. There were limited views expressed or practical models advanced as to how the system could be adapted to suit the particular needs of this cohort. Similarly, the majority of submissions acknowledged that including those outside the workforce within the AE system is a complicated issue, and that extending AE to these cohorts will require further consideration and evidence building to determine how best to encourage retirement saving among these groups.

3. Employer and Employee Contribution Rates

3.1 Employee Contribution Levels

The general view amongst stakeholders was that the employee contribution rate of 6% is about right. However, some participants in the focus groups thought that 6% was too high, particularly for those on lower income and those on flat rates of pay i.e. not experiencing incremental pay increases. Some stakeholders at the consultation seminars suggested that people who might have difficulty in contributing 6% of their gross wages should have some flexibility in determining their own contribution rate.

3.2 Employer Contribution Levels

In the main, stakeholders were of the view that employers should make contributions to their employees' retirement savings funds. However, concerns were raised in all four elements of the consultation process about the ability of small and medium sized businesses to meet these additional costs. Some stakeholders questioned whether an employer should match the employee's contribution at the same rate, with employer representative groups arguing that the AE proposals will increase the costs of business, particularly for labour intensive sectors and consequently impacting on competitiveness. Other stakeholders suggested that the State should assist employers to meet the additional costs or for the State to contribute at a higher rate and employers to contribute a lower rate.

3.3 Escalation of Contribution Rates

In general there was support for the proposal for a gradual time bound auto-escalation of contribution rates and that such an approach would help employers and employees adjust to the new system. However, most stakeholders thought that the lead-in time for the auto-escalation of the contribution rates from 1% to 6% should take longer than the 6 years set out in the Strawman (2022/2027) and a range of alternative approaches were suggested including; escalation at a rate 0.5% a year, thereby doubling the lead in time to maximum contribution rates to 12 years or setting the contribution rate at 2% or 3% for a number of years to bed in, then applying the 6% rate at a later stage.

4. Financial Incentives Provided by the State

4.1 Matching Contribution Approach

Stakeholders viewed the issues of financial incentives provided by the State to encourage participation in an AE retirement savings scheme as one of the most complex aspects of the Strawman proposals. Whilst support was evident for the principle of the State matching member contributions (on a 1:3 basis), there were significant concerns about how this might operate relative to the current system of tax relief provisions for pensions.

A number of written submissions and views at the consultation seminars expressed concerns about the impact that a matching contributions approach could have on the existing system of marginal tax relief in the wider pensions system and the potential issue of arbitrage which may arise from the co-existence of two separate systems of financial incentives operating side-by-side. The potential of the matching contribution proposal to enhance complexity for members who may struggle to compare the pros and cons of the different systems available to them was also identified. Concerns were also raised that the proposed incentive is lower than that currently available to higher rate taxpayers, and individuals initially enrolled in AE may progress throughout their career and reach the higher rate tax bracket, thereby losing out on the greater level of incentive afforded through the current supplementary pensions system. A significant number of stakeholders therefore advocated that as the current system of financial incentives is working for those already with private pensions, it should consequently be kept in place.

On the other hand, the proposal for matching contributions was favoured by members of the target population, as expressed in the discussions of the focus groups. In this regard, participants were of the view that matching contributions is a financial incentive that is easier to understand that the current system of tax relief for pension contributions. Some participants were of the view that matching contributions were also more equitable to people as it gave the same relative incentive to people irrespective of their level of income. These views were also shared by some participants at the consultation seminars who also thought that the matching contribution would meet the need of the target population, many of whom would not pay sufficient levels of tax to get the benefit from tax relief on pension contributions. They were therefore of the view that the two systems could coexist.

4.2 Cap on State Incentives

It was widely agreed in the written submissions that it was appropriate to cap the costs of any potential State financial incentive, with many submissions highlighting the potential cost to the Exchequer. Many submissions called for any decision on the cap on State incentives to take account of current rules for occupational and personal pensions in Ireland. In the interests of harmonisation and equalisation between the two systems many submissions, which expressed views on this topic, called for the cap on incentives to mirror the existing €115,000 cap for personal and occupational pensions in Ireland.

5. Investment Options

5.1 Default funds

The consultation process elicited a wide range of views on the choice architecture of AE. The written submissions generally agreed that one single default fund may not be applicable to all and there was broad support for the Strawman proposal of three standard choice funds from each of the Registered Providers. Those who favoured this approach argued that it would remove the complexity that employees face when choosing a fund. However, this view was countered by some who suggested that 3 funds by 4 providers (i.e. 12 funds) would still represent too many choices and too much complexity for the target population. Others felt a broader choice should be available and that the market should be left to respond to demand. The majority of written submissions supported the concept of allowing members to switch between funds.

The Strawman proposal to have a 'low risk' fund serve as the default option was viewed with concern by many submissions, particularly from the pensions sector. It was suggested that such a fund should be redefined as 'low return' and argued it was not appropriate as a default fund as it entails a 'far end' adequacy risk for members i.e. the saver would be guaranteed not to have generated sufficient income when reaching retirement. These submissions argued that the default fund should take into account an individual's age and in turn their ability to incur risk to a greater degree in the early years of their investing. Based on these concerns, multiple submissions advocated for the default fund to incorporate a 'lifestyle' or 'target date fund' approach.

In terms of the views of the focus group participants, they said that they liked that the system facilitated choice, and that choice was limited as this made the system simpler. Most of the participants said that they would like to choose their own fund (26 participants) rather than going with the default fund (22 participants). Participants who expressed a preference for choosing their own fund said that they would like to have control over where their money was being invested and that this would give them a greater sense of ownership in the process. Participants who indicated a preference for the default fund said that they felt that they lacked the knowledge and confidence to make a decision as to where their money should go. They were also reassured that the default fund would be less risky than the other funds that might be available.

5.2 Maximum Charge of 0.5%

Referring to the maximum charge, several written submissions called for greater clarity on the respective roles of the CPA and Registered Providers and how overall costs would be allocated between them. Some submissions, emanating in the main from the pensions sector, raised concerns about the need for provision for financial advice within the AE system, claiming the 0.5% maximum charge may be artificially low because it appears that this does not include any provision for advice. Many expressed the opinion that a 0.5% fee would limit members to a passive investment structure and may curtail innovation. Other written submissions advocated a fee lower than the 0.5%, citing the impact of charges on an individual's accumulated fund.

5.3 A public fund option

The question of whether a public fund should be provided instead of, or alongside, private Registered Providers was discussed at the consultation seminars and the focus groups. There was no clear consensus as to the answer to this question. While some thought that having a State backed fund would instil confidence, others thought the opposite. Focus group participants displayed lower levels of trust in a public fund option. This was particularly evident among the younger age groups, who were more trusting of private pension providers. Participants also commented that their level of trust in private pension providers would be helped if the State was involved in the selection and oversight of the providers that would operate the AE system. In the main, focus group participants were of the view that if the State was involved in operating a fund, that private pension providers should also be afforded the opportunity to be involved in the system. However, some participants thought that allowing a State fund to operate would make the system too complicated and would limit competition in the system.

5.4 Alternative mechanisms

A proportionately small number of written submissions suggested alternative mechanisms through which AE could be administered. These included various fundamentally different proposals on the way in which AE should be delivered (compared to the Strawman's pre-funded DC individual accounts). Suggestions included AE being delivered:

- as a Collective Defined Contribution (CDC) system;
- as a Notional Defined Contribution (NDC) system;
- On a pay as you go (PAYG) basis and/or as an extension of the existing social insurance fund (SIF)/ pay related social insurance (PRSI) system;
- Only after a Universal State Pension is introduced;
- As a system accommodating housing and income needs by allowing for a portion of the individual's accumulated fund to be available to them to put towards purchasing a house.

6. Policy for Opt-out and Re-enrolment

6.1 Compulsory Membership Period

On the proposed six month minimum compulsory period for AE contained in the Strawman proposal, there were a range of views across each of the four elements of the consultation process. While the majority of written submissions favoured the idea of a minimum compulsory membership period, arguing that it could positively influence member behaviour to stay in the system, there were others who were opposed to such an approach, arguing that those who might want to opt-out on account of affordability concerns would be forced to contribute for six-months. Participants in the focus groups tended to think that the mandatory membership period of six months is too long and suggested that it should be three months in duration.

6.2 Opt-out Window and Re-enrolment

Participants in the focus groups commented that the procedures for opting-out (mandatory participation for six months, opt-out window in months seven and eight and re-enrolment every three years) were too confusing. Some participants thought that the opt-out window of two months was too narrow.

This view was shared by a number of written submissions who also argued that that the opt-out window as proposed may in fact act as a 'lightning' rod to encourage higher numbers of opt-outs than would otherwise have been the case. Additionally, some written submissions called for longer and more frequent opt-out windows or the ability for members to opt-out/cease contributions at any time during their life. However, there were other written submissions that argued against the provision of an opt-out window at all and advocated that the system be operated on a mandatory basis (i.e. no opt-out window).

In the case of those who opt-out, there was widespread support in the written submissions for their re-enrolment every three years. Some submissions suggested more frequent re-enrolment than that proposed in the Strawman (i.e. after one year, upon commencing a new job, etc.).

Participants at the consultation seminars thought that the provision for opting out (after six months, in months 7 and 8) should be less stringent and that people should have the opportunity to opt-out at their discretion. The discussion at these sessions raised many questions in relation to how periods of unemployment, caring, maternity/paternity/parental leave would be treated under the AE system and concerns for equity of access to the scheme when a person was not earning.

One aspect of the Strawman that was almost universally opposed was the proposal to retain employer contributions to the CPA in the case of member opt-outs.

6.3 Savings Suspension

The majority of written submissions favoured the concept of providing members with the capacity to take periods of 'savings suspension'. However, it was generally felt that such periods should be tightly controlled and limited. The types of scenarios in which submissions envisaged a savings suspension period being facilitated included; first-time buyers saving for a deposit on a house; marriage; financial hardship and medical expenses. Written submissions that were opposed to savings suspension periods argued that such arrangements would create an added administrative burden and that such suspension periods would reduce the size of a member's retirement fund.

In terms of the discussions at the focus group meetings, almost all the participants were in favour of an option that would permit the suspension of contributions for limited periods. They felt that such an option would promote retention in the system and would make it less likely for them to opt-out of the system. There was a consensus amongst participants that saving suspension periods should be limited in terms of duration, and tightly restricted in terms of the reasons for suspending contributions.

Similar concerns were also reflected in the discussions at the consultation seminars. A number of stakeholders at these seminars also brought up the issue of early access to retirement savings funds, so that members could draw on their savings to assist in purchasing a house. However, other stakeholders counter argued that this would diminish a person's retirement savings fund thereby undermining the objectives of AE.

7. Arrangements for Benefits and the Pay-out Phase.

7.1 Drawdown options

It was widely acknowledged in the consultation process that it will be imperative to ensure the decumulation phase of AE is designed appropriately to the needs of the target population. In general, it was the view of those who participated in the consultation seminars that an in-scheme default drawdown option should be provided to members at decumulation because of the complexity of the pensions market. For those who might be more active in their decision making, then the open market would address their needs. Similarly, the majority of written submissions favoured ‘in-scheme’ draw-down options being provided at retirement. However, there was no unanimity on what exact form this should take with varying approaches advocated, including Approved Retirement Funds, annuities, and scheduled draw-down.

Stakeholders at the consultation seminars were also of the view that the decumulation stage will be the point when members will need financial advice the most and that the cost of such advice will need to be factored in to the system as will the supervision and regulation of such advice. It was generally agreed that extensive further work is required to ensure suitability and coherency in drawdown options available to members.

7.2 State Pension Age as Appropriate Age to Grant Access to Drawdown Products

In the written submissions there was some acceptance that the State pension age was the appropriate age at which to grant access to drawdown products. However, other submissions advocated for greater flexibility so as to facilitate phased retirements in which people gradually transition from full-time work to part-time work to retirement. Submissions also pointed to the drawdown options available in the existing pensions landscape.

7.3 Early Access on Grounds of Ill-health and Enforced Workplace Retirement

There was broad support in the written submissions for the Strawman proposals to allow early access to retirement savings funds on the grounds of ill-health and enforced workplace retirement. Many submissions asserted that any measures in this space should mirror existing rules governing occupational and personal pensions.

Conclusion

The level of engagement from stakeholders in the AE Strawman consultation process indicates the significant level of interest in the implementation of this policy. While, stakeholders advance a diverse and often conflicting range of views around the manner in which the AE system could operate, the principles and concepts underpinning AE were generally accepted. The findings from this consultation process therefore form an important contribution to the reform of the current supplementary pension system to ensure a large number of the Irish population not currently saving can achieve an adequate standard of living in retirement.