

Design of an Automatic Enrolment Retirement Savings System: Update and Next Steps

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Introduction

1. Background
2. Consultation Findings
3. Economic Impact Assessments (ESRI)
4. Elements of design confirmed in principle
5. Design features still under consideration



Current Landscape

- CSO's latest data (Q3, 2018) finds less than half of employees (47.6%) contributing to a pension.
- Looking at the private sector alone, this drops to 33%.
- If nothing changes, a significant proportion of people will experience unwanted reductions in living standards in retirement.
- Long recognised that there is a need for reform.



Recent Background

- Roadmap of Pension Reform 2018-2023
 - Strawman Proposal for an Automatic Enrolment Retirement Savings System
 - Economic impact of introducing Automatic Enrolment
- EU Structural Reform Support Service technical support
- Design features of AE agreed at Cabinet

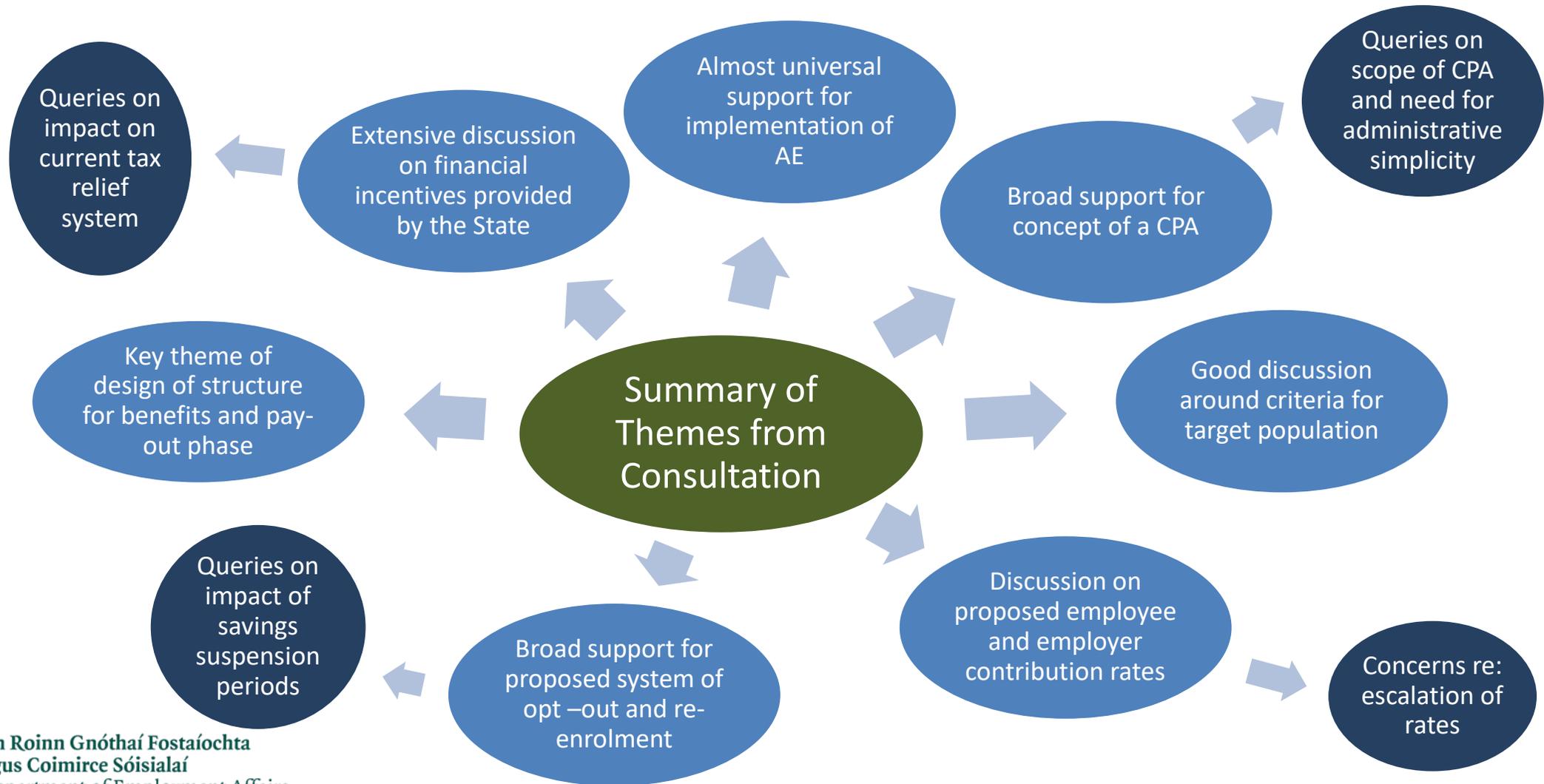


Strawman Consultation Process

- Over 100 written submissions in response to Strawman
- Seminars chaired by the Minister in Dublin, Cork & Galway
- Online survey
- Focus groups with target population
- Ongoing consultation with stakeholders and international experts



Summary of Themes from Consultation



ESRI's Macro- and Micro-economic Analysis

- The **Roadmap for Pension Reform** commits to undertaking an economic impact assessment of introducing automatic enrolment
- **Macroeconomic analysis:** COSMO model – impact on key macroeconomic variables (such as GDP, employment, disposable income, wages, Government debt) over a 5 year horizon.
- **Microeconomic analysis:** SWITCH model – the size and composition of the target population, and also the adequacy of retirement income provided through the State Pension.



Macroeconomic Impacts of Auto-Enrolment

5 years after full implementation (Scenarios A1 –A2)

Other scenarios vary contribution rates and opt-out level

| | A1 | A2 |
|---|------|------|
| <i>Percent deviation from baseline</i> | | |
| Gross domestic product at basic prices | -0.5 | -0.3 |
| Personal consumption of goods and services | -0.9 | -0.8 |
| Employed persons | -0.6 | -0.4 |
| Average wages | 0.9 | 0.4 |
| Real personal disposable income | -1.1 | -1.0 |



Composition of Target Population

Estimated size c. 585,000

| Variables | |
|--|--------|
| Age (years) Median | 32.0 |
| Aged between 23 and 30 | 41.7% |
| Female | 43.5% |
| Single | 64.1% |
| Gross annual pay (€) Median | 29,836 |
| Earnings of €20,000 - €30,000 | 50.6% |
| <i>Employment Sector (%)</i> | |
| Wholesale & Retail | 21.8% |
| Manufacturing | 14.4% |
| Professional, scientific and technical | 11.5% |



Findings

- **Macroeconomic analysis** finds lower levels of economic activity in the short to medium-term compared to the baseline due to lower disposable income, but notes a positive macroeconomic impact in the longer term.
- **Microeconomic analysis** reinforces concerns about retirement provision for those earning more than €20,000. For some earning under €20,000, AE may be suitable (and can opt-in).



Elements confirmed in principle

Full details available on www.welfare.ie and include:

- Automatic enrolment criteria
- Policies in relation to opting-out, opting-in and re-enrolment
- Phased escalation of contribution rates
- Establishment of a Central Processing Authority
- Pot-follows-member approach



Design features still under consideration

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



Thank you

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