An Roinn Coimirce Sóisialaí
Department of Social Protection

# The Design Principles of Ireland's Automatic Enrolment Retirement Savings System

Version May 2022

# Current Position

- 29th March 2022 - **Cabinet approval** received for the final design of the automatic enrolment ('AE') retirement savings system
- Announced by Minister for Social Protection, Heather Humphreys, T.D.
- New system to be ready by end 2023, with enrolments from **early 2024**
- In line with current Programme for Government (2020) commitment and Economic Recovery Plan (2021)
- **Explanatory paper**: '*The Design Principles of Ireland's Automatic Enrolment Retirement Savings System*' published on www.gov.ie
- Design closely aligned with 'strawman' public consultation (2018) and Government Decision in October 2019 that had settled some key features

# Why are we introducing Auto-enrolment (AE)?

- Supplementary pension coverage in Ireland is **relatively low,** so future retirees are exposed to risk of significant **reductions in standards of living**
- The **State Pension** will remain the bedrock of the pension system, but better supplementary pension coverage is required
- The proposed AE design will **significantly improve** supplementary pension coverage and pension adequacy into the future
- Ireland is the **only country in the OECD** without a mandatory or quasi-mandatory occupational pension system

# 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)

# 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 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? (CPA)

- A new **Central Processing Authority (CPA)** will be established
- **Tender** for Investment Managers/Registered Providers
- **Register** each participant and set up individual accounts
- **Collect pension contributions** (from employees and employers) via payroll
- **Allocate the State top-up** to each account
- **Pool and distribute contributions** per fund type to Registered Providers
- **Pools and distributes financial returns** per fund type to provide weighted averages to each contributor
- **Custodianship responsibility**
- Operate an **online portal**
- **Pot-follows-member**

# How will investment work? (Registered Providers)

- The Registered Providers will offer investment products in compliance with CPA (and ESG) standards

- Four fund types currently envisaged:

    - **Default Fund** (medium risk, lifestyle/lifecycle basis)
    - Conservative risk
    - Moderate risk
    - Higher risk

- **Drawdown** aligned with State Pension age

# How will the Central Processing Authority be run?

- Initially, within DSP

- Later, as a statutorily independent body reporting to Government and regulated by the Pensions Authority

- Conduit between AE participant and the pensions industry

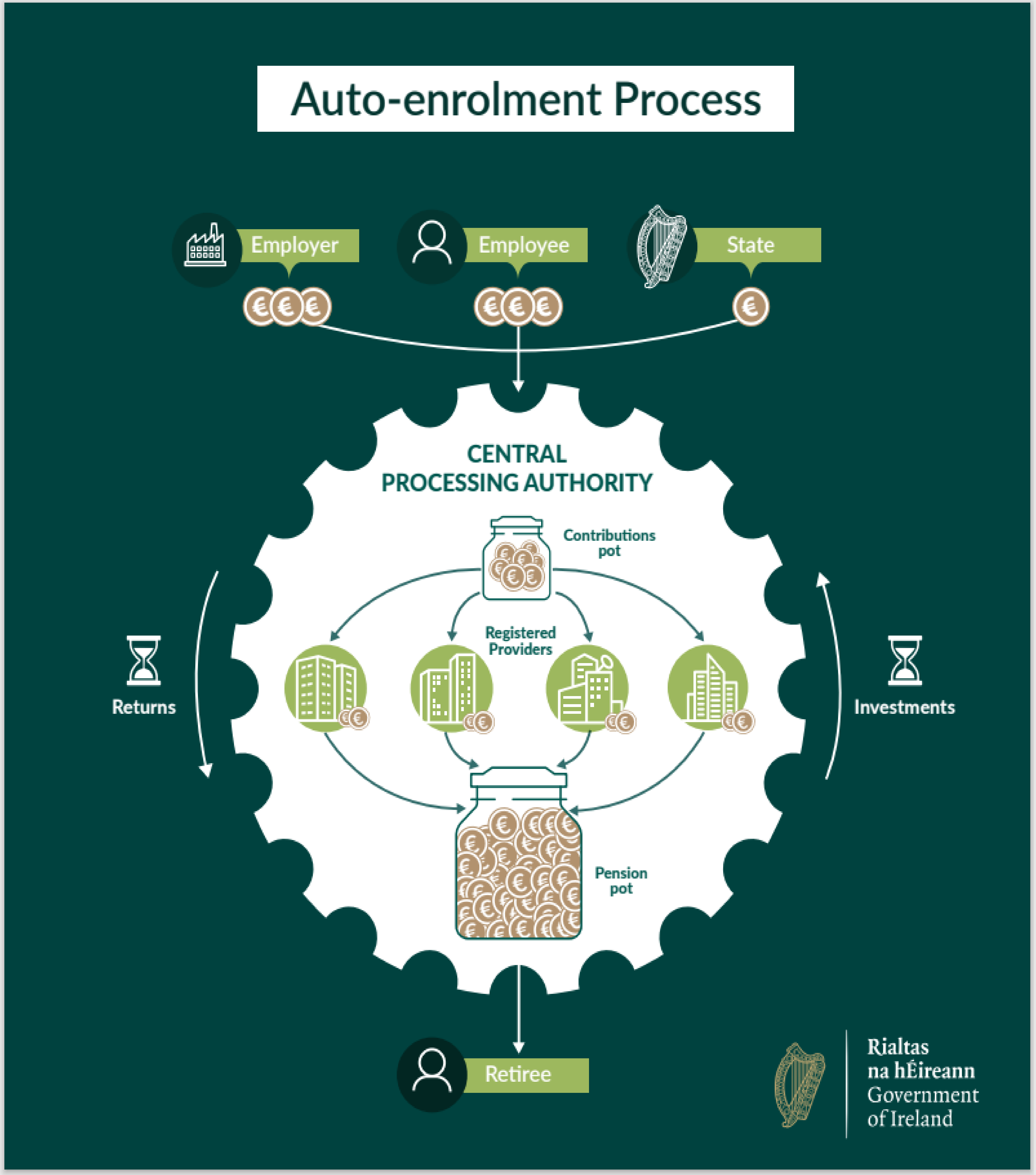
- **Charges to be capped** at a maximum of 0.5% of assets under management

# Opt-outs and Suspension Periods for Participants

- Option 1: **Six months after enrolment** (within months 7-8), a participant can opt out and get a refund on their own contributions (all employer and State cons will stay in the pot)
- Option 2: **Six months after a contribution rate change** (within months 7-8), they may opt out and receive a refund of the difference between the original rate and the new rate (all employer and State cons will stay in the pot, as well as all employee cons up to the rate change)
- Option 3: a contributor may suspend participation at **any other time,** but will <u>not</u> receive any refunds, i.e. all contributions will stay invested in their pot
- Where a person opts-out, they will be **automatically re-enrolled after two years** (after which they may opt-out again in accordance with the above)

# Overall Advantages

- As Ireland is a late adopter of AE, this design takes learnings from several international systems and avoids known pitfalls
- It ensures a broad supplementary pension **coverage**
- It poses **no administrative burden for employers** (just a simple payroll instruction)
- It's **easy to understand** and message to workers and employers
- It applies a lean **'digital first'** approach, thus reducing CPA costs
- A straightforward **'pot follows member'** approach is applied across employments and throughout a participant's lifetime
- It complements existing occupational arrangements
- It does not interfere with the current Tax Relief System
- It promises **more adequate income replacement** rates for future retirees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# Thank You
# Discussion?