Irish Life

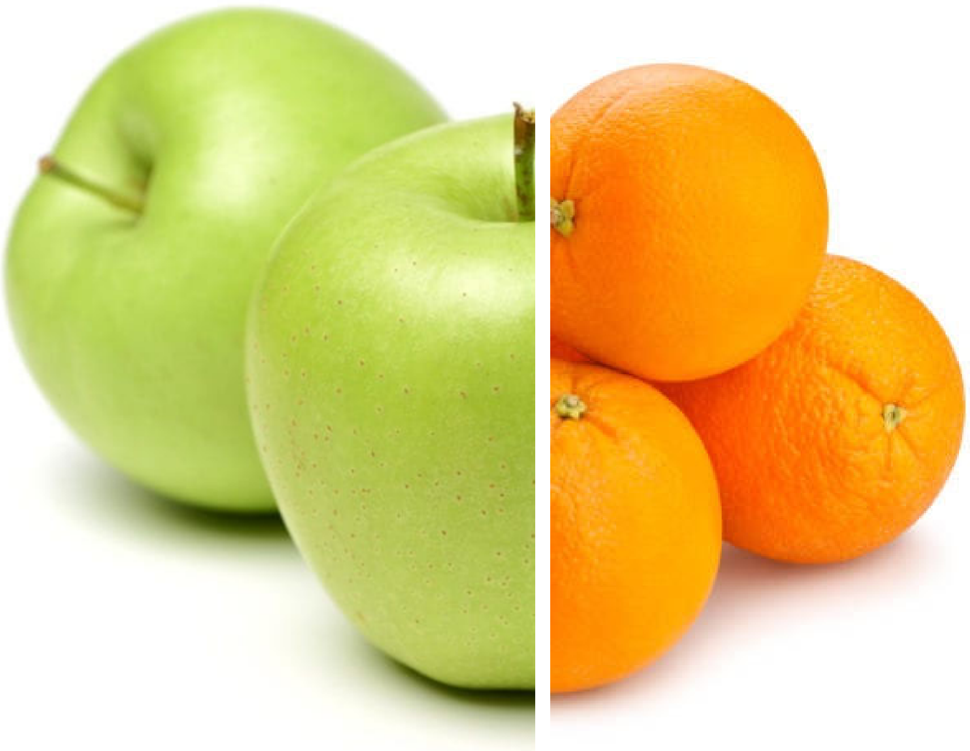
Life \ Pensions \ Investments

Automatic Enrolment:

Sizing Up The New Kid On The Block

19 May | Shane O'Farrell – Irish Life Corporate Business

Auto-enrolment: Sizing Up The New Kid On The Block



Irish Life strongly supports auto-enrolment as a socially progressive and forward thinking option, for some, which will be a major milestone in Ireland.

AE might be new to Ireland, but this strategy has a proven track record internationally. From the UK, to New Zealand, it has successfully achieved its goal of getting more people into workplace pensions.

How does this new kid on the block stack up versus the existing plans? Or are we talking apples and oranges?

Irish Life

iapf representing pension savers

DC versus AE: how do they compare?

Criteria for including employees

DC

Full flexibility on which employees are included.

v's

Auto Enrolment

Fixed criteria – including age, salary and eligibility.

Comment

The practical challenges of implementing such rules within AE are considerable.

DC versus AE: how do they compare?

Contribution Rates

DC

Full flexibility including option to make AVCs.

v's

Auto Enrolment

Rigid structure – rates start at 3% & are set to rise to 12% by 2034.

No additional contributions allowed.

Comment

AE has an extremely rigid structure with a very long wait to reach full contribution rate levels. Particular challenge for women and the Pensions Gender Gap.

Irish Life

iapf representing pension savers

DC versus AE: how do they compare?

State Subsidy

DC

Employee contributions get full tax relief

v's

Auto Enrolment

Employee contributions don't get tax relief, instead a State Subsidy is added to them.

Comment

The AE state subsidy is better than the tax relief model for low earners i.e. those paying no tax or 20% tax.

Higher tax payers are better off under the existing DC model. Complexity Added.

Irish Life

iapf representing pension savers

DC versus AE: how do they compare?

Tax Treatment

DC

Employee contributions
are taken from gross pay and
get tax relief.

v's

Auto Enrolment

Employee contributions are
taken from their net pay. Immediate cost is higher.

Comment

Employees will pay income tax on the earnings they contribute to their pension in the AE structure. Contributions will cost more in net take home terms.

DC versus AE: how do they compare?

Retirement Age

DC

Employer can choose a Normal Retirement Age between 60 and 70.

Members can retire early.

v's

Auto Enrolment

In line with the State Pension age which is currently 66 but could increase to 68.

Comment

The AE proposal is seriously lacking flexibility. No allowance or consideration has been given for early retirement, blended retirement, phased retirement etc.

Irish Life

iapf representing pension savers

Tax Relief: Scenario 1

Joe earns €20,000 - 6% employee contribution - €1,200 p.a

DC

v's

Auto Enrolment

DC

Tax relief is €240 so net cost of contribution is **€960.**

No state subsidy so total amount invested is **€1,200.**

Auto Enrolment

No tax relief so net cost of contribution is €1,200 i.e. **€240 more** than DC.

State subsidy is **€400** which is 33% of Joe's contributions so total amount invested is **€1,600** which is **€400 more** than DC.

Comment

The DC contribution is **€240 cheaper** than the AE contribution. However, in AE Joe gets the benefit of a **€400 state subsidy** so overall it is a better deal financially than DC. AE gives 33.33%: DC gives 25% in bonus terms.

Irish Life

iapf representing pension savers

Tax Relief: Scenario 2

Lucy earns €40,000 - 6% employee contribution - €2,400 p.a

DC

Tax relief is **€960** so net cost of contribution is **€1,440 (a 66% bonus)**

No state subsidy so total amount invested is **€2,400.**

v's

Auto Enrolment

No tax relief so net cost of contribution is **€2,400** i.e. **€960 more than DC**.

State subsidy is **€800** which is 33% of Lucy's contributions so total amount invested is **€3,200.**

Comment

State subsidy to AE is less than the tax relief levels for middle/high earners in DC

The DC contribution is **€960** cheaper than the AE contribution. AE 33% v DC 66% bonus

Irish Life

iapf representing pension savers

On Closer Inception

Charges

(Capped at 0.5% per annum)

Guidance and Advice

(Not outlined in the design document)

Fund Choice

(Limited fund range)

Governance

(The simplicity principle is imperative)

DC/Master Trust Model: Will Be Preferred Choice For Many

- Flexibility
- Higher rates of tax relief
- Choice in investment manager and style
- Control and messaging around member communications

Likely to grow as an AE response

Irish Life

iapf representing pension savers

AE: Improved outcomes for some

Auto Enrolment is most likely to gain members in the following instances:

- **No existing plan**
- **Existing plan but not for all staff**
- **Very small employers**

The intention and advantage (yet to be confirmed) behind auto-enrolment is the simplified administrative process it will provide for employers.

Broader Considerations

Promotion of AE will enhance wider pensions awareness.

An additional 750,000 people will have pension cover: economic positive.

Wider paperless future hinted at.

Caution needed around the presentation of SSIA as “better”.

Risk of delay and additional cost.

How will the two pension systems interact?

Summary

It's time for Ireland to put pensions at the forefront and join New Zealand, UK and others in the re-think of retirement planning.

Auto-enrolment has the potential to transform retirement saving for 750k+ people in a socially progressive move that affords Irish people elevated retirement cover.

Auto-enrolment has been developed for a specific cohort working in industries with low pension engagement, cover and knowledge.

This will not be attractive to most corporates with good DC/Master Trust plans in place. These will see big growth as an alternative solution.

Important members of those plans (and the corporates who fund them) are reassured of the clear advantages of their current plans as they hear the noise about the new kid on the block.

Irish Life

iapf
representing pension savers

AE: A big step forward for some – but DC (including Master Trust) will remain the preferred choice for the vast majority.

Irish Life

iapf representing pension savers

Thank You

8017cb (NPI 5-22)