

Speech by Heather Humphreys, T.D.,

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Irish Association of Pension Funds

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Introduction

Thank you Ann and good afternoon everyone.

I'm really pleased to join you all today and to discuss a key priority for Government – and that's pension reform.

While delivering reform can prove challenging at times , my aim as Minister for Social Protection is to overcome these challenges and to ensure that Ireland has a sustainable pension system that provides the best outcomes for our people.

I very much welcome this opportunity to highlight some key areas of reform that will impact on the pensions landscape in the coming years.

These include the introduction of an **Automatic Enrolment system**, the continued reform and simplification of the **occupational pensions landscape** and the reform of the **State Pension**.

Auto-Enrolment

The introduction of a pensions auto-enrolment system is a Programme for Government commitment and a key priority for me as Minister.

I don't need to tell you here today – but Auto Enrolment or AE has been a long time coming.

But after being talked about for well over two decades, what we are seeing now is action and implementation.

As you know, in March of this year, I announced the details of the Final Design Principles for the Automatic Enrolment Retirement Savings System for Ireland.

Under this system, employees will have access to a workplace pension savings scheme which is co-funded by their employer and the State.

This represents a significant milestone in implementing one of our key Programme for Government commitments.

It's envisaged that the system will become operational with the first enrolment of participants occurring in early 2024.

I would like to take this opportunity to thank the Irish Association of Pension Funds, and indeed all contributors for their submissions to my Department during the Strawman consultation process, and for your ongoing input on the design of AE.

There was considerable engagement with industry bodies, employer and employee representatives, advocacy groups, as well as members of the public.

In addition, we engaged with national and international experts to learn about best practice, and all of this was reflected in the final design.

The details on the design of the AE system have been published, so there's no need for me to go through them again here today.

Suffice to say that work is well underway and will be ongoing throughout what is left of 2022 and into 2023.

The design of Ireland's AE system is research-based and takes into account international experiences and best practice.

As a late adopter of AE, Ireland is in a good position to learn from the experiences of other countries about what works well and what pitfalls to avoid.

Following the Government's final decisions on the design, the focus is now solely on the implementation of those decisions, and work has already commenced on drafting the necessary legislation and developing the IT systems to underpin AE.

In July, the Heads of Bill were approved by Cabinet, and work with the Office of Parliamentary Counsel has commenced on drafting the Bill.

Furthermore, the Joint Oireachtas Committee has commenced pre legislative scrutiny of the Heads of Bill, and we will be engaging with them further in the near future.

Alongside this work, the first AE procurement has completed, and we are currently engaged with business process experts in developing detailed workflow processes and customer journeys that will underpin the AE IT systems.

In addition, work has also commenced on the development of a communications strategy for AE, which will see significant and targeted communications about the system, how it works and the benefits for participants.

We anticipate publishing the Automatic Enrolment Retirement Savings System Bill in Quarter 1 of 2023, as well as developing the tenders for the registered providers.

We will also put in place the necessary ICT and administration infrastructure and establish the **Central Processing Authority later in 2023.**

This is a busy and exciting time in the Department of Social Protection, and we are all working hard to bring this system to the Irish people.

Our effort here is about building a culture of saving for retirement.

We all want people to be able to enjoy their retirement years with some financial security.

One of the messages of AE is that the best time to start saving for your retirement is now, not after you set up a home, start a family or progress your career.

For many people, retirement seems a long way away and they think they have a lot of time before they need to think about a pension.

This is an issue that most of you in the industry know only too well.

And despite both your efforts, and the best efforts of the State with generous tax incentives for pension saving, supplementary pension coverage in Ireland has remained stubbornly low.

I believe AE will help to address this problem and bring about 750,000 workers into workplace pension saving.

This major reform in the Irish pensions landscape is intended to get people saving earlier but also to support them in that saving process.

We will achieve that by simplifying their pension choices and providing for significant employer and State contributions as well.

The design of the system will encourage more workers to save for retirement, thereby helping them to sustain a reasonable standard of living into that phase in their life.

Occupational Pensions

And now to turn to some of the wider reforms taking place in the pensions landscape.

As well as the introduction of an AE system, another major strand of the Government's Roadmap for Pensions Reform is the improved governance and regulation of occupational pensions and the transposition of the IORP II Directive into Irish law.

As you are aware, I signed the Regulations in April of last year which transposed requirements of the Directive.

The Directive provides for:

- A range of new requirements on governance and management standards in schemes;
- safekeeping of assets;
- the need for clear and relevant information to members;
- the removal of obstacles to cross-border provision of pension services;
- And the facilitation of cross border transfer of pension schemes.

There are also provisions that will enhance the powers of the Pensions Authority for effective supervision of occupational pensions.

The general principle followed in respect of the transposition of IORP II, in keeping with the Roadmap for Pensions Reform, is that the requirements of IORP II apply to all schemes and trust Retirement Annuity Contracts – or RACs.

This is to ensure that all members and beneficiaries are afforded equal protection irrespective of the size of the pension arrangement.

The transposition of this Directive will result in significant improvements to the regulation and governance of funded occupational pension schemes in Ireland.

Given that pension schemes must comply with IORPS II by January 2023, this has no doubt been a busy and challenging year.

The pensions market is undergoing consolidation, with a move towards master trusts.

Increased obligations imposed by IORP II will improve the governance and communication standards of occupational pension schemes for the benefit of everyone.

Furthermore, I believe that reform and simplification is the key to developing a pension system that is more coherent and easier to understand.

In turn, this will increase confidence and engagement among pension savers.

With this in mind, the Interdepartmental Pensions Reform and Taxation Group published its Report on Supplementary Pensions in November 2020.

The report contains 42 interdependent recommendations which are being considered by a cross-Departmental implementation group.

To this end, a package of measures was enacted in the Finance Act 2021 which included:

- The removal of a prohibition of transfers from an occupational pension scheme to a Personal Retirement Savings Account for members with more than 15 years' service;
- And the abolition of the Approved Minimum Retirement Fund; and the extension of an Approved Retirement Fund option to death-in-service benefits.

The Interdepartmental group continues its work considering the various recommendations with a view to bringing further reform measures as soon as possible.

A number of proposals from the 2020 Report are currently being examined and worked on.

The Finance Bill includes provisions to remove the benefit-in-kind charge from employer contributions to PRSAs.

This change implements another recommendation of the Interdepartmental group's report in respect of the differential tax treatment of PRSAs.

State Pension Provision

Let me now turn to the State Pension.

As the bedrock of our system, the State Pension provides a basic and effective protection against pensioner poverty.

The State Pension should, in most cases, be combined with individual retirement savings in the form of occupational pensions or personal pensions.

In combination, this allows employees, employers and the State to each play a part in addressing the provision of retirement incomes.

There are many challenges facing the State Pension system in Ireland including:

- the sustainability of the system over the longer term,
- rising life expectancy,
- and the adequacy of contribution levels and benefits.

With these challenges in mind, in November 2020, in line with the Programme for Government, I established the Pensions Commission to examine the sustainability of the State Pension system and the Social Insurance Fund.

The Commission was an independent body comprised of knowledgeable and experienced academics, pension experts, members of civil society and representatives of workers and employers.

The Commission's Report established that the current State Pension system is not sustainable into the future, and it set out a wide range of recommendations in this regard, including changes to PRSI contributions, increasing the State pension age and flexible access to the State Pension.

In September 2022, following detailed examination and consideration of the Commission's Report, I announced a series of landmark reforms to the Irish pension system.

The measures, which were approved by Government, are in response to the Commission's recommendations and represent the most comprehensive structural reform of the Irish State Pension system.

While I won't repeat the recommendations today, at the heart of our response is the provision of a 'flexible pension age' between 66 and 70.

This represents a fair and modern solution to a difficult and contentious issue.

It brings us in line with other countries and reflects the fact people are **living longer** and want greater choice in terms of their retirement

In terms of sustainability, there will be a ten year phased transition to a Total Contributions Approach; which will yield savings of €43 billion between now and 2070.

And there be slow and gradual increases in PRSI based on a review of the Social Insurance Fund, details of which I will announce next year.

My officials are currently working to implement the State Pension reforms, including the drafting of legislation and development of administrative and IT systems as necessary.

Conclusion

Colleagues, as you all know, pensions require long-term planning.

But the reforms of our pension system that I am introducing will benefit many generations to come.

I believe the policies being advanced by Government will ensure that pension saving becomes a cultural norm, and will enable citizens to plan for how they would like their retirement years to look.

The various reforms I have touched on today represent the most significant changes in the pension sector for generations.

These changes will be challenging to implement but I believe collectively they will ensure that future generations can continue to provide, and be provided for, in their retirement.

Thank you once again for your invite here today - Go raibh míle maith agaibh go léir.

ENDS