



# Invitation for Submissions on a Universal Retirement Saving System

## 1. A Universal Retirement Savings System

- *What do you believe the broad policy goal/s of a universal retirement system should be?*

To ensure those that are not currently saving for retirement do so.

To encourage regular savings in a tax efficient manner to supplement the State Pension in later life.

To provide the older Irish population with adequate overall retirement income to ensure a good quality of life.

To reduce the likely burden on the State in healthcare and social welfare costs if people do not have sufficient income in retirement.

We do think that a lot of work needs to be done to determine the population of likely participants i.e. those who don't currently have pension savings, or those with inadequate savings, and the make up of that population will determine the solutions that need to be provided. What number of people are included, what is the age profile of that cohort, what is their income, what are their needs likely to be in retirement? What is the level of required income to ensure a good quality of life? We would suggest that the policy goals should mirror the IAPF's of ensuring people can have pensions that are secure, fair and simple.

- *Should the system be mandatory for all workers without supplementary pension provision or should people be auto-enrolled with an option to opt out within a certain window?*

We believe that there are clear advantages to a mandatory system to maximise coverage and improve retirement income adequacy. Overall, it should be less complex and costly to administer, there is less need for compliance checking and establishing who should be included and when. This issue was examined in great detail in the Pensions Board's report on Special Savings for Retirement in 2006.

However we are also aware that there is a political reality that auto-enrolment is much more likely to be deliverable.

- *Who do you think should be included/exempt? Please give views on what you believe the parameters of membership should be (for example income level, age, occupational status or other parameters)?*

While there probably should be a minimum age, such as 22 as was suggested in the National Pensions Framework, we would urge against complicating the system with restrictions and detailed eligibility requirements. There should be an income level



(which could be set at the level at which people pay income tax), but this should be driven by the detailed work we suggest is required in establishing the potential population and agreeing the policy goals. In order to prevent people with fluctuating earnings coming in and out of the system all the time, the income test should be based on annual income in the previous year.

Consideration should be given to the appropriateness of including the self-employed in the new system.

Consideration should also be given to including public sector workers in the new system.

Care should also be taken to ensure that good quality existing schemes continue in operation and any new scheme or system does not become a lower benchmark.

- *Do you believe a new system should be phased in over time, and if so, what criteria would you consider appropriate for the phase in process? (e.g. employer size, occupational sector)*

We would favour a big bang approach so that the system can scale up quickly. That would also ensure that the objectives are achieved sooner rather than over generations.

- *What target % coverage rate should the scheme aim for?*

100% of the potential population.

- *What target % of pre-retirement income replacement rate should be aimed for (combining the State and universal pension)?*

Previous reports have suggested 50% but this should also be determined by the work in identifying the potential population and their needs. It may also be appropriate to have a higher replacement rate for lower earners. There should be a minimum floor, for example the State Pension, so that people earning less than that are not expected to live on 50% of very low earnings.

Having a target % of pre-retirement income would result in different contribution requirements for different age groups and income brackets but it would be useful for all stakeholders to establish a long-term % goal for a “typical” working lifetime pattern.

- *What should be the role of the State in establishing and operating the system?*  
We would see the role of the State as being in the establishment of the scheme and setting the parameters for its operation. We do not see a role for it in its operation, save for governance and regulation. We are not convinced that the State would have the capacity or expertise to do this. Separation from the State is also necessary to



generate trust in the system, particularly in light of the National Pensions Reserve Fund and pension levy experience. That said, there may be a need for a provider of last resort that would be able to take on low contributions on an uncommercial basis.

- *If you consider that the system should operate on the basis of auto-enrolment with opt out, should there be a requirement for automatic re-enrolment and if so, after what period of time?*

A mandatory approach would avoid this issue. If mandatory it should take place at a set date each year to avoid administrative complication. An alternative approach would be to auto-enrol to a certain age but make it compulsory from, for example, age 35. If the system is to operate on an auto-enrolment basis, we suggest that enrolment takes place once a year on a fixed date. Any re-enrolments would also take place on this date.

## **2. Operational Matters**

- *What are your views on who should collect contributions and who should administer the system?*

We would favour contribution collection and administration by whoever is operating the system. That could be approved schemes or contract providers who have to satisfy certain parameters and requirements before being approved to do so. Getting this aspect right from the outset is extremely important as has been demonstrated with the UK system, particularly the difficulties and complication of staging and establishing who needs to be auto-enrolled. Using Revenue as a collector and distributor of contributions, as happens in New Zealand, may help compliance.

- *Who should be responsible for record keeping?*

Whoever is operating the particular scheme/contract.

- *Who should have responsibility for paying benefits?*

Whoever is operating the particular scheme/contract.



### 3. Investment Management Structure

- *What do you believe should be the key objective/s?*

To invest the contributions in a manner that achieves the objective in terms of the benefits that the scheme is aiming to provide. An appropriate amount of risk will need to be taken to ensure the objectives. The investment objectives for DC plans already set out generally by the Pensions Authority and the IAPF would apply also to any new savings scheme. Simplicity and plain English should be used to facilitate understanding and engagement. Investment management strategies to manage volatility yet deliver the required return on investment should be to the fore.

- *What are your views on how investment should be structured and managed?*

In a prudent manner that allows the objectives to be met. There should be some consideration of the approach taken by NEST of having low risk in the initial years to ensure trust in the system. It would also be worth considering whether a Collective DC approach is more appropriate than individual accounts.

- *What are your views on default investment structures?*

A default structure would be necessary and there may be a requirement for differing strands for different ages and benefits. The default structure would need to be aligned to the scheme design and, in particular, the options available at retirement.

- *What range of investment choices should be available?*

We would favour very limited additional choice. The investment range should be easy to understand and make use of current DC investment best thinking such as collective DC, lifestyle strategies/target date funds, diversification and a limited, white labelled, risk-rated range of funds. This range should be presented in a very simple and easy to understand fashion.

### 4. Scheme Design

- *What do you think the contribution rate should be and how should it be structured (between employer/employee/State) and phased in over time?*

The contribution rate should be whatever is required to meet the objectives. It is likely to be necessary to phase that in over time, but there should be a clearly set out timescale. The initial contribution rate may need to achieve a balance between the cost placed on employers and participants and a meaningful contribution to future retirement benefits.



- *What are your views on State incentives for universal retirement savings (e.g. tax relief, direct subsidy etc.)?*

Direct subsidies, including an upfront incentive to join, are undoubtedly more readily understandable. However consideration would need to be given as to how that interacts with existing arrangements so that there aren't any elements of inconsistency or apparent opportunities for arbitrage.

- *Should universal retirement savings be established using a trust or contract based model or should both be offered?*

We don't see why both wouldn't be offered. There should be no differences in terms of tax and benefit treatment between the two and both should have good governance and efficiencies. Master trust arrangements could act as a mechanism for smaller employers to gain the benefits of scale. Contract based systems should have similar governance requirements to trusts to ensure members interests are looked after.

- *Should members be able to take 'contribution holidays' and if so under what circumstances and for how long?*

No.

- *Should members be able to access part of their funds and if so, in what circumstances and to what extent?*

Early access could be considered as long as it was in keeping with the overall objectives of the system and did not undermine that objective in any way.

- *Should additional incentives (or disincentives) be utilised to encourage individuals to stay in a scheme and keep retirement savings intact (i.e. not to opt out/not to seek early access to funds)?*

If mandatory, these would not be required. While incentives would be good for auto-enrolment, they come with a cost. It would also create inconsistencies with existing arrangements.

- *What are your views/suggestions on the provision of benefit options at the decumulation stage?*

The whole area of benefit options needs to be simplified so as to ensure there is consistency across all arrangements. There should be an ability to stay invested past retirement and drawdown rather than having to crystallise benefits rather than having to transfer out to a new post retirement product. There also needs to be an efficient means of dealing with small funds. If a collective DC arrangement was



established it could provide more equity across generations and therefore more certainty of achieving the desired goals.

## 5. Other

- *How would you ensure that a new universal retirement savings system would not operate to the detriment of existing voluntary pensions arrangements?*

It is important to ensure that it doesn't. The entire system needs to be simplified and consistent so that there is no opportunity for arbitrage and that it can be seen by all as secure, fair and simple. It is also important that any low floor or contribution ceiling structures do not act as a benchmark and lead to an overall reduction in future levels of contributions.

- *What would you see as the likely costs and broader economic impacts of such a system?*

While this is an economic question we would ask if, as a country, in the long-term can we afford not to do this?

- *Do you have other suggestions/comments you would like to add to the considerations around universal retirement savings?*

There is no mention of communications or participant interaction. We believe these are hugely important and that there is a real opportunity to ensure there is maximum use of technology that can help in keeping the costs down. The charging structures should reflect the economies of scale that can be achieved.

It is also unclear if any of the associated benefits, that are usually provided in occupational schemes would form an element of the system e.g. death benefits.

The Government position on the long-term sustainability and provision of the State pension should be clearly defined and supported in the roll out of the new system.

A collective DC arrangement should be considered if the objectives set warrant it. Individual DC would not provide any certainty for the participants and there may be too much conservatism in the investment structure and contribution rates which could result in the universal retirement savings plan only providing a small additional cash amount at retirement.

As we have set out in our covering letter with this submission, it is difficult to answer many of the questions posed without knowing the objective of the system. In our view the objective should be set out clearly at the outset. Once this is done, further work can be undertaken to establish the population of potential participants. Then the detailed operational issues can be properly considered. At that point it would be worth



another consultation exercise as there would be a better context in which to address the issues raised.