Observations on the Design Principles for Ireland's Automatic Enrolment Retirement Savings System

Irish Association of Pension Funds

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We welcome the publication in March 2022 of the Design Principles for Ireland's Automatic Enrolment Retirement Savings System. This is an important step in introducing Automatic Enrolment in Ireland and in improving pensions coverage and adequacy in Ireland.

We also welcome the intention to take the first enrolments from early 2024. We are conscious that this is a very challenging timeframe and there are significant elements of the system to be put in place in order to achieve this. With this in mind, we offer our observations on the Design Principles which, we hope, will be a useful input to the detailed work that now needs to take place. These observations come from our members and are based on their experience and expertise as employers who already have pension schemes in place for their employees, trustees who govern those schemes, administrators, investment managers and other advisers who provide services to those schemes.

For ease of reference, we will follow the structure set out in the Key Design Features section of the March 2022 document.

Eligible Population

We had previously indicated that we believe it would be preferable not to have a lower age limit for eligibility. Those aged 23 who have been in the workforce for some time would see a reduction in their salary when they are automatically enrolled and is unlikely to make the system popular for that reason. If they were enrolled on starting employment, their initial take-home pay will determine their spending habits. We also believe that those aged over 60 could still save a reasonable amount between then and State Pension Age. There may also be people in this category who have been in an occupational pension scheme previously but move at age 60 or over to an employer who doesn't have an occupational scheme.

While the document is clear that those earning below €20,000 can opt-in and their employer will be required to make matching contributions and the State will provide a top-up, it isn't clear if that is also the case for those under 23 or over 60 that opt-in.

It also isn't clear what the process will be in establishing eligibility based on the earnings threshold. Many employees will be on fluctuating earnings with items like shift-pay, overtime and other payments that would bring them over the threshold on some months or weeks, but they might on an annual basis be earning less than €20,000. This will be particularly relevant in the retail and hospitality sectors which tend to have low pensions coverage and will be especially impacted by automatic enrolment.

It is also unclear how it will be determined that employees are not existing members of an occupational scheme sponsored by their employer. While it may be possible to use Revenue data to indicate those paying pension contributions, there will also be others who are in non-contributory employer schemes or in a waiting period before being eligible to join a scheme.

Employee and Employer Matching Contributions

We note that the 6% employee contribution will be on gross earnings and will therefore be a higher deduction from take-home pay than for someone with a 6% contribution in an occupational scheme receiving tax-relief.

State Top-Up

We are concerned that the State Top-Up system will add confusion to what is already a complex system that needs simplification. Over time there is likely to be much movement between existing occupational pension schemes, personal pensions and automatic enrolments as people change employers or their employment status. It is not clear how benefits will be paid and revenue limits applied where people have accumulated such mixed benefits.

Central Processing Authority

The role of the Central Processing Agency will be crucial to the success of AE. The tasks it is expected to undertake are extensive and complex and it is important that it is resourced accordingly. All of those tasks are currently carried out as part of pension scheme administration and this experience should be utilised. Being up and running and able to fulfil all these tasks in under 2 years will be challenging but needs to be in place in order to ensure confidence in the system.

There will be significant set-up costs and it is questionable whether the 0.5% annual charge will be sufficient to cover these costs, the ongoing administration costs and investment management costs. The equivalent maximum annual charge for AE in the UK in 0.75%. NEST currently has 11 million members and operates at close to a 0.5% annual charge through a combination of a fee on contributions and assets under management. It also has a significant loan from the UK Government to cover the set-up costs.

The precise structure of the CPA and its governance is unclear. If it is to be regulated by the Pensions Authority, is that as an occupational pension scheme or as some new entity that will need to be legislated for? It would seem appropriate that the same requirements and duties that apply to all funded pension schemes would also apply to the CPA.

Role of Registered Providers

We note that the 4 investment managers will each be required to have 4 funds which will be Conservative, Moderate Risk, Higher Risk and a Default. The default fund will follow a lifecycle/lifestyle approach. We presume it is possible that the Default Fund could be the Moderate or Higher Risk Fund. As the 4 managers will be required to have similar type funds, we are concerned that there will not be scope for innovation or differentiation.

It is crucial that a strong governance framework is in place between the CPA and the Registered Providers. We believe the design of the four funds (including the default) should undergo an evidenced based review regularly to ensure that they remain fit for purpose and are expected to deliver a suitable risk-return profile across age groups. Innovation and new investment ideas should be considered as part of this review.

Opt-Outs and Suspension

As well as the opt-out options that will be available, will participants also be able to opt-out if they leave an employer and join that employer's occupational scheme?

Participants who opt-out in months 7-8 will receive a refund of their own contributions. Will this be the actual contributions paid or the value of those, which may be more or less than the contributions? If the value is less than the contributions paid and the intention is to pay the amount of the contributions, will the balance come from the employer and State top-up portion of their fund?

Is the expectation that participants will opt-out through the portal or will there be employer involvement?

Pension Drawdown

While we note that consideration will be given to developing drawdown options as the system matures, we would suggest that this starts as soon as possible. While participants in the AE system may not accumulate significant pots for some time within the system, some of them may have other accumulated pension savings and will need options at retirement. There will at least need to be communication between the CPA and the administrators of their other arrangements to ensure benefits are within Revenue limits.

Sample Illustrations

It would be appropriate that the sample illustrations provided are modelled on the same basis as DC pension schemes and, for example, projected funds are discounted back and shown on today's money value.

Evolution of the AE system

It is essential that the recommendations on prescribed standards and contribution levels for pension schemes outside AE are considered as soon as possible. There may be considerable changes required to existing schemes and these will need to be implemented over time. It will also be difficult to establish equivalence in contributions when there is a different form of State Incentive. Membership of an occupational scheme also often allows access to other benefits such as death or ill-health benefits.

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