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Ms Haley O'Shea
Policy Advisor to the Joint Committee on
Social Protection, Community and Rural
Development and the Islands
(by e-mail)

25th November 2022

Dear Haley,

Re: Submission on the General Scheme of the Automatic Enrolment Retirement Savings System Bill

Please find attached a submission from the IAPF on the Bill. We represent pension schemes in Ireland and the experience and expertise of all those involved in the operation of these schemes can help inform the development of automatic enrolment.

We would be happy to appear in public session at a Committee meeting.

Yours sincerely

Jerry Moriarty
CEO
087 6592098

IAPF Submission on Draft Heads and General Scheme of The Automatic Enrolment Retirement Savings System Bill 2022

The IAPF (Irish Association of Pension Funds) would like to make the following observations on the Draft Heads and General Scheme of the Bill. IAPF is the representative body for pension schemes in Ireland and our aim is to ensure people in Ireland have pensions that are secure, fair and simple. Our members have experience and expertise in operating pension schemes, and we believe this can be used to inform the debate on Auto-enrolment.

We also made observations on the Design Principle for Auto-enrolment to the Department of Social Protection in July 2022 and this document can be accessed here https://iapfstorage.blob.core.windows.net/live-files/2022_9_14_18_463.pdf

Head 4 Criteria for automatic enrolment

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.

While we note the in the explanation that individuals under 23 mostly work in multiple short-term roles, we also note the explanation in Head 5 that those aged between 23 and 30 change jobs frequently and that the “pot follows member” approach ensures there is not a pause in contributions. This would also seem to be a good argument for including those under 23. We also note that the European Commission in its paper “Best practices and performance of auto-enrolment mechanisms for pension savings” published in November 2021 makes a similar argument:

“A minimum age of at most 18 (as exists in Poland’s auto-enrolment scheme) is suggested as a best practice for when employees can participate in auto-enrolment pension schemes for the following reasons. Firstly, it is argued that if deductions of pension contributions from gross pay is the status quo from the start of an individual's working life, there will be fewer opt-outs than if they begin several years into an individual's working life. Secondly, it is argued that starting to contribute to a pension account from an earlier age is likely to result in greater retirement savings due to establishing a habit of saving earlier.”

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 does not have an occupational scheme.

It also is not 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.

Subhead (2) of Head 4 also refers to a qualifying occupational pension scheme. We suggest that this should be extended to include a Personal Retirement Savings Account into which the employer and employee are actively making contributions. There may also be situations where an employer could be making contributions to a pension arrangement that are in excess of the total contributions required in the auto-enrolment scheme but does not require employee contributions. For that reason, we would suggest using a wording such as “to which there are active contributions being made”.

It is also quite common for occupational pension schemes to have waiting periods of up to 6 months before employees are eligible to join an employer’s scheme. Enrolling such employees to the auto-enrolment system would cause practical issues if they are then unable to join their employer’s scheme. Therefore, the approach to be set under Subhead (3) of Head 4 for identifying occupational pensions schemes that will qualify as auto-enrolment exempt schemes, should also account for these employees that have an expectation to shortly join their employer’s scheme.

Head 12 Effect of opt-out and suspension on contributions

The provision to refund the contributions of an employee who opts out and retain non-refunded contributions does not allow for the fact that the value of those contributions may be lower than the amount paid in, because of investment losses. We would suggest that the Head could provide for a refund of the employee’s contributions and that the remaining value of non-refunded contributions be retained.

Head 36 The AE investment management function is outsourced to Registered Providers selected by tender

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.

Head 58 Provision of a lump sum

We have a number of concerns regarding this provision, namely:

- This allows for a different form of benefit than is generally allowed as a retirement benefit where all benefits can only be paid as a lump sum when this is deemed to be a trivial benefit
- There is no indication how payment of such a lump sum would impact benefits an individual may be due under other pension arrangements they might have
- The provision of tax relief on pension contributions generally operates on the basis of deferral of tax, where tax is not charged on income foregone but is charged at the point that income is paid out as a pension benefit. It seems curious that the State is providing a direct incentive to encourage pension savings but does not intend to tax those savings in any way
- What most people require in retirement is a secure income and allowing all benefits to be taken as a cash lump sum does not achieve this objective
- The implication that some of those who are auto-enrolled will be able to take benefits as a tax-free lump sum whereas others, at some time in the future, may not. This does not appear to be fair and it is important that those who are auto-enrolled can be clear about the benefits they will receive.