Rialtas na hÉireann
Government of Ireland

# The Design Principles for Ireland's Automatic Enrolment Retirement Savings System

## Department of Social Protection

## March 2022

# Auto-enrolment in Numbers

- Approximately 750,000 workers will be enrolled into a new workplace pension scheme to be launched at the end of 2023
- For every €1 a worker saves, €2.33 will be credited to their pension savings account
- Employers will make 100% matching contributions and the State will add 33% to the worker's contribution
- All contributions will be invested in a range of four funds that can be selected by the worker
- A worker earning €35,000 p.a. saving 6% of their salary will accumulate a fund of €293,000 (excluding investment returns)
- Adding typical investment returns could see the fund grow to €583,000
- AE pay-outs will be made in addition to the State Pension payment of about €13,000 p.a.
- In total, the AE pension savings system (excluding investment returns) will generate around €21bn in funds under management over 10 years
- The State will contribute €3bn of this
- Savers will contribute €9bn and employers will match this with €9bn in contributions

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# Minister's Foreword

I am very pleased to present the final design of the Automatic Enrolment Retirement Savings System for Ireland. This represents a significant milestone in implementing our Programme for Government commitment to introduce a pension Auto-enrolment system.

Stated simply, the introduction of Auto-enrolment represents a change from a system whereby employers may, or may not, make provision for a workplace pension scheme to one where every worker will have access to a workplace pension.

It represents a move from an 'opt-in' approach to supplementary pension savings to an 'opt-out' approach.

It represents a change from a system whereby workers are often left to their own devices to navigate the complex world of pensions to one in which choices and options are simplified.

It represents a change from a system whereby workers, particularly those on low to middle incomes may have to fully fund their own pension savings to one in which both employers and the State will make contributions.

Auto-enrolment is not a new idea. Successive Governments have identified it as a key policy priority and, in 2018, the previous Government published a 'Strawman' design for consultation.

In the intervening period we have met with, and received support from, national and international experts. We have engaged with the pension industry, employer and worker representatives, and we have received direct feedback from members of the public and advocacy groups.

This work has culminated in the finalisation of the detailed design principles set out in this document.

For the most part, there was strong support for the Strawman design. However, based on feedback, some elements have been changed.

Notably, to enable workers and employers to adjust to an 'opt-out' model, we have provided for a longer and more gradual phase-in of the system.

We have also modified the approach to fund selection and management so as to pool the returns achieved by each investment manager. This simplifies the choices facing workers and means that all workers who opt for a particular fund type will receive the same return on their investment.

We believe that these changes will deliver a fairer and more transparent system for all.

With Government approval now in place we can move on to the work of implementation.

It is my intention that the legislation providing for the establishment of the system will be brought forward in 2022. We will, in parallel, start the work of putting the organisation and IT infrastructure in place with a view to having the system up and running by the end of 2023 and ready to take first enrolments from early 2024.

I firmly believe that retirement should be a time when people can reap the rewards of a long working life. I am, therefore, extremely proud to introduce this once in a generation policy that will have a truly meaningful impact on people's lives.

When implemented, the new system will enable workers to build savings in order to sustain good living standards in their retirement. In this way, Auto-enrolment will significantly increase the wellbeing, financial security, and independence of older people.

This is a policy and an initiative to which we can all subscribe.

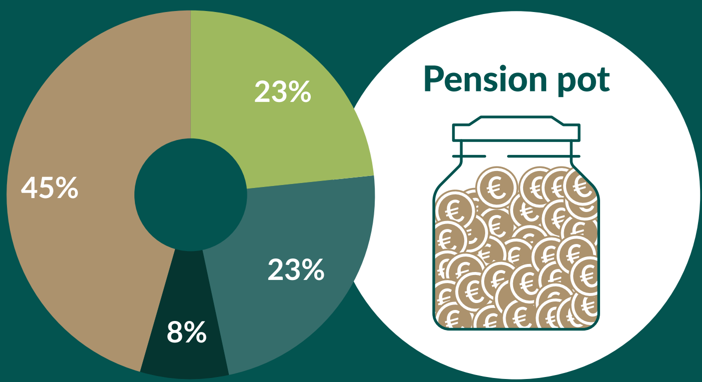
Heather Humphreys

**Heather Humphreys T.D.**
Minister for Social Protection

# Automatic Enrolment Saver Journey

Sean works in a factory and his salary is equal to the average annual earnings of €40,000. He is **enrolled at the age of 23** and continues to contribute to the AE system until he **retires at the age of 66** giving a total **contribution history of 43 years.**

| Breakdown of projected fund at retirement | | % of Total |
|---|---|---|
| Employee contributions | €132,200 | 23% |
| Employer contributions | €132,200 | 23% |
| State subsidy | €44,067 | 8% |
| Net investment returns | €255,917 | 45% |
| **Total projected fund** | **€564,384** | **100%** |




**Sean's contributions**
**€132,200**

**Sean's employer contributions**
**€132,200**

**State contributions**
**€44,067**

**Net investment returns**
**€255,917**

This example assumes that Sean has a static career without promotion and that his income grows by 1.5% per year resulting in his salary increasing to about €76,000 by the end of the 43 years.

# Sean’s Auto-enrolment Contributions

**YEAR 1** 1.5% contribution

**YEAR 4** 3% contribution

**YEAR 7** 4.5% contribution

**YEAR 10** 6% contribution

**YEAR 1 · YEAR 2 · YEAR 3**

1.5% 1.5% 0.5%

In years 1 to 3, the employee and employer will each pay 1.5% of a person’s gross earnings into the pension pot, and the State will pay 0.5%.

**YEAR 4 · YEAR 5 · YEAR 6**

3% 3% 1%

In years 4 to 6, the contribution rates will be 3% for the employer and employee, and 1% for the State.

**YEAR 7 · YEAR 8 · YEAR 9**

4.5% 4.5% 1.5%

In years 7 to 9, the contribution rates will be 4.5% for the employer and employee, and 1.5% for the State.

**YEAR 10**

6% 6% 2%

From year 10 onwards, the contribution rates will be 6% for the employer and employee, and 2% for the State.

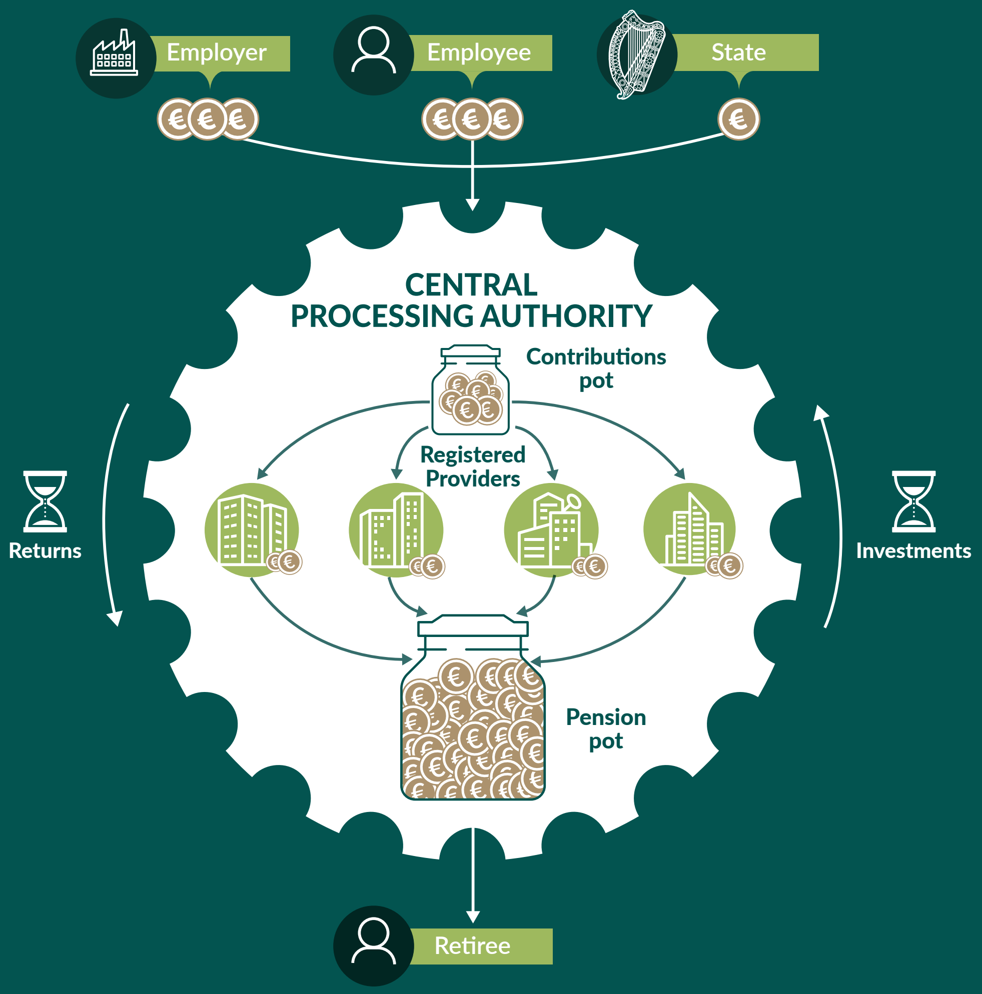
# Automatic Enrolment Retirement Savings System

## Supplementary Pensions Coverage

Individual retirement savings are too low.

Only 1 in 3 private sector workers have supplementary pension coverage. → A reduction in living standards on retirement.

## Auto-enrolment Process




## Benefits of Auto-enrolment

A new supplementary retirement savings system providing future retirees with:

- More income when you retire
- Increased retirement options
- A sustained standard of living

# 1. Auto Enrolment in Summary

There are approximately 750,000 workers over the age of 23 and earning at least €20,000 per annum who are not benefitting from a workplace pension scheme. A key goal of Auto-enrolment (AE) is to make sure that all workers have not only access to a workplace pension scheme, but that they are actually enrolled in such a scheme; that they are, through employer contributions and a State top-up, incentivised to stay in the scheme; that, through State supervision and administration of the scheme, their pension choices are presented in a straightforward manner; that their pension savings can travel with them as they move between jobs; and, ultimately, that their workplace pension savings will help deliver a retirement income that enables them to sustain a reasonable standard of living relative to their employment earnings.

The key features of how AE will work in Ireland are set out below.

## 1.1 What Auto-enrolment Means for Employees

- All workers will have access to a defined contribution workplace pension scheme with the benefit of an employer contribution and a State 'top-up'.
- The AE system will be voluntary but will operate on an 'opt-out' rather than an 'opt-in' basis.
- Employees, aged between 23 and 60, earning over €20,000 per annum (across all employments) and not already contributing to occupational pensions will be automatically enrolled.
- Employees will be free to opt-out of the system at the end of a minimum membership period (during the 7th and 8th month of membership) and on each occasion during the first ten-year period that contribution rates increase.
- Employees will also be free to suspend making contributions at any time.

- Employees/members will be free to choose from a range of four retirement savings funds:
  - A conservative fund (e.g. mainly Government bonds, cash, or cash equivalents)
  - A moderate risk fund (e.g. Government bonds, plus blue-chip equities, stock exchange indices etc.)
  - A higher risk fund (e.g. equities and properties)
  - A 'default fund' which will operate on a lifestyle/lifecycle basis.[1]

- The funds will be provided by four commercial investment managers contracted through an open tender, each of whom will be required to provide each of the four fund types.

- All contributions nominated for a particular fund type will be pooled and distributed between the commercial providers. Similarly, all returns will also be pooled, meaning all employees opting for the same fund type will receive the same return, in accordance with the amount of contributions they have made.

- Where employees do not select a preferred fund, their contributions (together with those of the employer and the State) will be invested in the 'default fund'.

- Employees will initially contribute 1.5% of gross earnings.

- Employees' minimum contributions will be increased on three separate occasions by 1.5% over a 10-year timeframe until they reach a maximum of 6%.

- Employers will be required to match the employee contribution up to an income threshold of €80,000.

- The State will also provide a top-up equivalent to 33% of the employee contribution.

- This means that for each €1 saved by an employee, €2.33 would be credited to their pension savings account – their €1 personal contribution, plus €1 from their employer, plus €0.33 from the State.

- Taking an average member salary of €35,000, a person joining AE on Day 1, contributing 1.5%, and gradually increasing to 6% over the 10-year phase-in period, will save approximately €12,600 themselves over the 10-year period, but will, taking account of the employer and State contributions have approximately €29,000 credited to their account before any investment returns.

[1] The lifecycle investment approach is commonly used in defined contribution schemes and is often chosen as the default option in such schemes. A lifecycle investment approach is one where contributions for each member are invested more heavily in higher risk growth investments, such as equities and property at younger ages and then gradually switched automatically to lower risk investments, such as bonds and cash as the member nears retirement.

- Benefit draw-down will be linked to the State Pension age. Members will be able to draw-down their funds as a lump sum, annuity, or approved retirement product in line with pension and taxation law prevailing at the time of retirement.

- Administrative fees for all provider/fund options will be minimised through leveraging the scale of a Central Processing Authority (CPA) with a maximum envisaged annual management charge of 0.5% of assets under management.

- Member account portability between employments will be facilitated by a 'pot-follows-member' approach. In other words, people keep their pension fund and stay in the scheme even as they change employments.

- Employees outside the age and earnings band thresholds designated for AE will be able to opt-in.

- All employees/members will be able to access account information, update account information, apply for payment suspension or exercise an opt-out via an online portal.

## 1.2 What Auto-enrolment Means for Employers

- All their employees earning more than €20,000 (across all their employments) will have the benefit of an occupational or workplace pension.

- Unlike other occupational pension schemes, employers will not need to establish a scheme, procure a pensions provider or pensions administrator, or select a savings option for their employees.

- Employers will, however, need to ensure that their payroll process is able to take instruction for enrolment and is able to calculate and remit both employee and employer contributions to the CPA.

- Employers will be required to match members' contributions up to an eventual maximum of 6% subject to an earnings threshold of €80,000. (Contributions will commence at 1.5% of members' earnings, increasing to 6% by Year 10).

- Employer contributions will be deductible for corporation tax purposes.

- Failure of the employer to implement a payroll instruction for enrolment, and/or to deduct and remit contributions as required will be subject to administrative penalty initially and to prosecution as a criminal offence if sustained.

### 1.3 What Auto-enrolment Means for Pensions Industry

- Existing customers of occupational pensions where employers are contributing to the system will not be enrolled in the Auto-enrolment system.

- Commercial providers will be invited to tender to become a 'Registered Provider' of investment management services as part of the Auto-enrolment system.

- Commercial providers may also be invited separately to tender to provide administration and fund accounting services. Pension administration services (account statements etc.) will be administered via an online portal. Any commercial provider engaged in administration and accounting services for the CPA will be precluded from providing investment management services and vice versa.

- A shortlist of up to four AE Registered Providers (RPs) will be selected to provide savings/investment funds. Each provider will be required to offer a limited number of funds, specifically:
  - Conservative (e.g. an appropriate mix of Government bonds, cash and cash equivalents, blue chip private bonds and stock market index funds)
  - Moderate risk (e.g. investment portfolio involving a mix of Government bonds, blue-chip equities, and property)
  - Higher risk (e.g. predominately equities and property)
  - Default (lifestyle/lifecycle product)

- Enrolled employees will be asked to choose from the fund options available. Their contributions will be pooled by the CPA and allocated between the RPs on a proportionate basis.

- Investment returns achieved by the RPs will also be pooled by fund type so that all employees investing in a particular fund type will receive the same return in accordance with their contributions.

- Excluding investment returns and assuming 725,000 workers remained enrolled with an average gross salary of €35,000, total savings are expected to amount to just around €21 billion after 10 years.

- Employees/members will not have any direct contact or relationship with the RPs. The CPA will be the single customer for the RPs.

- Contributions from employees who decide not to exercise choice will be invested in the default fund.

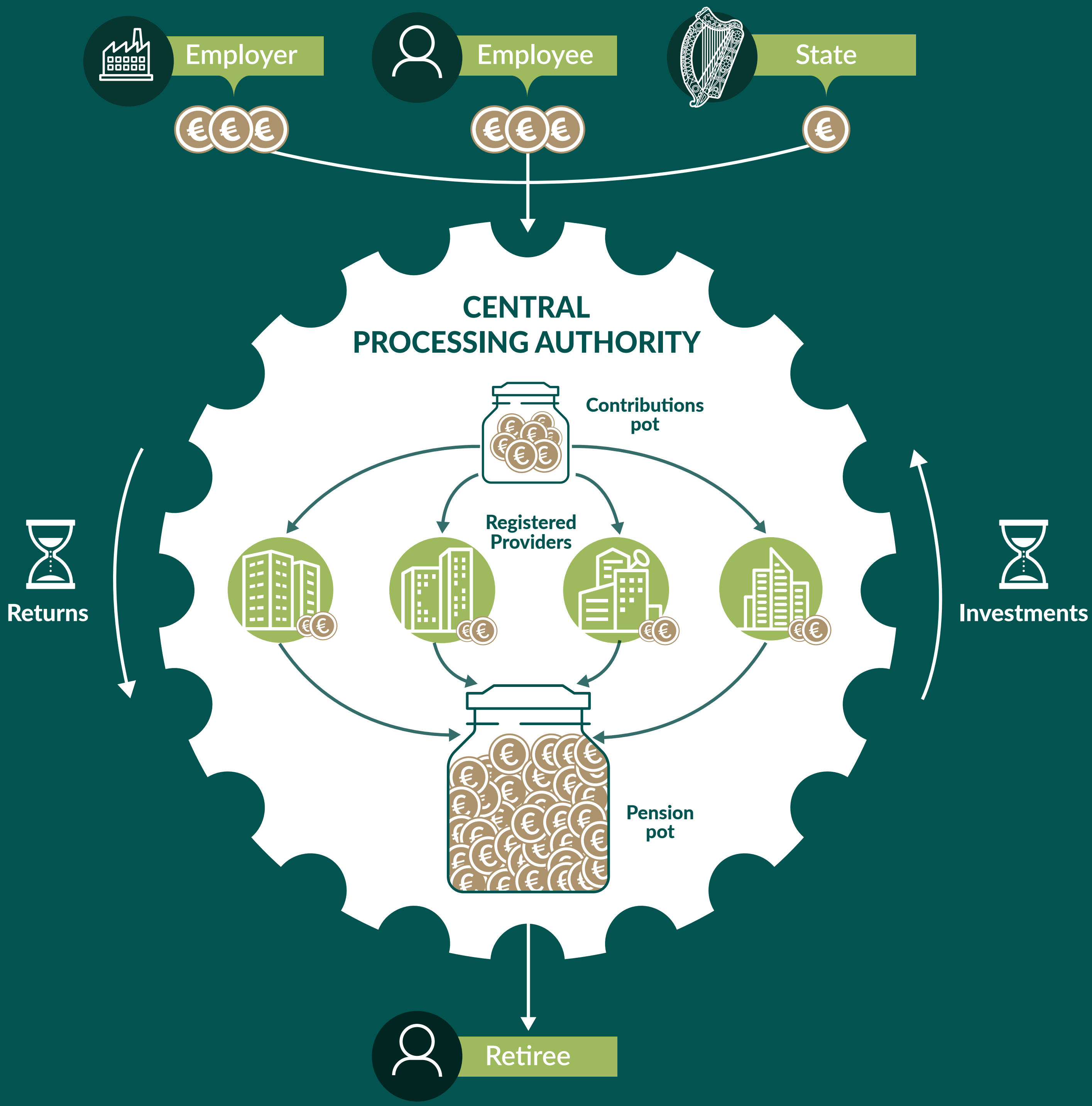
- Contracts with RPs will cover a period of up to 5-7 years at which time a new open tender competition will be held.
- Pension drawdown by members will be via the existing range of regulated pension products and members will have the right to engage with commercial providers.
- In time, the CPA may tender for a set of pension drawdown products.

## 1.4 Tying it all together - the Central Processing Authority (CPA)

A new CPA will be responsible for overall administration of the system. It will:

- Contract a small number of commercial 'Auto-enrolment Registered Providers' to offer a range of savings/investment products.
- Organise the collection of the employee and employer contributions and the State 'top-up'.
- Organise the allocation of contributions to the preferred fund type of the members in line with their expressed preferences or on a default basis if no preference is expressed.
- Set up a system to enable employees outside the defined age and income thresholds to 'opt-in' to the system.
- Provide (in association with any contracted administration provider) a web-based portal to allow employees, and other members, access and select from the available saving scheme options, which will be presented in a readily comparable manner.
- Ensure that employee/member instructions to opt-out or suspend savings are acted upon.
- Arrange for fund accounting services (to maintain a statement of individual accounts and allocate returns to individual accounts).
- Arrange for administration services.
- Distribute pension funds to members when they reach retirement age.

# Auto-enrolment Process



# 2. Introduction

## The Case for Auto-enrolment

The idea behind pensions is simple – save now to spend later. However, it is clear that many people find pensions complicated. Too many find it difficult to save what they need for retirement. This is reflected in the fact that just 56% of those in employment have an active supplementary pension and just 35% of private sector workers have such coverage.

Over the last 20 years, in a period where the policy objective has been to increase this overall rate (to around 70%), the level of supplementary pensions coverage has remained stubbornly low, ranging from just less than 50% in 1995 to 56% today. Clearly, and despite the considerable efforts of Government and the pensions industry to promote and incentivise voluntary participation in supplementary pensions, the marginal changes in coverage over the last 27 years indicates that the purely voluntary approach to participation has not achieved the desired goal of increasing coverage to an appropriate level.

It is clear that many people are not setting aside personal savings to meet their own income expectations for when they retire (relative to the income they enjoyed while employed). With the welcome increases in life expectancy this 'retirement savings gap' means that, without action, large numbers of people may face significant and unwanted reductions in their living standards in their retirement years.

This savings gap arises for a number of reasons. At its most basic it is something of a truism to acknowledge that when there is a choice between addressing a perceived need now or setting aside funds to address a potential need in the future, the certainty associated with addressing the immediate need will tend to trump the possibility of a future reward from saving. This is certainly true for many people on lower incomes for whom there is often little choice and, for many of whom, current expenditure falls into the realm of the imperative rather than of choice. Therefore, the challenge facing us is twofold; first to create the same sense of imperative around saving for retirement and second, to help those on lower to middle incomes accumulate retirement funds. These are the twin goals of our proposed Automatic Enrolment system.

In its 2014 'Review of the Irish Pensions System', the Organisation for Economic Co-operation and Development (OECD) concluded that the single greatest goal in Irish pension policy should be to increase coverage through the introduction of a mandatory or quasi mandatory earnings-related system. In making this recommendation, the OECD highlighted that Ireland was at the time one of only two member countries without a mandatory earnings-related pillar for retirement savings[2]. The need for action to address barriers to saving was also reflected in the outcome of the Citizens' Assembly deliberations with 87% of members agreeing

[2] The other being New Zealand which has since introduced a national 'Kiwi-Saver' system to which all new employees must now be enrolled.

that the Government should introduce some form of mandatory pension scheme to supplement the State Pension and reduce the retirement savings gap.

This design document sets out how the Government now intends to proceed to such a savings scheme.

## The Current Pensions Landscape

In common with other member states of the OECD, Ireland's pension system comprises what is known as a 'multi-pillar approach'.

Pillar 1 is the publicly managed **State Pension**, this acts as the 'bedrock' of the pension system, guaranteeing an income replacement rate in Ireland of about 34% of average earnings. This is sufficient in most cases, along with other benefits such as Fuel Allowance, to protect against poverty, but would not deliver the level of income in retirement to which many people aspire.

Pillar 2 consists of supplementary **occupational pension schemes**. Typically, these consist of defined contribution savings schemes organised by employers. Participation is usually voluntary on an 'opt-in' basis, with some employers, but not all, making an employer contribution. Employee contributions attract tax relief at the marginal rate. In many cases, although provided by commercial pension firms, the schemes are employer specific and funds cannot be easily transferred between schemes when a worker moves jobs.

Pillar 3 are privately organised **personal pension savings** in the form of individual pension plans - for example Personal Retirement Savings Accounts (PRSAs).

According to analysis from the CSO, approximately 56% of the working population is actively contributing to a supplementary pension scheme[3]. It is estimated that this could be as low as 35% when the private sector is considered in isolation. This relatively low coverage rate among private sector workers is exacerbated by the fact that there is some evidence to suggest that quite a number of people may not be saving sufficiently to provide an adequate pension in retirement. For example, data from the Revenue Commissioners indicates that the average pension contribution as a percentage of gross pay ranges from only 3% to 6%[4]. Overall, as a consequence of this low supplementary pension savings rate, many workers may suffer an unanticipated reduction in living standards when they retire.

[3] 56% represents current supplementary pension coverage where participants are actively contributing to their pension and excludes cover from previous employments, deferred pensions and/or those being drawn down.

[4] https://www.revenue.ie/en/corporate/documents/research/pmod-statistics-paper.pdf

## The Role and Development of Auto-enrolment

The purpose of the AE retirement savings system is to address this low level of supplementary pension coverage. AE is a system where employees who do not have an occupational or supplementary pension are automatically enrolled into a retirement savings scheme. Some of the key differences between the proposed model of Auto-enrolment and the existing occupational pension system are that:

- While it is still voluntary, it will be 'opt-out' rather than 'opt-in'.
- All workers will have the right and opportunity to be enrolled into the system.
- All workers will benefit from an employer and a State contribution.
- The pension scheme will be transferable between employments/occupations using what is known as a 'pot-follows-member' approach.
- The administrative burden on employers to source, set-up and administer occupational pension schemes will be eliminated.

The decision to implement an Auto-enrolment system is, as already mentioned, consistent with the key recommendation contained in the OECD's 'Review of the Irish Pensions System', published in 2014[5].

In response, the then Government published 'A Roadmap for Pensions Reform 2018-2023', in which it confirmed an intention to develop and implement a State sponsored supplementary retirement savings system into which employees would be automatically enrolled[6].

Subsequently, a 'Strawman' design was published to facilitate a comprehensive public consultation process.[7] Taking into account the feedback from this process, in October 2019 the Government approved several key design elements of the AE system.

In June 2020, the Programme for Government: 'Our Shared Future', reaffirmed the commitment to introduce a pension Auto-enrolment system. This commitment set out the basis for gradually delivering the system based on the following principles:

- There will be a phased roll-out, over a decade, of the contributions made by workers and employers.
- Matching contributions will be made by both workers and employers and the State will top up those contributions.

[5] OECD (2014), OECD Reviews of Pension Systems: Ireland, OECD Reviews of Pension Systems, OECD Publishing, Paris, https://doi.org/10.1787/9789264208834-en.

[6] Pensions Roadmap 2018 - 2023 (assets.gov.ie)

[7] A Strawman Public Consultation Process for an Automatic Enrolment Retirement Savings System for Ireland - 92c139a0d2c247f09c4d4078e7bf30be.pdf (www.gov.ie)

- There will be an opt-out provision for those who choose to opt out.

- Workers will have a range of retirement savings products to choose from.

- There will be a cap imposed to ensure that returns are not eroded or reduced by management fees.

In line with the Programme for Government commitment, the Economic Recovery Plan, published in July 2021, provides that the necessary legislative, organisation and process structures are to be put in place over the course of 2022 and 2023.

In October 2021, the Government published the 'Report of the Commission on Pensions'.[8] This independent Commission had been established to examine sustainability and eligibility issues in respect of the State Pension. Favouring the 'multi-pillar approach', it also endorsed the introduction of an Auto-enrolment system as a means of improving retirement income adequacy for future pensioners.

This publication sets out the final design principles for the AE system.

It represents the result of several years consideration of an appropriate approach tailored to the needs of Irish society. It takes on board the inputs and advice of a number of national and international experts, pension and investment management companies and industry representative bodies.

In addition, as Ireland is a late adopter of AE, the design also takes into account learnings from other countries such as the UK, Australia, Sweden, Denmark and New Zealand. It reflects some of their best practices and avoids known pitfalls. Research and analysis, particularly that conducted by the ESRI and OECD, has been integrated into the design. The Department was also aided by international expertise sourced through the European Commission Directorate-General for Structural Reform Support's (DG-REFORM) Technical Support Instrument.[9]

[8] https://www.gov.ie/en/publication/6cb6d-report-of-the-commission-on-pensions/

[9] The Department is particularly grateful to Ole Beier Sørensen, Edward Palmer and Jens Christian Stougaard for their guidance.

Section 3 provides an overview of the key design features of the following elements of AE:

- Eligible Population
- Employee and Employer Matching Contributions
- State Top-Up
- Central Processing Authority
- Role of Registered Providers
- Opt-Outs & Suspension
- Pension Drawdown

Section 3 also provides some illustrations of how this design will work for people in different life and work situations.

The timeline for implementation of the system is covered in section 4 while section 5 describes how the AE system should evolve.

A set of Frequently Asked Questions is given in Section 6.

# 3. Key Design Features

The following subsections provide an overview of the key design features of Ireland's AE system. These features are designed to:

- Incorporate learnings from several international systems.
- Retain a voluntary system of occupational pension provision but at the same time ensure broader occupational pension coverage by:
  - moving to a voluntary 'opt-out' rather than a voluntary 'opt-in' approach
  - incentivising participation through matching employer contributions and a State top-up – €2.33 will be deposited into the individual savings account for every €1 contributed by the employee.
  - providing for opt-out and contribution suspension arrangements.
- Facilitate individual choice through offering a range of investment options.
- Utilise a 'pot-follows-member' approach to so that employees remain members of the same pension saving scheme even as they change employment.
- Minimise the administrative burden for employers (just a simple payroll instruction).
- Be easy to understand and communicate to employees and employers.
- Utilise a lean 'digital by design' approach, making it easy for employees to engage with the system and reducing overall system costs. (An offline option will be available as necessary).
- Work alongside and complement existing occupational pension arrangements.
- Deliver a pension fund on maturity that individuals can drawdown utilising regulated pension products in compliance with prevailing tax and pension regulations (e.g. annuities, Approved Retirement Funds, etc.).

## 3.1 Eligible Population

- **Current and new employees aged between 23 and 60 years of age and earning €20,000 gross or more per annum across all employments will be automatically enrolled.**
- **New employees will be enrolled with effect from their first day of employment with an employer.**
- **People earning below €20,000 per annum across all employments and those employees aged under 23 and over 60 will be able to opt-in to the system if they so choose.**
- **Employees who are existing members of an occupational pension scheme sponsored by their employer will not be automatically enrolled for the employment to which that pension relates.**

- The earnings threshold is set at €20,000 to recognise that providing for retirement income in the future needs to be balanced against current/real-time income pressures particularly for lower paid employees. This threshold is set across all employments that an individual may have.

- People on very low incomes, unless they are second earners, generally consume all their income and have little if any scope to fund savings. Although the objective of AE is to increase the level of supplementary savings coverage, it is not considered appropriate to automatically enrol all low-income earners.

- Instead, workers below the designated earnings threshold will be given access to the AE system on a voluntary opt-in basis. Where workers below the income threshold opt-in to the system, their employer will be required to make matching contributions and the State will provide a top-up as set out at Sections 3.2 and 3.3.

- The earnings threshold also takes account of income replacement rates in retirement. The term ‘replacement rate’ means the proportion of pre-retirement income that can be achieved by people in retirement. It is generally agreed that people on lower incomes need higher replacement rates than those on higher incomes if they are to maintain satisfactory living standards in retirement.

- The lower age limit for being enrolled automatically is to be set at 23 years. Any employee below that age can opt-in if they wish.

- Although it is important to begin saving for retirement as early as possible, research shows that those under the age of 23 are also more likely to work in multiple, short term roles reflecting the fact that Ireland has one of the highest levels of participation in third level education among OECD countries. This results in delayed entry into full-time employment.

- The upper age limit for being enrolled automatically is to be set at 60 years as it is unlikely that a participant joining over this age will accumulate a meaningful pension fund prior to retirement. However, any employee over that age may opt in if they wish.

- Employees who are over 60 when AE is first introduced will not be automatically enrolled, those who are enrolled at a younger age will continue to pay contributions and remain in the system after 60 years of age – i.e. until they draw down their pension.

- Both the income and age thresholds will be subject to review over time and will be adapted if and as required, every five years, to reflect developments in labour market participation and earnings.

- Based on these eligibility criteria, data from the Revenue Commissioners indicates that approximately 750,000 employees will be automatically enrolled in the initial phase.

- At this level of membership, assuming a 95% retention rate and using a figure of €35,000 for the average gross wages of members it is estimated funds under management will accumulate an average rate of around €900m p.a. in years 1 – 3, growing to €4bn p.a. by the end of Year 10.[10] At the end of Year 10, it is anticipated that funds under management (excluding investment returns) will amount to just under €21bn.

[10] Assumes an income growth rate of 1.5% per year.

## 3.2 Employee and Employer Matching Contributions

- **When fully established, employees will be required to save 6% of their gross income in the Auto-enrolment pension system.**
- **AE will be implemented on a phased basis – employees will be required to make initial contributions of 1.5% of gross earnings, rising by 1.5 percentage points every three years until it reaches a maximum contribution rate of 6% in Year 10.**
- **These contributions will be matched on a 'one-for-one' basis by employer contributions.**
- **Employers' matching contributions will, as with other payroll charges, be deductible for Corporation Tax purposes.**
- **Employer contributions will be calculated on, and capped at, up to €80,000 of the employee's earnings only.**

- This approach aligns with the commitment set out in the Programme for Government, that there will be a phased roll-out over a decade of the contribution made by employees. The phasing of employee contributions on a staged basis will allow time for employees and employers to adjust to the new system.

- The phased approach is also designed to incentivise people to remain in the system (not to exercise an opt-out), as even with a relatively low contribution rate in the initial years, people will see their savings topped up by the employer and State contribution and accumulate over time.

- The 14% overall contribution rate (consisting of 6% per employer, 6% per employee, plus a 2% State top-up) is in line with OECD and ESRI analysis on the minimum level of pension contribution that is required to provide an adequate level of income replacement in retirement.

- The purpose of the upper limit on employer contributions is to limit the cost impact on employers while still preserving a necessary incentive for low to middle income workers.

- The upper earnings threshold of €80,000 for employer contributions, is approximately twice the national average earnings in gross terms (based on Q4 2020 earnings data from the CSO Earnings and Labour Costs Survey, with irregular earnings and overtime earnings excluded).

- This earnings threshold will be kept under review and adjusted if required every five years.

## 3.3 State Top-Up

- **In line with the Programme for Government commitment to top up employee contributions, the State will do so at a rate of €1 for every €3 contributed.**
- **The State top-up will be calculated on, and capped at, up to €80,000 of the employee's earnings.**
- **The current Tax Relief System will continue to apply for those making private and occupational pension contributions outside the AE system.**

- The State will make a contribution of 33 cent for every €1 that a person pays into their AE savings account. Adding in the employer contribution, this means that for every €1 contributed by an employee a total of €2.33 will be deposited into their retirement savings account.

- At an illustrative gross salary of €35,000 p.a. this means that the employee, at the 6% contribution rate, will personally save about €40 per week but, adding in the employer and the State top-up, their total weekly savings will amount to about €94 per week.

- A top-up rather than a system of tax-relief has been chosen for four main reasons:

  - First, it is easier to understand and is more transparent in its application – the State support for retirement savings is very clear and is not lost in a wider system of tax reliefs.
  - Second, under tax relief, an employee would have to make a higher gross contribution in order to receive the equivalent amount in tax back (approximately 8% in order to achieve the same pension pot).
  - Third, it treats everybody equally regardless of their marginal tax rate.
  - Fourth, and related to the third point, it means that all workers, even if they are outside of the income tax net, benefit from a State contribution. (The ESRI estimates that up to 75% of likely AE participants will be at the standard (20%) rate of tax or outside the income tax net).

## 3.4 Central Processing Authority

- A 'Central Processing Authority' (CPA) will be established. It will be responsible for the operation, coordination, supervision and development of the system.
- It will organise and procure four investment managers/RPs, each of whom will be required to offer the defined set of fund options.
- It will collect contributions and allocate them on a pooled basis to the preferred fund choice of members (or will invest on a default investment basis if the member does not indicate a preferred choice).
- It will pool and allocate investment returns from each fund manager to ensure that all members in any fund type receive the same, weighted average, return.
- It will provide fund administration and accounting services for members (these may be contracted on a 'back-office' basis to established providers of such services but will be delivered by the CPA).
- It will provide and operate an online portal for employees and employers. This will enable members to indicate fund choice, exercise opt-out and suspension arrangements and update personal information including change of employment.
- It will implement the 'pot-follows-member' approach. As there will be one AE pension pot per member, rather than multiple pots across employments and across RPs of investment services, the CPA will hold and manage that pot centrally on behalf of the member.
- It will ensure management fees are minimised by specifying a maximum permitted annual administration and investment management charge of up to a maximum of 0.5% of assets under management.
- Pending the enactment of the necessary legislation establishing the AE system, the CPA will be set up on an administrative basis within the Department of Social Protection. Upon enactment of the AE law, the CPA will become a statutorily independent body regulated by the Pensions Authority.
- In performing its functions, the CPA will harness the expertise of the commercial pensions market both for investment management and fund administration services. However, by acting as a clearinghouse or 'one-stop-shop', the CPA will facilitate ease of administration for both employers and employees.

- International experience has shown that the success of AE will depend on good communications and the implementation of an effective, easy-to-use customer service and administration model. As an opt-out or quasi-mandatory system, it is also important that employees/members can have trust in the system being mediated by a non-profit State agency which has their interests as its primary driver.

- The CPA will be responsible for sourcing, on a competitive basis via an open tender, four AE RPs to provide a defined suite of investment products in compliance with CPA standards. The CPA will be the sole customer of the RPs on behalf of the participants.

- The CPA will also arrange for the provision of fund accounting and administration services on behalf of members of the AE system.

- The CPA will utilise a 'digital by design' approach, in line with Government commitments, hosting a web-based information and accounts processing portal for employees and employers (with an offline option as required).

- AE members will be able to utilise the online portal to review the fund choices available, keep track of their contributions, and the contributions remitted to the provider on their behalf by their employer and the State. This portal will allow them to see their account grow. The portal will also provide access to online account statements.

- The CPA will administer all choice elements of AE including fund choice, opt-out, re-enrolment and savings suspensions.

- The CPA will act as the contributions and investment returns 'clearinghouse'. Contributions will be collected by the employer via payroll systems and transferred to the CPA electronically. The CPA will manage contribution collection, compliance checks and the allocation of pooled contributions to RPs. The RPs will be responsible for financial investment and returns. The CPA will have responsibility for the weighted allocation of pooled investment returns into members' pots based on their fund choice.

- The establishment of a CPA will minimise the administrative burden for employers. The CPA will be responsible for supervising the registration of employees and assessing enrolment eligibility. The setting up of the CPA will eliminate the need for employers to procure or set up their own occupational pension arrangements for employees.

- Employers will be responsible for recording, via payroll, the data related to all employees. However, thereafter employers will not be required to carry out any assessments of eligibility or engage with RPs or products. The CPA assumes these administrative responsibilities. The employer must only apply the AE status and contribution rate as indicated by the CPA when applying the relevant payroll instruction.

- Portability across employments using a 'pot-follows-member' approach will be ensured by the CPA's provision and management of participants' accounts.

- By providing pot-follows-member portability as members change employments, or where multiple employments are a feature for the member, the proliferation of significant numbers of 'small pots' is avoided.

- The CPA will deliver scale economies and efficiencies. Given that a large proportion of the eligible population for AE are lower and medium income earners, achieving low unit operating costs through scale in the operation of the system is essential, and is itself a driving rationale in establishing AE.

- By acting as a 'bulk' purchaser of the various components of pension schemes (investment funds management, fund administration and accounting etc.) the CPA helps to achieve scale economies.

- The CPA will also carry out evaluations and statistical analysis of the AE system, provide reports to Government (e.g., annual reports, audits) and bring forward proposals for the ongoing development of the system.

## 3.5 Role of Registered Providers

- **The CPA will tender for four commercial investment companies to become 'RPs' for the CPA. Contract periods may be up to 5-7 years.**
- **The role of the RPs will be to provide investment options and act as investment managers for AE contributions.**
- **The RPs will invest contributions for the CPA, on behalf of individual participants, and provide the best possible return on those investments over time.**

- The RPs will offer investment products in compliance with CPA standards which will include specific ethical/ESG (Environmental, Social, and Governance) criteria.[11]

- While the CPA will settle the precise parameters of fund types closer to the launch of the system, RPs will be required to offer four fund types –
  - **Conservative** (e.g. a mix of Government bonds, cash and cash equivalents, blue chip private bonds and stock market index funds)
  - **Moderate risk** (e.g. an investment portfolio involving a mix of Government bonds, blue-chip equities and property)
  - **Higher risk** (e.g. a portfolio comprising of predominately equities, commodities and property)
  - **Default** (e.g. operating on a lifestyle/ lifecycle basis)

- Experience from abroad and OECD analysis shows that a default option is required for people who do not nominate a preferred fund type and is a key element in a successful AE system.

- The default fund in this AE system will follow a lifecycle/lifestyle approach. [12]

- In broad terms, investment would work in the following way:

  - CPA collects all pension contributions;
  - Participants select a fund type through the online portal provided by the CPA;
  - Those who do not select a fund will be automatically allocated to the default fund;
  - The CPA will pool all pension contributions according to fund choice and allocate the pension contributions among the RPs;

[11] ESG is a framework considering environmental, social and governance factors alongside financial factors in the investment decision-making process.

[12] The lifecycle investment approach is commonly used in defined contribution schemes and is often chosen as the default option in such schemes. A lifecycle investment approach is one where contributions for each member are invested more heavily in higher risk growth investments, such as equities and property at younger ages and then gradually switched automatically to lower risk investments, such as bonds and cash as the member nears retirement.

  - Financial returns from each of the RPs for each fund type will also be pooled and allocated to accounts of the individual members who comprise that fund type.

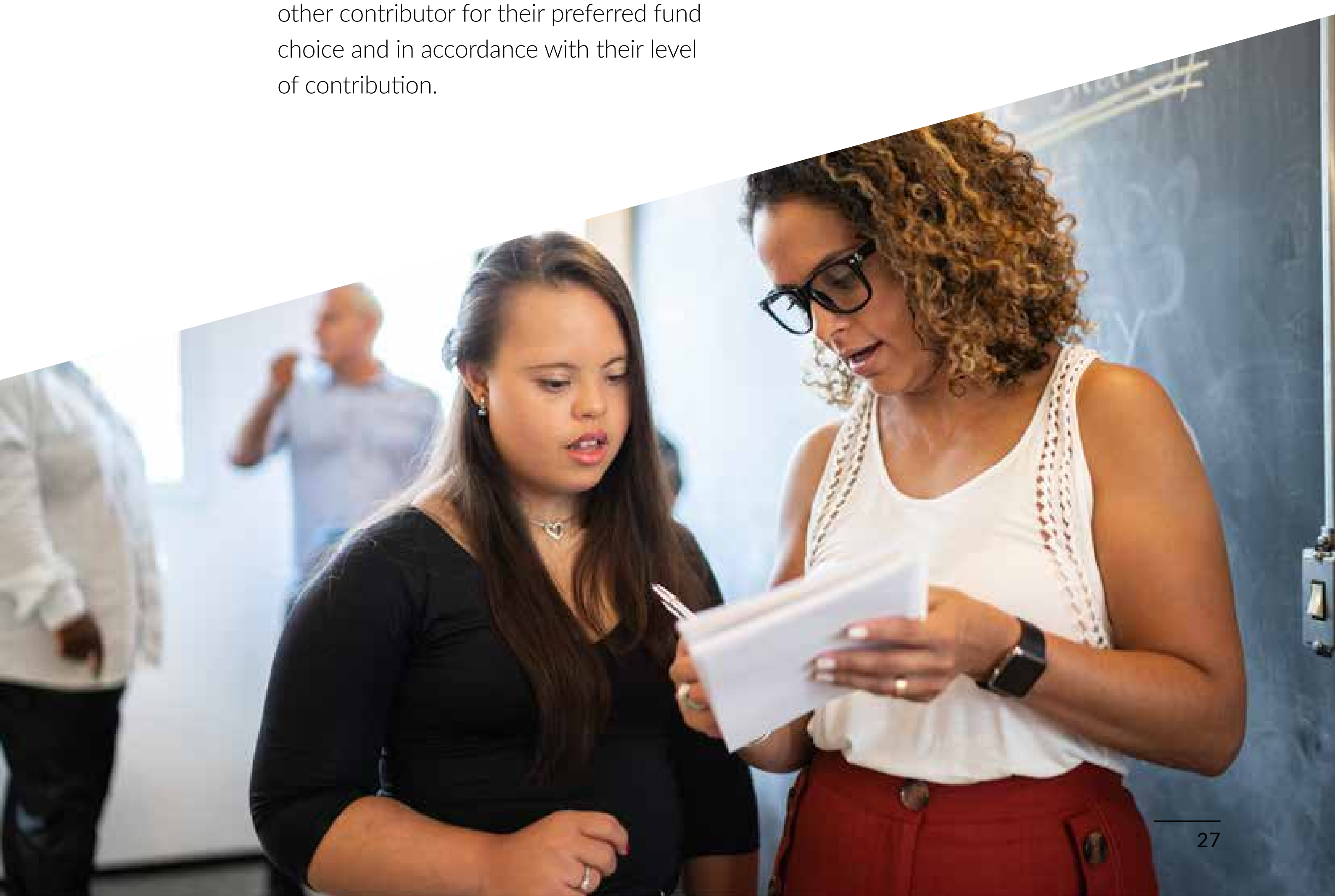
- The RPs, acting as investment managers for the CPA, will not have sight of each individual contributor. Instead, they will have only one customer, the CPA.

- Because of the pooling and composite investment design features, each individual contributor is exposed to exactly the same level of risk for their preferred fund choice and in accordance with their level of contribution. Each contributor will therefore achieve the same level of financial return as every other contributor for their preferred fund choice and in accordance with their level of contribution.

- Registered provider contracts will be tendered regularly for up to 5-7 years at a time.

- Pension drawdown by members will be via the existing range of regulated pension products and members will have the right to engage with commercial providers.

- In time the Central Processing Authority may tender for a set of pension drawdown products.



## 3.6 Opt-Outs and Suspension

- **Auto-enrolment will be a voluntary system but will operate on an 'opt-out' rather than an 'opt-in' basis.**
- **Two opt-out options plus a savings suspension facility will ensure flexibility and participant choice, without undermining the purpose of the system as a whole.**
- **Participants who have opted-out or suspended will be automatically re-enrolled after two years. From six months after re-enrolment, they may exercise the above opt-out and suspension options again.**

Two opt-out options plus a savings suspension facility are envisaged to ensure flexibility and member choice as follows:

- Participants may, during a two-month period, opt-out six months after enrolment (i.e. within months 7-8). Where a participant does opt-out in this way, they will be refunded their own contributions since enrolment, but all employer and State contributions to that date will remain in the participant's pension pot.

- Participants may, during a two-month period, opt-out six months after a contribution rate change (i.e. within months 7-8). Where a participant does opt-out in this way, they will be refunded the additional contribution they personally have made since the rate change (i.e. the difference between the original rate and the new rate for the period covering the new rate until the date they opt-out), but all their contributions at the preceding rate of contribution will remain in their pension pot. In addition, all employer and State contributions at all rates will stay in the participant's pension pot.
  This option will only be available in the first 10 years of the AE system when the rate of contribution will increase on a phased basis from an initial 1.5% to an eventual 6%.

- Participants may suspend their participation at any other time outside of these defined periods. The participant will not, however, receive a refund of any contributions up to the date of suspension. Instead, their contributions will stay in their pension pot, as will all the employer and State contributions up to the date of suspension.

It is important to note that where a participant opts-out or suspends their contributions, **they will be automatically re-enrolled after two years**, after which they may opt-out or suspend again in accordance with these options above.

It is also important to note that when a participant opts-out or suspends, that their employer's contribution and the State top-up will also stop until they are re-enrolled.

## 3.7 Pension Drawdown

- **Member access to drawdown their pension savings/investment fund will be aligned with State Pension arrangements (currently from age 66).**
- **On retirement members will be provided with access to their accumulated fund for use in accordance with prevailing pension and tax regulations (e.g. a lump sum (subject to regulated limits), an annuity or an Approved Retirement Fund (ARF).**
- **Members will be free to select a pension product from the open market, however the CPA may, if there is demand, tender for a set of pension drawdown options that it will make available to members.**

- It will take some time for members (at least 10 – 15 years) to accumulate pension pots of sufficient size to warrant the provision of CPA mediated pension drawdown products.

- Therefore, it is not intended, at least initially, that the CPA would arrange pension drawdown options. Instead, members who retire will be provided with a final fund value that they may take and invest in those regulated pension drawdown products available in the open market in accordance with prevailing pension regulations (e.g., annuities or approved retirement fund products).

- As the system matures, consideration will be given to developing a set of pension drawdown options to be made available via the CPA. If these options are developed, they will not be mandatory – members will still be free to take their fund and invest it in pension products in the open market.

## 3.8 Sample Illustrations

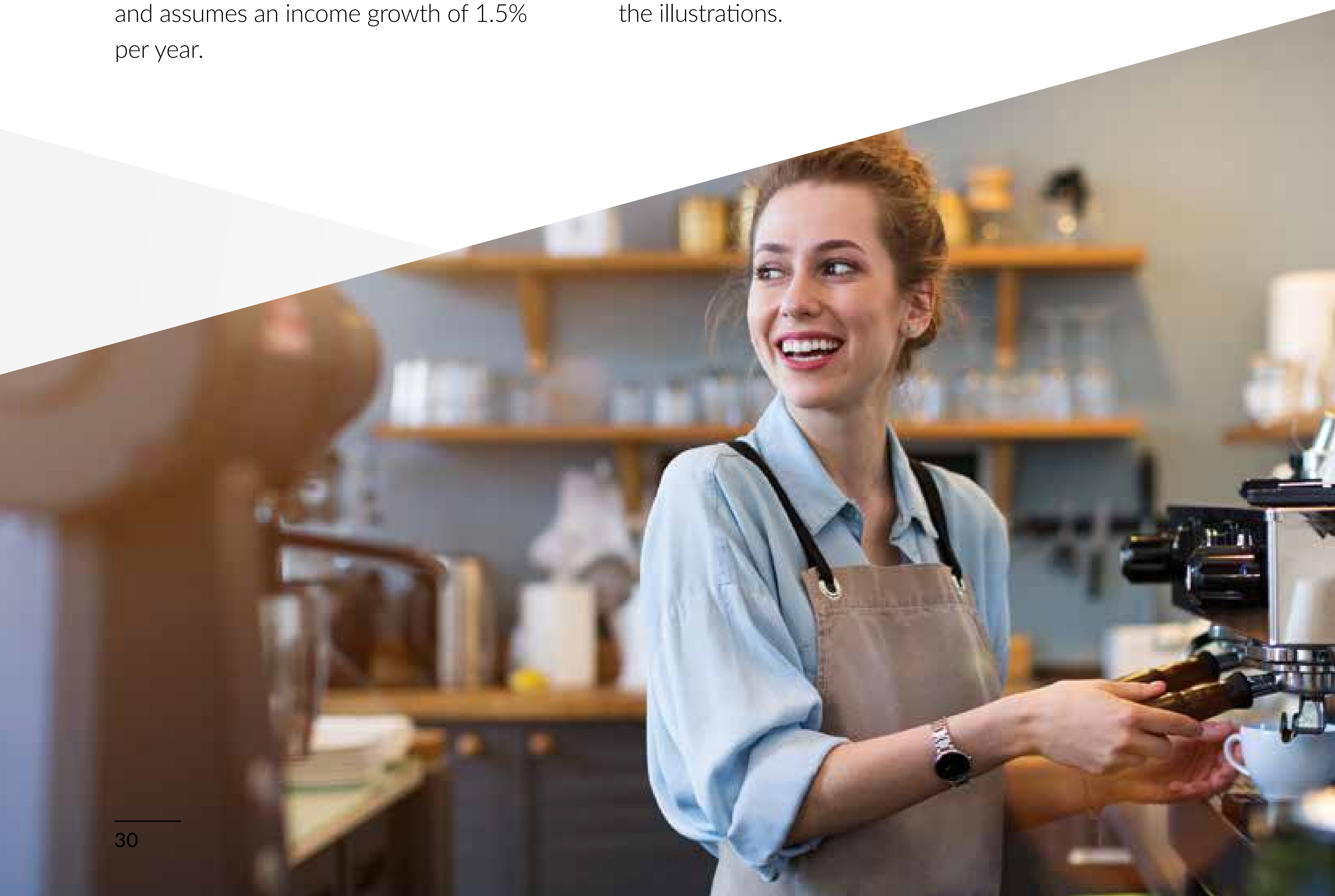
These sample illustrations provide indicative outcomes that could be expected under a fully implemented and matured AE system, with the contribution rates set at 6% from the employee, 6% from the employer and 2% from the State. During the implementation phase, contribution rates will be incrementally increased over a 10-year period in three stages.

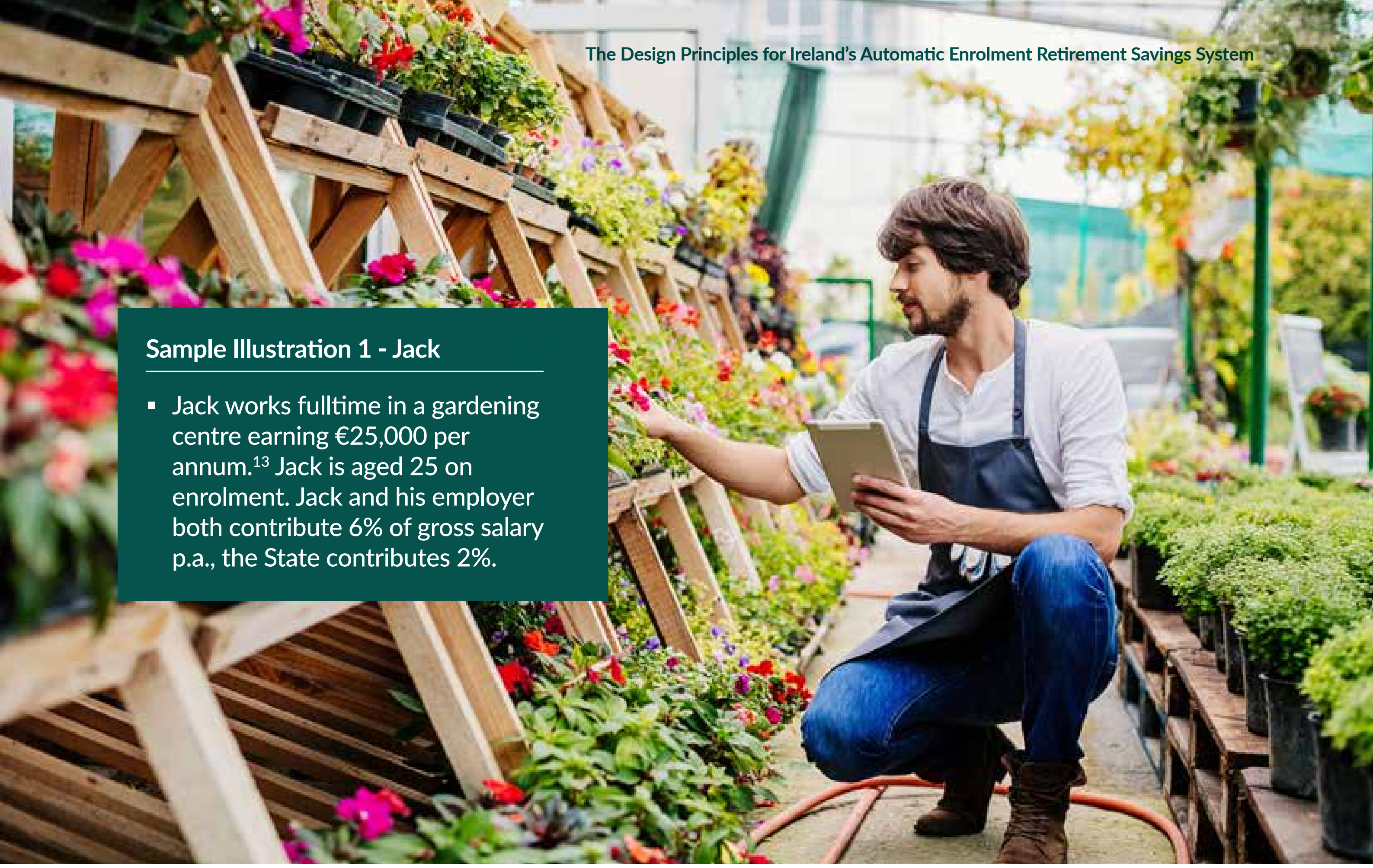
The scenarios present a breakdown of each individual's AE fund at retirement, including their contribution, their employer's contribution, the State top-up, and the fund growth net of investment charges.

The model used to calculate the participant's projected retirement funds is a static model in terms of the individual's career progression and assumes an income growth of 1.5% per year.

The model uses a lifestyle/lifecycle investment approach. This means that investment risk is diversified and managed and the level of risk changes depending on the participant's age. Investment return is assumed to be 4.0% per year after expenses until 10 years before retirement date. The investment return is then assumed to reduce annually to a post-retirement interest rate of 0.5% over the 10-year period prior to retirement.

The model was developed by the Actuarial and Investment Analysis Unit of the Department of Social Protection. It is important to note that the results from the model are estimates only and that the investment returns prior to retirement are likely to be different from those underlying the illustrations.



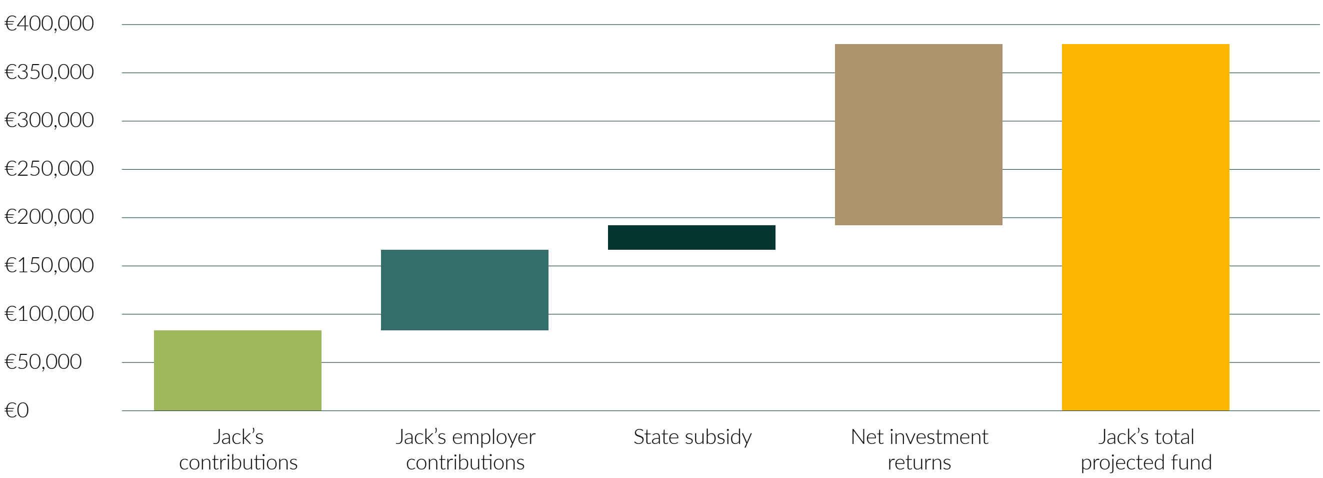


## Sample Illustration 1 - Jack

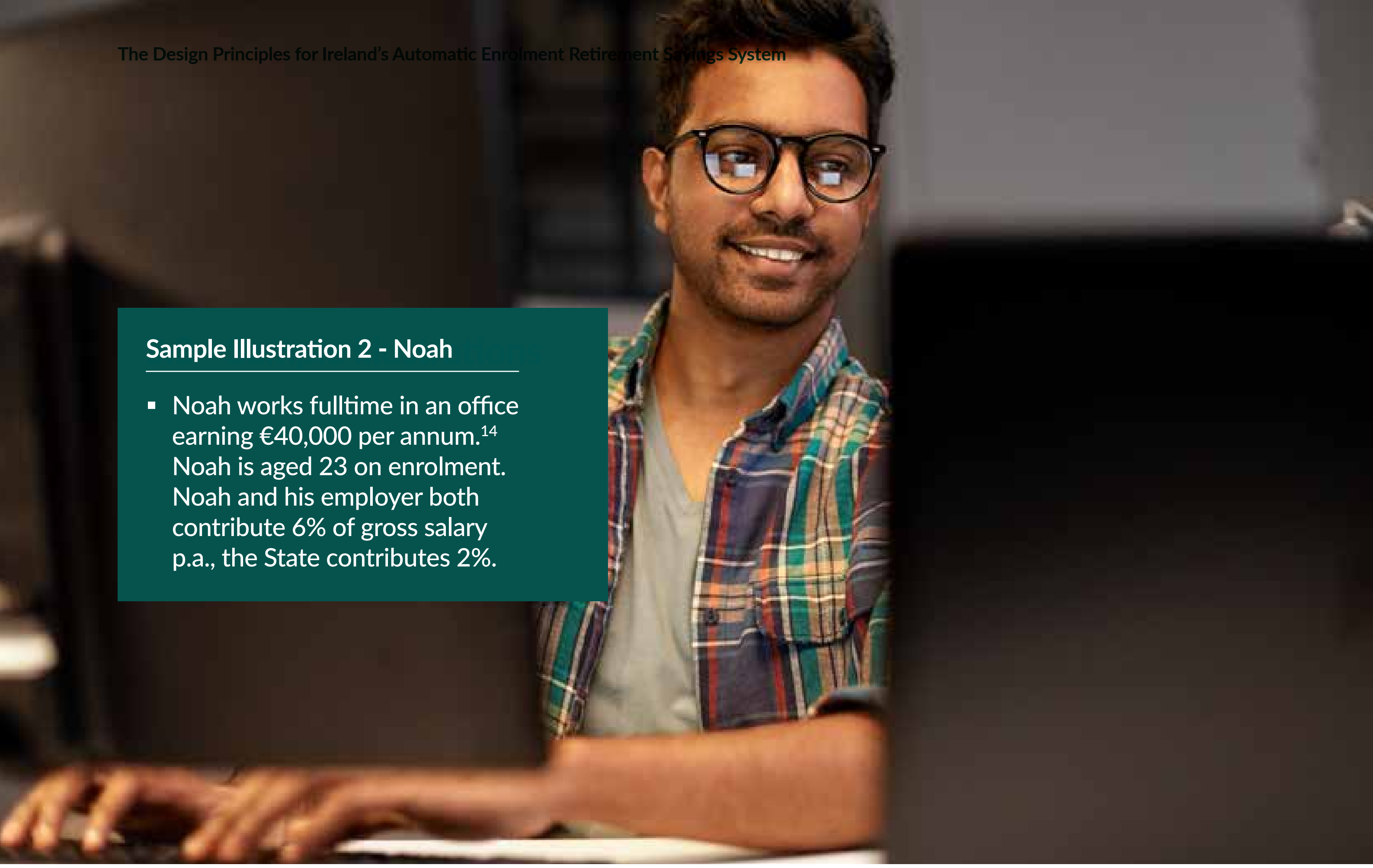
- Jack works fulltime in a gardening centre earning €25,000 per annum.[13] Jack is aged 25 on enrolment. Jack and his employer both contribute 6% of gross salary p.a., the State contributes 2%.

| Projected Fund Breakdown at Retirement | |
|---|---|
| Jack's contributions | €84,123 |
| Jack's employer's contributions | €84,123 |
| State top-up | €28,041 |
| Jack's total savings | €196,287 |
| Projected net investment returns | €178,882 |
| Jack's total projected fund | €375,169 |

## Chart 1: Composition of Jack's retirement fund




13 At retirement Jack's salary is projected to be approximately €46,000.

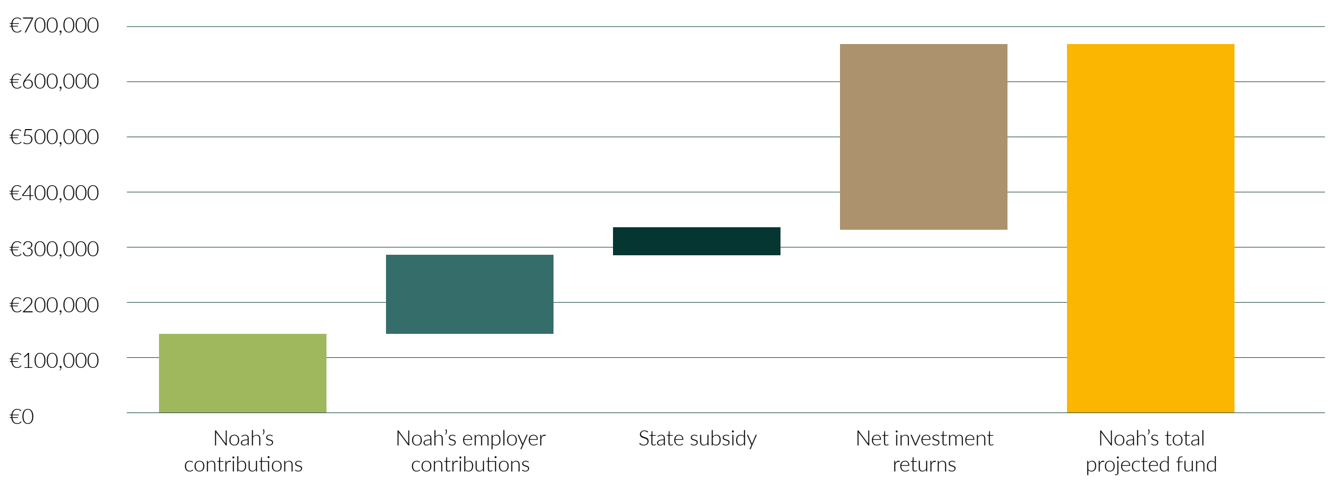


## Sample Illustration 2 - Noah

- Noah works fulltime in an office earning €40,000 per annum.[14] Noah is aged 23 on enrolment. Noah and his employer both contribute 6% of gross salary p.a., the State contributes 2%.

| Projected Fund Breakdown at Retirement | |
|---|---|
| Noah's contributions | €143,501 |
| Noah's employer's contributions | €143,501 |
| State top-up | €47,834 |
| Noah's total savings | €334,836 |
| Projected net investment returns | €331,753 |
| Noah's total projected fund | €666,588 |

## Chart 2: Composition of Noah's retirement fund



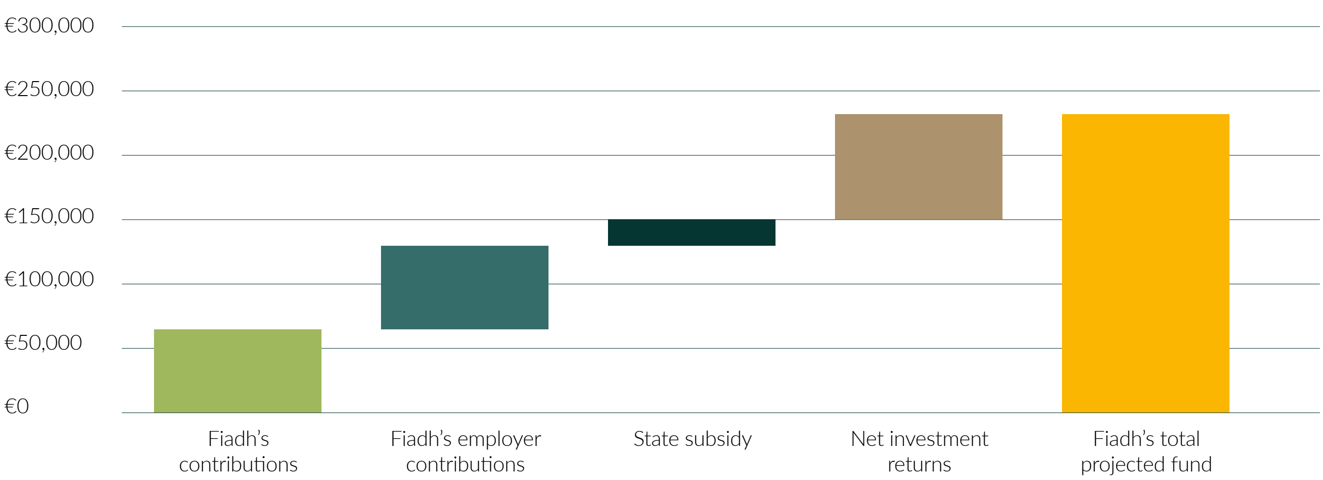

[14] At retirement Noah's salary is projected to be approximately €76,000.

## Sample Illustration 3 - Fiadh

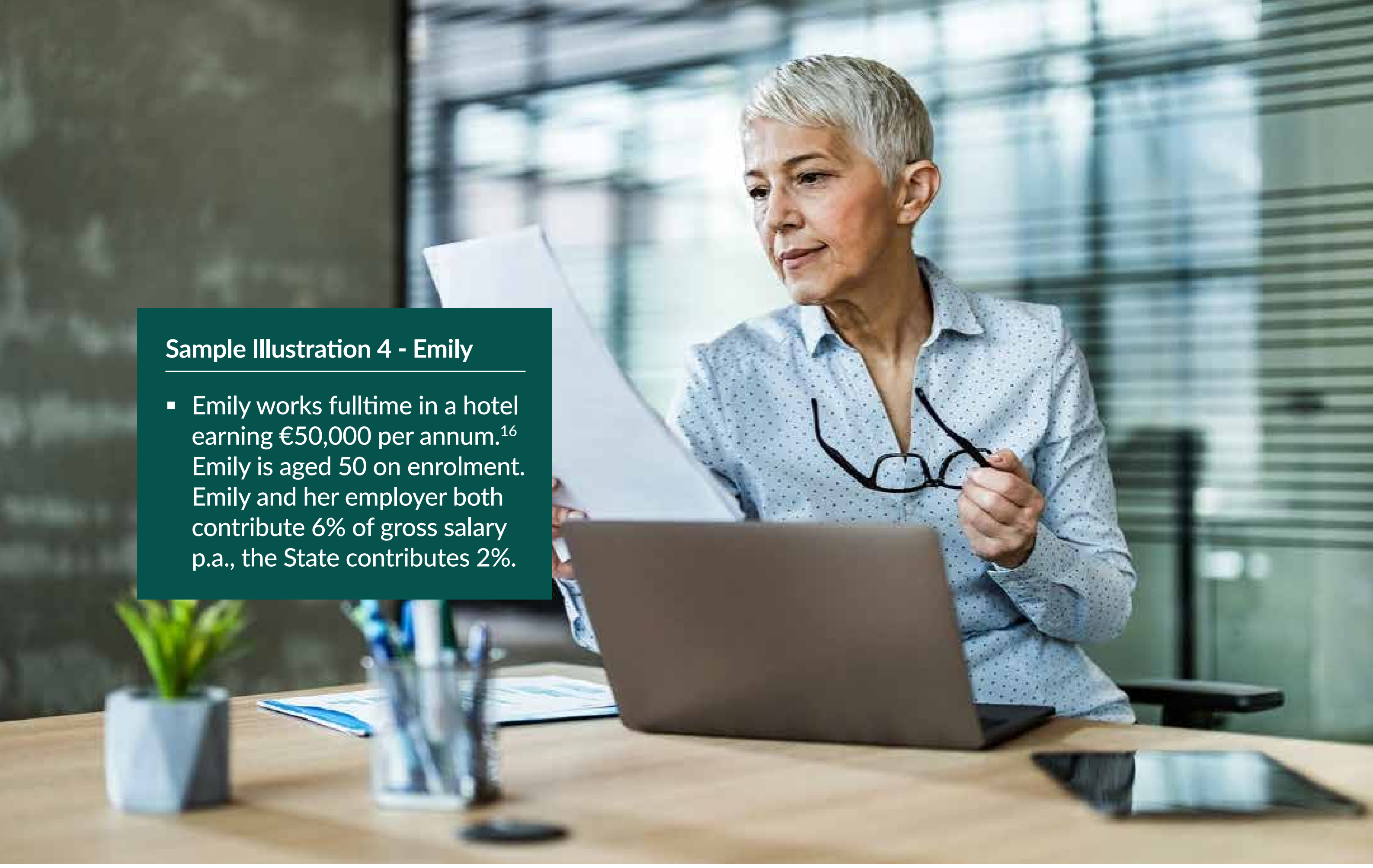
- Fiadh works fulltime in a restaurant earning €30,000 per annum.[15] Fiadh is aged 30 on enrolment and has been in employment for 5 years. At age 35, Fiadh takes a career break to care for her children for 10 years and does not work in paid employment. At age 45, Fiadh returns to paid employment. Fiadh and her employer both contribute 6% of gross salary p.a., the State contributes 2%.

| Projected Fund Breakdown at Retirement | |
|---|---|
| Fiadh's contributions | €64,343 |
| Fiadh's employer's contributions | €64,343 |
| State top-up | €21,448 |
| Fiadh's total savings | €150,134 |
| Projected net investment returns | €82,062 |
| Fiadh's total projected fund | €232,196 |

## Chart 3: Composition of Fiadh's retirement fund




[15] At retirement Fiadh's salary is projected to be approximately €51,000.

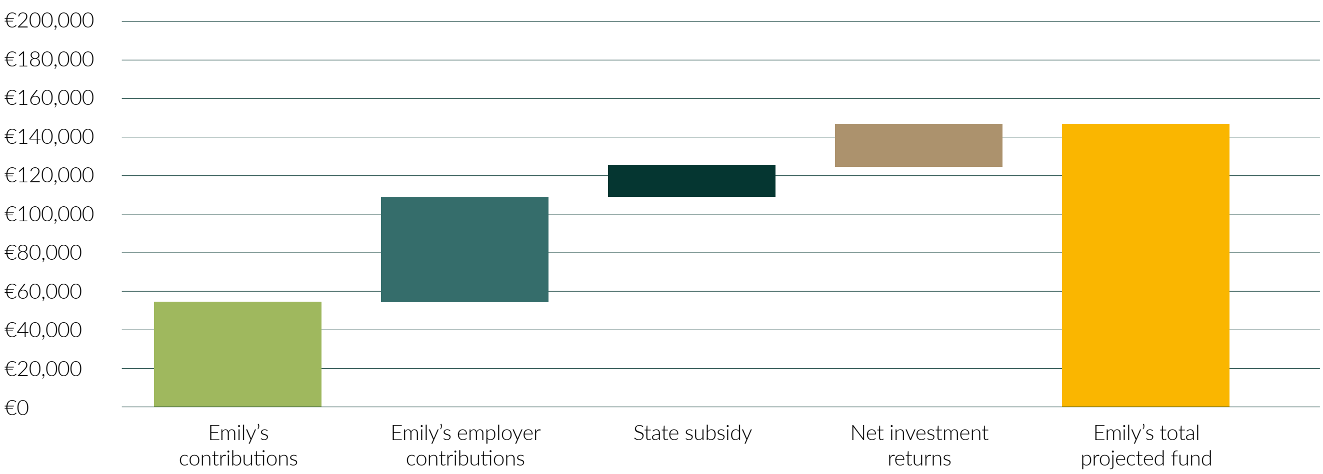


### Sample Illustration 4 - Emily

- Emily works fulltime in a hotel earning €50,000 per annum.[16] Emily is aged 50 on enrolment. Emily and her employer both contribute 6% of gross salary p.a., the State contributes 2%.

| Projected Fund Breakdown at Retirement | |
|---|---|
| Emily's contributions | €53,797 |
| Emily's employer's contributions | €53,797 |
| State top-up | €17,932 |
| Emily's total savings | €125,526 |
| Projected net investment returns | €22,595 |
| Emily's total projected fund | €148,121 |

### Chart 4: Composition of Emily's retirement fund




[16] At retirement Emily's salary is projected to be approximately €63,500

# 4. Timeline for Delivery

| | |
|---|---|
| Establish CPA on administrative basis within Department of Social Protection | Q2-Q3 2022 |
| Legislative Heads of Bill drafted and Government approval | Q3-Q4 2022 |
| Legislation enacted | Q3 2023 |
| CPA organisation established on statutorily independent basis | Q4 2023 |
| Completed development/procurement of initial IT system/ infrastructure | Q4 2023 |
| Procurement of investment managers completed | Q4 2023 |
| Commencement of automatic enrolments | Q1 2024 |

# 5. Evolution of the AE system

The Department of Social Protection will continue to sponsor and have overall policy responsibility for the evolution of the AE system.

The CPA will supervise and evaluate the development and evolution of the AE system over time. The CPA's insight and experience will both feed into the operation of the AE platform and inform future tendering rounds.

The first phase (estimated to be the first 10-15 years) primarily involves an investment management approach to participants' pension contributions. This is the phase where employees are registered en masse, contributions are collected, pooled and invested on their behalf, and the system as a whole 'beds down'.

Options for future phases, to be decided in due course by Government, may include:

1. A greater range of investment funds to suit the particular circumstances of individual participants and the level of risk they are comfortable with.

2. An examination of facilitating partial investment across different fund types.

3. A framework for a more complex range of retirement savings products and pension drawdowns.

4. Consideration of introducing a range of secondary benefits such as survivor benefits and injury or disablement benefits.

5. Reviews of AE eligibility and thresholds.

6. An examination of introducing additional voluntary contributions over the minimum specified in law.

7. Consideration of broadening the system to include those outside the 'employee' cohort such as the self-employed and the non-working (although this may require different models of contributions given the initial usage of employer payroll systems and the lack of an 'employer' contribution).

8. An examination of how pension pots may be portable between traditional pension systems and AE.

The Department of Social Protection (incorporating the CPA during its establishment phase) will, in consultation with relevant Government Departments, make recommendations on the prescribed standards and contribution levels for pension schemes outside of AE that will exempt participants from being included in the AE system.

# 6. AE Design Frequently Asked Questions (FAQ)

## General Questions

### 1. What is Automatic Enrolment?

AE is a State sponsored, quality assured, workplace or occupational retirement savings system. It will apply to all employees who meet certain age and earnings criteria and who do not already have an approved pension plan. Employees will make contributions from their salary, which their employer will be required to match. Then the State will make a further top-up contribution. In effect, for every €3 an employee contributes, another €4 is contributed on their behalf by their employer and the State.

This major reform in the Irish pensions landscape will make it much easier for people to access quality, low-cost retirement savings options to help them meet their own income expectations when they retire.

### 2. When will AE come into effect?

The Programme for Government 2020 commits to introducing a pensions Auto-enrolment system, and the Economic Recovery Plan 2021 provides for the necessary legislative, organisational and process structures to be put in place over the course of 2022 and 2023. The Department of Social Protection finalised the design in late 2021 after a lengthy consultation and development period. That Department will spend the next two years putting in place the legislative basis and operational structures. The system is expected to be up and running by the end of 2023 and ready to take enrolments in early 2024.

### 3. How much will be paid by a) the employee b) the employer and c) the State – per week, per month, per year?

AE contributions will be gradually increased over a period of 10 years from when the system is introduced. The phasing in of contributions on a staged basis will allow time for the contribution rate to bed in and earnings to adjust before the next increase.

- In years 1 to 3, the employee and employer will each pay 1.5% of a person's gross earnings into the pension pot, and the State will pay 0.5%.
- In years 4 to 6, the contribution rates will be 3% each per employer and employee, and 1% from the State.
- In years 7 to 9, the contribution rates will be 4.5% each per employer and employee, and 1.5% from the State.
- From year 10 onwards, the contribution rates will be 6% each per employer and employee, and 2% from the State.

In effect, for every €3 an employee contributes, another €4 is contributed on their behalf by their employer and the State.

As an illustrative example, for someone earning €20,000 per year, the actual amounts are:

| | Employee Yearly Contributions | Employer Yearly Contributions | State Yearly Contributions | Total Yearly Contributions |
|---|---|---|---|---|
| Year 1 to 3 | €300 | €300 | €100 | €700 |
| Year 4 to 6 | €600 | €600 | €200 | €1,400 |
| Year 7 to 9 | €900 | €900 | €300 | €2,100 |
| Year 10 + | €1,200 | €1,200 | €400 | €2,800 |

### 4. What will the State contribute?

The Government believes that any financial incentive for AE should be easy to communicate and easy to understand. The AE incentive is a top-up worth €1 for every €3 the employee contributes towards their retirement savings account. In addition, for every €3 the employee contributes, a further €3 is contributed by the employer.

### 5. Is this mandatory?

AE is a voluntary system however it will operate on an 'opt-out' rather than an 'opt-in' basis. By making it easier for employees and employers to access and provide a workplace pension, it aims to increase pension savings and ensure that people can expect a reasonable standard of living, relative to their current employment earnings, when they retire.

That means that all eligible employees, who are not members of an occupational pension savings scheme, will be automatically enrolled. In time, standards and contribution levels for such schemes will be prescribed to exempt their participants from AE.

Members of the AE system will retain the ability to opt-out under certain limited conditions or avail of savings suspension periods.

### 6. What are the options for opting out or suspending participation?

Two opt-out options and a savings suspension facility are envisaged to ensure flexibility and member choice as follows:

a. Participants may, during a two-month period, opt-out six months after enrolment (i.e. within months 7-8). Where a participant does opt-out in this way, they will be refunded their own contributions since enrolment, but all employer and State contributions to that date will remain in the participant's pension pot.

b. Participants may, during a two-month period, opt-out six months after a contribution rate change (i.e. within months 7-8). Where a participant does opt-out in this way, they will be refunded the additional contribution they personally have made since the rate change (i.e. the difference between the original rate and the new rate for the period covering the new rate until the date they opt-out), but all their contributions at the preceding rate of contribution will remain in their pension pot. In addition, all employer and State contributions at all rates will stay in the participant's pension pot. This option will only be available in the first 10 years of the AE system when the rate of contribution will increase on a phased basis from an initial 1.5% to an eventual 6%.

c. Participants may suspend their participation at any other time outside of these defined periods. The participant will not, however, receive a refund of any contributions up to the date of suspension. Instead, their contributions will stay in their pension pot, as will all the employer and State contributions up to the date of suspension.

It is important to note that where a member opts-out or suspends their contributions, **they will be automatically re-enrolled after two years**, after which they may opt-out or suspend again in accordance with these options above.

It is also important to note that when a participant opts-out or suspends, that their employer's contribution and the State top-up will also stop until they are re-enrolled.

### 7. Why is it necessary to move to enrol people into an 'opt-out' system when they may have more immediate demands on their income?

Irish people are living longer and staying well and healthy for longer, which is really good news. Furthermore, people enjoy better incomes and standards of living than previous generations. These societal changes present great opportunities, but also pose a big challenge for all of us. Like other EU member states, we can only ensure adequate pensions if the vast majority complement their State Pension by saving for their own retirement little by little throughout their working life.

AE is designed to help employees to begin to save for their retirement. It will help them avoid unwanted reductions in their living standards at retirement. It will put a quality assured legal and administrative framework in place to help them do so. As well as opting people in, the State will require employers to contribute to pension savings and will itself provide a top-up equivalent to 33%. Overall, people will have €2.33 credited to their pensions savings account for every €1 they save themselves. This represents very strong value for money.

The Government fully recognises that there are legitimate reasons why individuals might choose to defer saving to address current spending needs. If, for whatever reason, an employee decides not to avail of the supports that are being offered, they will retain the freedom of choice to opt-out of the system or suspend their contributions. Equally, they will retain the right to opt back into the system if they choose to do so. Participants who are considering opting-out will want to factor in the loss of their employer's matching contributions and the State top-up to decide whether it is worth it.

## Employee Questions

### 8. I'm only in my twenties and already have a high cost of living – is it really necessary that I contribute to a pension now?

Now is the best time to start a pension. The advantage of starting your pension young is that you have more time to grow your pension fund. Your pension pot will grow proportionately more than you are putting in because of your employer contributions and the State top-up. There is also the advantage of compound growth[17] when you start saving early. We appreciate that there are other demands on your earnings now, but your AE contributions start off low at 1.5%, which is just over €7 per week for those earning €20,000 per year, and this contribution rate will only gradually increase over time.

### 9. How much will I have in my pension pot and how can I check it?

The answer to this question depends on how much you pay in and for how long, what fund your money is invested in and how the investment fund performs. The aim of AE is to ensure a satisfactory comparative income relative to your pre-retirement income.

The online portal will provide access to individual account information based on real-time individual data so that participants can view the contributions made by themselves, their employer, and the State, as well as the investment return. Annual account and policy statements - including historic statements - will also be available through the portal.

[17] Compound growth is the rate at which an economy, investment, company, etc. grows over a period of years, based on growth over the previous year.

### 10. How and when can members drawdown their AE pension pot?

Members’ access to their pension savings/ investment fund will be aligned with State Pension arrangements (currently from age 66).

Initially, pay-outs from the AE system are expected to take the form of lump sum payments as the first group of retirees are likely to have limited pots. They might choose to invest this in regulated pension drawdown products available on the open market in accordance with prevailing pension regulations (e.g. annuities or Approved Retirement Funds (ARFs)).

As the AE system matures, more choice may be offered in terms of a range of drawdown products. This could include lump sums, ARFs, annuities and some hybrid models. If it is decided to make pension products available through AE, then it is expected that the CPA may tender for a number of providers and product types (as it is doing with investment management). It is also expected that a default drawdown product could be designed - in keeping with the principle that the system facilitates choice but doesn’t require it, and to make it easy for people with little knowledge or understanding to be provided with a quality pension arrangement.

### 11. Can I access the money early if I need it, for example for a house deposit?

The only circumstances that are being considered in terms of early access to pension savings is in relation to enforced workplace retirement due to ill health. Early access to funds is not generally a feature of retirement savings systems currently, either in Ireland or internationally. The underlying principle is that savings should be ‘locked away’ until retirement. To do otherwise would likely have detrimental impacts on pension pots and completely undermine the overall objectives of the system.

### 12. Will my money be safe?

The AE system for Ireland will follow a Defined Contribution (DC) model with personal accounts. In a DC system, contributions are invested in a fund to provide retirement benefits. In principle, there will always be an element of risk in financial investment, but research has shown that investment in medium-risk markets with robust risk management strategies provides good returns over the long term.

It is important to note that the additional contributions that will be made by employers and the State will act as a natural buffer to protect employees’ contributions from market fluctuations.

Furthermore, the Government, through establishing a CPA that will set investment standards for the RPs, will ensure that there are systems of quality assurance and a framework that is structured in the best interests of members, and members alone.

### 13. What happens if I change jobs or become unemployed?

One of the core principles of the Irish AE system is that it is designed on a 'pot-follows-member' approach. This means that your pension pot is not linked to your employment, but rather follows you if you move and change jobs.

If you become unemployed, then you cease to meet the eligibility criteria for AE and are no longer liable for contributions. Your pot remains your personal property and will remain invested until you become employed again and meet the eligibility criteria once more, at which point both you and your new employer(s) will begin contributing at the prevailing rate.

### 14. Will my State Pension be affected?

The State Pension is, and will remain, the bedrock of the pension system in Ireland. It is effective at ensuring that our pensioners do not experience poverty in old age. The Government is committed to ensuring that this remains the case for both current pensioners and for today's young workers who will become tomorrow's pensioners.

The introduction of AE is complementary to and supplementary to the State Pension.

### 15. What happens if my salary goes up/down or I'm on leave from work?

At the outset, AE will apply to all employees who meet the eligibility criteria. As long as an employee continues to be paid by their employer, then AE will continue to apply to them. AE contribution deductions will be applied automatically at the prevailing percentage rate via payroll. The AE system will have built-in flexibility to address fluctuations in earnings and members may exercise their opt-out or suspension options if necessary.

### 16. If I leave the scheme can I re-join later?

Yes. If you choose to opt-out at any stage, you can choose to opt back in later, provided you continue to meet the eligibility criteria.

Members will also be able to avail of savings suspensions periods under certain conditions. However, we would urge members to continue participating in AE if possible, as breaks in savings can have significant impacts on the value of pension pots over time.

### 17. Are contribution rates fixed or can members choose to pay a higher/ lower rate?

The contribution rates are fixed. This is because contribution rates at lower levels than prescribed are unlikely to generate adequate levels of saving to provide decent pension pots. Initially, it won't be possible for members to pay additional voluntary contributions (AVCs) into their AE pots, but this is something the CPA may consider at a later phase.

### 18. Will I get tax relief on my AE contributions?

Participants will contribute to their AE fund out of their net income, that is after income tax has been deducted from their gross income. Therefore, tax relief will not be applied when they contribute to their AE fund. However, when a participant contributes to their AE fund, the State will top-up their contribution at a rate of €1 for every €3 that they contribute. In effect the State top-up can be likened to the tax relief on pension contributions.

Participants will also receive, as is currently the case, an exemption from tax on a "Benefit in Kind" in respect of the contribution from their employer.

### 19. What happens to my pot if I die before retirement?

As a DC scheme, a participant's fund is wholly owned by them so that it may pass as part of the participant's estate in the event of their death. The availability of benefits after death will be determined, documented, and managed by the CPA, in line with existing legislative provision. Further detail will be available in due course.

# Employer Questions

### 20. What is the benefit for me as an employer? Why do I have to pay the same as my employee?

As the population ages, workers are becoming concerned regarding their post-retirement pension arrangements. They are increasingly looking to their employers to provide, or at least sponsor/arrange pension benefits.

At present, it can be complicated and expensive for employers – particularly small and medium size employers - to organise an occupational pension scheme for their workers.

The introduction of AE will take this responsibility away from employers. It will also help to create a more level playing field between employers seeking to hire and retain talented staff.

From a market/consumer demand perspective, ESRI research indicates that, over the longer term, AE will be good for the economy as retired people will have more disposable income than they would otherwise have had with just the State Pension to support them. This will help to sustain consumer demand and business revenues.

The use of matching employer contributions into employees' pension pots reflects these benefits and, in particular, recognises that employers benefit from employees having some security with respect to post-employment retirement, thereby enhancing their employees' sense of wellbeing.

Finally, enabling and facilitating pension provision is not a matter than can be left to workers or the State alone. It is an important element of a tri-partite social contract in a developed economy, recognising that making provision for retirement income is a cost of production that should be shared between all parties that benefit from the returns of production.

### 21. How often will I be required to pay contributions, and can I defer payment?

The CPA's operational process will be based on an automated IT infrastructure that will assess inbound employee data and determine if the employee meets the eligibility criteria for AE. Employers will not be required to determine eligibility. When an employee is deemed eligible and enrolment commences with the CPA, there will be no waiting period before contributions are deducted.

Ideally, employee and employer AE contributions should be paid simultaneously with wages. While the detailed operational elements will be put in place over the next year, the aim is to reduce the administrative burden on employers as much as possible. Employers have no further responsibility once contributions due are paid.

### 22. If an employee is still on probation, casual, or part time, do I still have to register them?

All existing staff and new staff will be assessed for AE eligibility, regardless of whether they're on probation, casual, or part time, and will be automatically enrolled if they meet the criteria. The CPA will assess whether the employee meets eligibility criteria and AE contributions from employees and employers will commence from the first payroll after enrolment if the criteria are met.

### 23. Will it cost me money to put AE in place?

The system is designed to minimise administrative costs and burdens for employers. Furthermore, it is not intended to introduce the full system in one go. The Government intends that a pragmatic approach will be employed with the new arrangements being phased in gradually. This includes a modest level of contributions from 2024, to be increased on a sustainable and managed basis over time.

It is also worth noting that the operation of an employer's AE responsibilities can be integrated with the payroll systems and software used by employers. There will be consultation with employers' associations and the providers of payroll systems and services to ensure smooth integration, safe execution, and accurate processes.

### 24. May I contribute a lower amount if my business can't afford it?

Variable contribution payments will not be permitted within the AE system. The AE system will be automated as much as possible and contribution payments by the employer will be based on clearly defined employer responsibilities.

### 25. Is there an employer contribution limit on earnings?

Employer contributions will be limited to an upper earnings threshold of €80,000, which will likely be reviewed by the CPA over time.

### 26. Will I get tax relief on the contributions that I make to my employees' AE fund?

Employer contributions will receive tax relief in the same manner as currently applied in respect of employer contributions to occupational pension schemes, that is the contributions can be offset in the calculation of corporation tax.

# Pension Industry Questions

### 27. Who will run the scheme?

A new Central Processing Authority (CPA), which will be an independent, statutory body regulated by the Pensions Authority, will run the scheme. It will leverage the expertise of a small number of RPs who will be commercial investment managers. The CPA will be responsible for contribution collection, compliance, the operation of the online accounts portal, the allocation of pooled contributions to RPs, and the allocation of pooled investment returns to participants. The RPs will be responsible for financial investment and returns. In addition to its operational responsibilities, the CPA will have custodianship responsibilities; that is, the CPA will be charged with ensuring that the AE system remains focused on and driven by participant interests in all respects.

### 28. Why will the number of registered providers be limited to four?

The CPA, in its role as custodian, will select a limited number of RPs by way of a tendering process. The optimal number of RPs is considered to be four. This number should strike a balance between the need to drive market competition in the interests of participants while ensuring rigorous oversight by the CPA.

### 29. Why will the number of investment fund choices be very limited?

The intention of limiting fund choice is to make the system simpler.

The AE system will operate on the basis of a pre-funded Defined Contribution (DC) model with members holding individual retirement savings accounts. While participants will be able to choose a savings fund, in the absence of any savings decision, the enrolled employee contributions will be automatically allocated by the CPA using a default model.

### 30. Will members be able to switch between funds, wholly or partially?

Participants in the AE system will be provided with the right to make an individual choice of fund and to shift their investment fund within the AE system at any time during the savings phase. The IT architecture to facilitate these transfers will be developed and managed by the CPA. An option to allocate contributions on a partial basis across funds is expected to form part of the AE design at a later phase in its evolution.

### 31. The fee cap of 0.5% is low, isn't this unviable for registered providers?

Investment fund managers will be expected to submit bids, including their management fee proposal, if they wish to become RPs. The figure of 0.5% is an upper limit in fees and it is expected that bids may be lower than this level.

It is important for participants, employers and the State that AE costs are kept low and transparent. This is especially true given that a large proportion of the initial 750,000 employees in the AE target population are lower and medium income earners.

The AE system will be bringing a large number of workers into the pensions market for the first time. This should enable the system to achieve economies of scale.

In particular, given that the commercial RPs will be providing investment products on behalf of the CPA as a single customer, rather than a more complex suite of individualised pension products (with associated administration and other services) to individual participants or employers, the 0.5% charges cap is considered to be reasonable.

In addition, given that the scale of the funds under management (excluding investment returns) is estimated to reach just under €21bn by the end of 10 years, a cap of no more than 0.5% would still deliver a strong revenue line to RPs.

### 32. Does the introduction of AE with a State top-up affect the current tax relief system?

The tax relief system as it currently applies to traditional occupational and private supplementary pensions will remain unaffected by the introduction of AE. The two systems will work in parallel with each other.

## Contact Information

For any questions or comments on this paper, the monitored email address of the Automatic Enrolment Programme Management Office within the Department of Social Protection is: autoenrolment@welfare.ie

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