

Auto Enrolment



23rd May 2024

Agenda

Update on the past month

Looking inwards at the proposed system

Looking outwards at the implications

Panel discussion

Progress

- Bill passed the 3rd (Committee) Stage in Dáil Éireann, 8th May
- A series of amendments proposed by TDs
- Mostly dismissed by Minister
- Some additional changes made at 4th (Report) Stage – mostly tidying up
- A couple strengthening ESG considerations
- Report Stage and Final Stage 22nd May
- Passed 75 – 36
- Seanad Éireann last chance saloon
- ‘Communication strategy ready to go’



Proposed Amendments

- ICTU to be nominating body for person with employee interests
- Review to include effect on private occupational schemes
- Remove 6 months lock in period
- Bring forward standards for qualifying schemes
- NTMA to be the investment provider
- Offer ethical investment choice
- Best long term interests to include social good
- Explicit provisions for climate and sustainability
- Preclude investment in munitions and fossil fuels
- Prohibit winding up of existing schemes



6 month lock-in

- Employer and State contributions remain after opt-out
- People will have something to show for their time
- Opportunity to see their investment grow
- Possibly encourage them to remain
- Hostage to fortune if investments slump?



Sustainability

- Bill already contains provisions for ESG factors to be considered
- Difficulty in nailing down definitions
- Rhetoric about people's money or State money
- Maybe offer Green choice
- Private pension plans not obliged to follow specific path
- “Level playing field”
- Inequitable to lower paid (disproportionately among AE participants)
- Because we can't do it for everyone, we can't do it at all?
- Climate related risks to be specified in investment contracts (Report Stage)



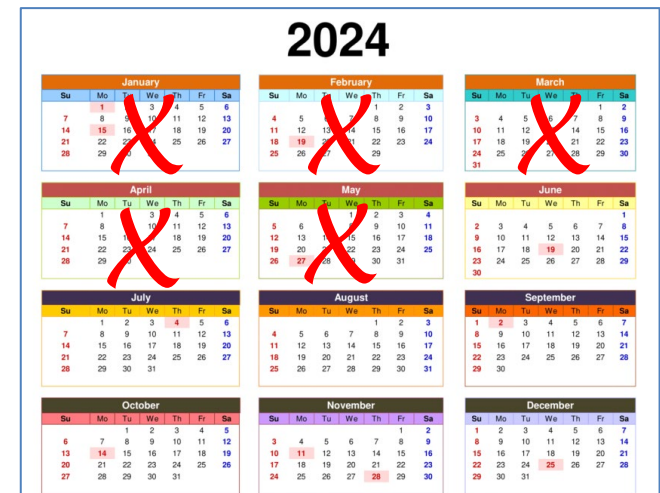
Winding Up of Schemes

- Prevent wholesale abandonment of schemes
- AE may be seen as a cheap option
- Legal advice had been sought
- Early indications that it would be unconstitutional, infringe property rights
- Of course it would, some very wealthy people might be affected
- Minister says concerns 'unfounded'
- UK and other experience was to the contrary
- Competitive labour market, motive to maintain or improve schemes
- Minister will keep Deputies apprised on legal advice
- No further comment from me



Where we are now

- Bill going to Senate
- All to happen in 2024?
 - Regulations
 - Appointment of **an t-Údaras**
 - Sourcing admin providers
 - Decisions about investment
 - Internal resources
 - Website
 - Forms
 - Communication
 - Education
- Progress report/timetable?



Looking in at Proposed System

- Several suggestions made along the way
- Too late now?
 - Age Limits
 - Earnings criteria
 - Lock in period
 - Post retirement
 - Outsourcing
 - Costs
- Senate?
- Amendments?
- Regulations?



Minimum/Maximum Age

- What's the logic?
- Reasonable case made at pre-legislative stage for including everyone
- Pay reduction at 23
- Will people plan ahead?
- More likely to lose people at opt-out stage?
- If it's such a good idea, why not over 60s?
- Presumably, only a single cohort?
- Except people exiting pensionable employment
- They can always opt in, but it goes against the principle



Minimum Earnings

- Lots of talk about benefitting the low paid
- But not the very low paid
- Someone on less than €20k will find it hardest to take a drop
- So the logic of the State pension being adequate doesn't hold
- Enrolled if I have earned the annualised equivalent of €20k, in any pay period
- Thereafter, contributions paid, on any level of salary
- Incentive for employers to look at weekly/monthly rates?
- Peer comparisons
- We're earning the same <€20k
- I have another employment, which brings my total to >€20k
- I get contributions on my full earnings, you get nothing
- Real time monitoring of all earnings
- Otherwise building up arrears



Lock-in Period

- People most likely to opt out because they can't afford it
- 6% of gross pay will be greater slice of take-home pay
- What proportion of discretionary income?
- Genuine hardship, tough decisions
- Refund may be incentive to opt-out
- Lots of micro-accounts
- Transient workers, especially those going abroad
- Or waiting to join a pension scheme
- Is a few hundred Euros payable in 30 to 40 years meaningful in any real sense?
- Are we relying on wearing people down?



Post Retirement

- Resolutely going down Defined Contribution road
- Individual accounts
- Winners and losers
- Rejected all notions of risk-sharing?
- Similar to PRSA options: 25% + ARF/Annuity
- Whole system predicated on inertia
- Throw people to the wolves
- Maybe there's plenty of time to be thinking about this
- First retirement not for at least 6 years, small sums
- But you'll never get as good an opportunity again



Outsourcing

- A lot riding on getting it right
- Especially doing it all at once
- A lot of moving parts
- Credibility at stake
- Appointment, then tooling up, then testing, all by end of year?
- Large scale investment – who is taking the risk?
- Where will Civil Service responsibility stop?
- Members' queries, complaints?
- Contingency plans?
- Performance, review, replacement?



Costs

- Still no clarity
- Can it be done for 0.5%?
- Outsourcing, investment, official involvement?
- Particularly in early years?
- Underwriting investment?
- Taxpayer carrying excess?



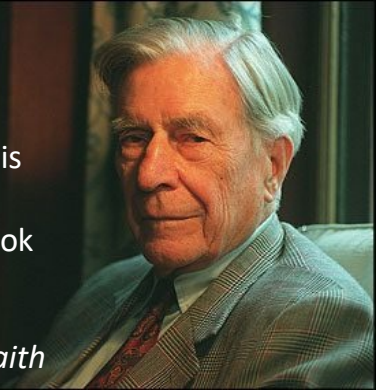
Other Issues

- Retirement Age
- AVCs
- No flexibility for employer to pay more
- Death in Service



The economy, stupid

- Cost to employers – put up prices
- Cost to employees – wage demands
- Inflation
- Curtailing spending power
- Recession
- “Stagflation”
- €100m, and rising, of exchequer funds
- If not now, when?

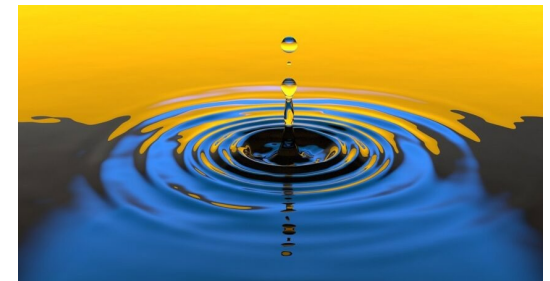
A portrait of John Kenneth Galbraith, an elderly man with white hair, wearing a suit and tie, looking slightly to the left.

The only
function of
economic
forecasting is
to make
astrology look
respectable

JK Galbraith

Looking out at Effect on Schemes

- Naïve to think there won't be a momentous effect on the status quo
 - Employer role
 - Qualifying scheme
 - Tax anomaly
 - Strategic Decisions
- Need to start the conversation
- Now, not in 6 years
- Nor December (?), when it's in your face



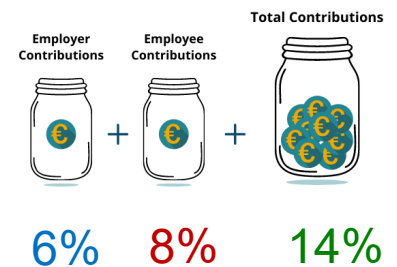
Employer Role

- Mostly supine
- Provide information
- Receive and obey instructions
- Authority determines eligibility, notifies employer
- Employer notifies employee of determination and date **s50(7)**
- Amount of deductions? ***Payment of Wages Act***
- Any role in explaining what's going on?
- What about queries?
- What about errors, SNAFUs?
- If also eligible for an OPS?
- Decision to opt-out



Qualifying Schemes

- Standards
- No later than end of year six
- Presumably:
 - Minimum 14% (10.5% year 7)
 - Of which employer pays at least 6%
 - Total remuneration
 - Possibly more generous formula if not all salary
 - Actuarial certification for DB
- Mandatory, contract of employment
- Eligibility, waiting periods
- Immediate vesting
- Anything on investment?



Tax Anomaly

- State contribution is the same as 25% tax relief on member contributions
- 6% employer contribution is not assessable on employee, either way
- 8% employee contribution with 25% tax relief would cost net 6%
- OPS with 6% employer and 8% employee – 14% invested
 - Costs 20% taxpayer 6.4%
 - Costs 40% taxpayer 5.2%
- Auto Enrolment more generous to 20% taxpayer
- Difference is only €200 pa on a salary of €50k at full rates
- Probably not a big deal
- But could be used by an employer to support a move to AE



Other OPS model

- 7% employer, 7% employee – 14% invested
- Employer contribution transparent from tax perspective
- Cost to employee
 - 20% taxpayer: 5.6%
 - 40% taxpayer: 4.2%
- So, 20% taxpayer would be 0.4% better off under OPS than AE
- But only because employer is paying 1% more
- AE is intrinsically more efficient to a 20% taxpayer



And Another...

- 8% employer, 6% employee – 14% invested
- Employer contribution transparent from tax perspective
- Cost to employee
 - 20% taxpayer: 4.8%
 - 40% taxpayer: 3.6%
- So, 20% taxpayer would be 1.4% better off under OPS than AE
- But only because employer is paying 2% more
- AE is intrinsically more efficient to a 20% taxpayer



Strategic Decisions

- Change contribution rates
- Include all earnings
- Immediate entry?
- Compulsory membership?
- Vesting
- This will require time, business case
- How to deal with people preferring AE
- Master Trusts may have to deal with people choosing to exit schemes
- Justify overheads associated with standalone scheme/Master Trust
- Maybe just have a Death in Service scheme and let people do AVC PRSAs?
- What is the case for providing pensions on an employer level?



What have we achieved?

- Moving from a situation where 800,000 workers don't have pensions
- To one where most(?) of them will have at least something
- Lots to argue with
- But possible to work around



Ah sure, it'll do