



An Roinn Gnóthaí Fostaíochta
agus Coimirce Sóisialaí
Department of Employment Affairs
and Social Protection

Developing an Automatic Enrolment Retirement Savings System for Ireland

**Joint Oireachtas Committee on Employment Affairs &
Social Protection**

11th OCTOBER 2018

Elements of Automatic Enrolment already confirmed by Government



- AE will begin by 2022
- Supplement the State pension & complement existing private provision
- Earnings related workplace savings system - employees can opt-out
- Defined Contribution (DC) model with personal accounts
- Employees, employers and the State each contribute
- System will facilitate, but not demand, member choice

Elements of Automatic Enrolment for Consultation

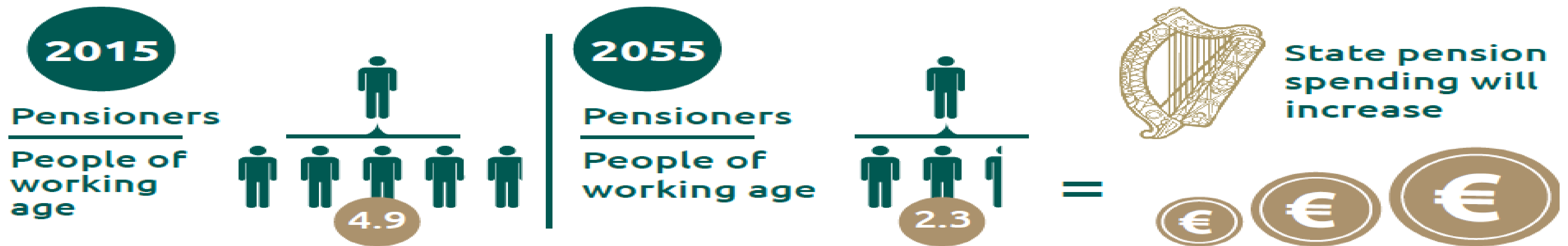


- Operational structure & governance
- Target membership – who will be automatically enrolled
- Employee & employer contribution rates
- State financial incentive
- Providers, savings/investment options & default processes
- Member opt-out, re-enrolment & ‘Saving Suspension’ periods
- Income draw-down/pay-out phase options

Why Automatic Enrolment?

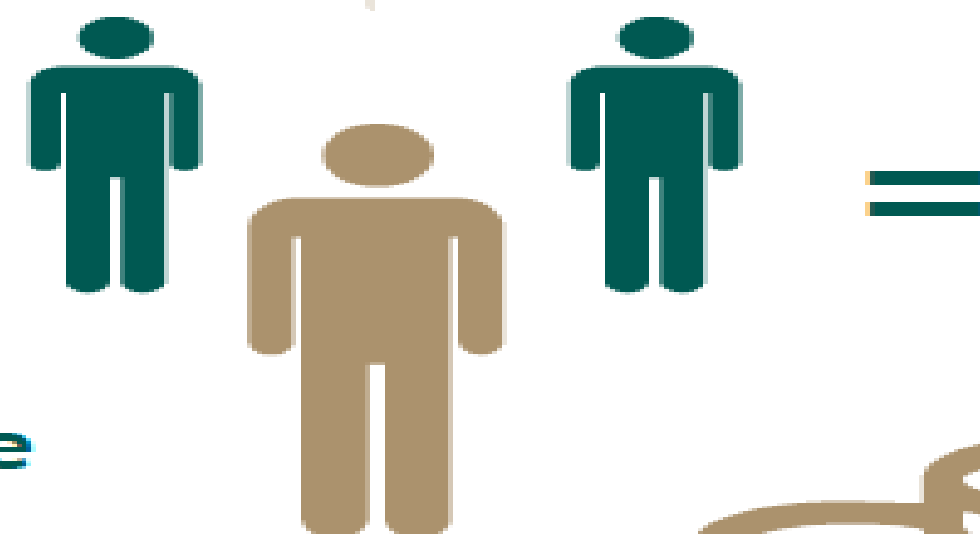


An aging population



Individual retirement savings are too low

Only
1 in 3
Private sector
workers have
pension coverage

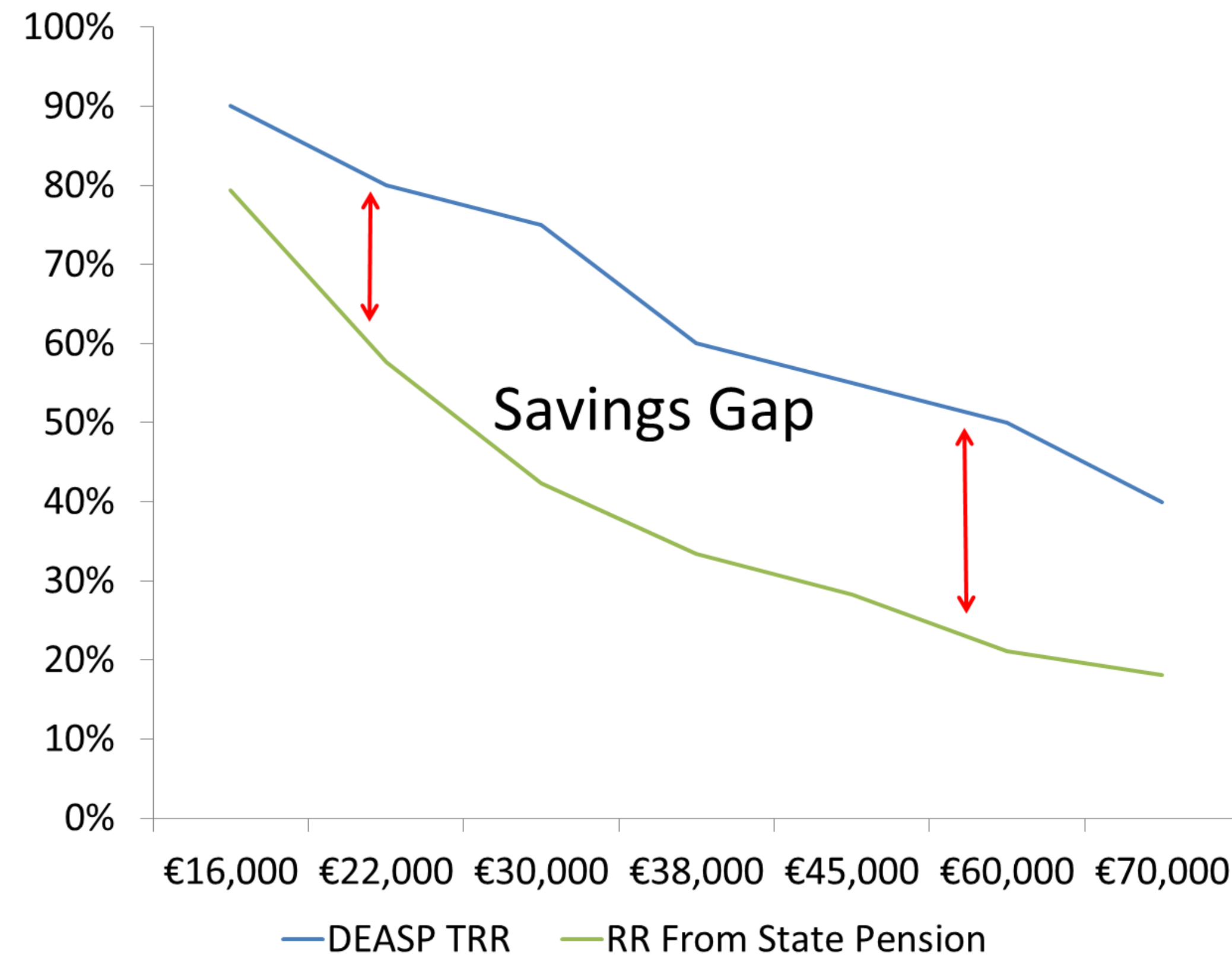


=

Significant
reductions in
living standards
at retirement

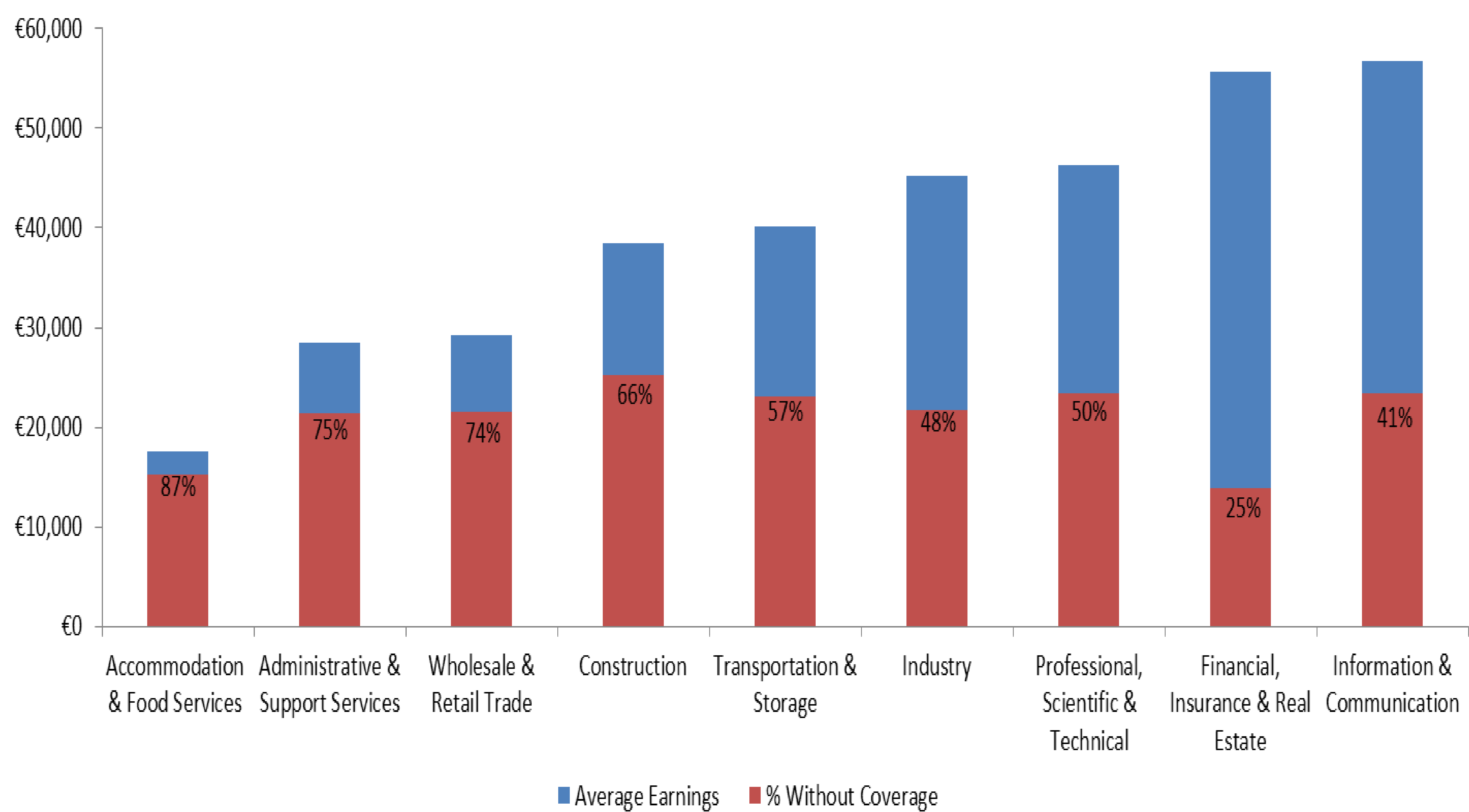


Target Retirement Income Replacement Rates

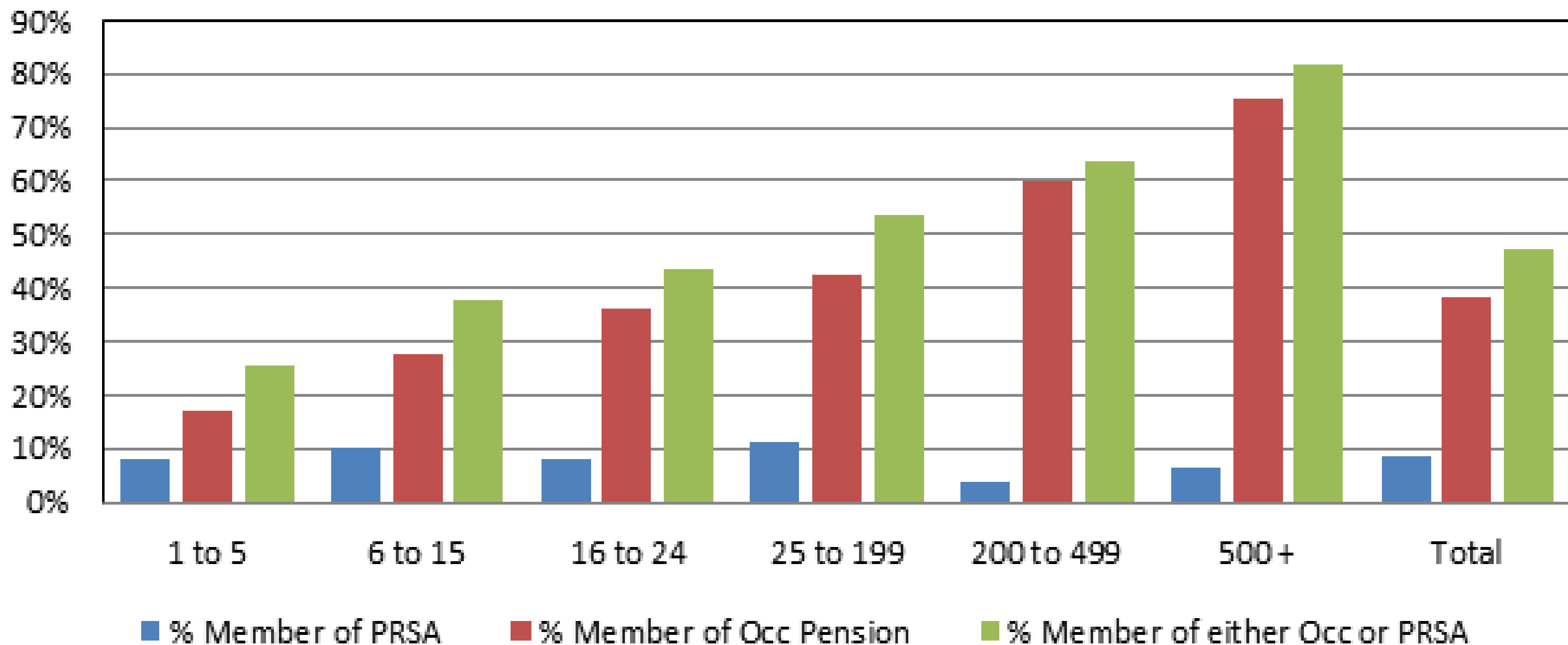


- Lower incomes need to replace a greater share of earnings to maintain living standards.
- People on lower incomes have a greater share of earnings replaced by the State pension.
- Average earnings of €38,000, the State pension replaces 34% earnings. DEASP estimate approx. 60% is needed.
- Lower incomes consume a greater proportion of their disposable income. Affordability?





TILDA Wave 1 Coverage by Firm Size for Employees



So...Automatic Enrolment – but what is the policy objective?



A partnership approach to saving for retirement



To supplement the first pillar (State pension) and enable people to maintain, to a reasonable degree, the standard of living enjoyed whilst working, for the duration of their retirement years.

The AE system should be designed in best interest of members, and members alone, to maximise retirement incomes for individuals.

Here are some challenges facing Irish employees preparing for retirement.....



**Saving late and saving
inconsistently**

**Making poor/uninformed
investment decisions**

Comparatively high fees

**Low confidence and trust =
Disengagement**

**Not utilising/maximising State
incentives**

Finding suitable products

Benefits of a high quality organisational framework like Automatic Enrolment



Makes saving easy and automatic

Professionally selected investment choices including a 'Default' option.

Reduced member charges due to large numbers (economies of scale)

Fiduciary responsibility on 'Registered Providers' with a legal duty to put members' interests first

Portable 'Pot Follows Member' approach

Supervision and regulatory capacity


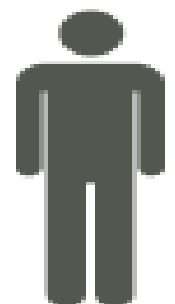


2.33 times retirement 'bang for buck' over lifetime



Central Processing Authority



Employer   Employee

Register themselves and
Employee with CPA

Selects the default option or
chooses a Registered Provider
and savings fund option

Employer and Employee Contributions
transferred to CPA via payroll

Central Processing Authority
adds State contribution and remits all
contributions to Registered Providers

Registered
Provider A

Registered
Provider B

Registered
Provider C

Registered
Provider D

Central Processing Authority



For the employee.....

- Easy/Automatic – CPA acts as agent for the member
- Should engineer in improved system governance, administration, communication, investment outcomes
- Limited ‘Registered Providers’ – though provides choice
- Economies of scale - 0.5% absolute max member charge
- Where employee feels unwilling/unable to choose, a ‘Default’ choice is made on their behalf
- Pot-follows-member capability (PPSNs / MyGovId.ie)

Profile of AE employers?



For the employer.....legitimate concerns

- Cost Base – direct and indirect
- HR/IR and administration
- Finance and/or payroll infrastructure
- Expertise and/or responsibility/liability
- Wider economic impact

Employers



- Minimise administrative burden wherever possible – no scheme responsibilities.
- Scale & technology reduce service cost for small/micro employers
- Statutory duty to register & pay contributions
- Contributions via payroll to any Registered Provider via member's unique identifier
- Regulatory supports
- Contributions deductible for corporation tax purposes
- Employer engagement – particularly aware of small employer needs
- Critical test – easy to operate for employers?

Registered Providers



- Fiduciary duty – act in member’s best interests
- Invited to tender to become AE ‘Registered Providers’
- Duty to deliver services to all who enrol
- Offer limited number of ‘standard choice’ fund/savings options with 1 default
- Employee selects ‘Registered Provider’ and fund option
- If not, defaulted on a carousel basis
- ‘Registered Provider’ status will be time/condition bound

Target Membership



- Employees aged 23 - 60 and earning €20,000+ p.a.
- No waiting period
- Opt in for employees outside of this criteria and for self-employed (and employer/State contributes)
- Existing savers in schemes that meet minimum criteria will not be enrolled
- Significant further analysis necessary – gender impact, non-nationals, carers, self employed etc.

Contribution Rates



- Employee/Employer low base 1% of gross in 2022 - €75,000
- Auto-escalating annually to 6% in 2027
- State ‘*Saver’s Bonus*’ of €1 for every €3 member contribution to a prescribed cap
- Economic impact and opt-out analysis required
- AE must set realistic expectations from the outset

Investment Options



- 4 Registered Providers – 3 ‘Standard Choice’ fund options
- 1 ‘Default Fund’ per Registered Provider
- Varying Risk Profile – Low, Moderate, Medium
- Target Date Funds – Lifestyle de-risking

Opt-Out and Re-enrolment

- Member ‘opt-out window’ 7th and 8th month
- Re-enrolled every 3 years
- May be conditional ‘Saving Suspension’ periods

Benefits and the Pay-Out Phase



- Policy Objective – income “*for the duration of the retirement years*”.
- Drawdown access at prevailing State pension age
- Registered Providers will offer standard decumulation options
- May be a minimum level of annuitisation
- Small pots taken as lump sum

Timeline



- 02/2018: A Roadmap for Pensions Reform
- 08/2018: AE Strawman Consultation
- 2019: Government decisions on design of AE
- 2020: AE legislation and implement structures
- 2021: Implement structures
- 2022: First employee and employer registrations for AE

We are here



Strawman Consultation Activity



- Invitation for submissions – Nov 4th
- National & Local Print Media/Radio ads
- Full briefing material made available on welfare.ie
- Regional Public Consultation Fora – Cork/Galway/Dublin
- autoenrolment@welfare.ie and phoneline for any AE queries
- Briefing session for Oireachtas members
- Meetings with sectoral interests, representative bodies, employer and trade unions reps.
- National AE Conference (post consultation assessment)

Let us know your views



You are invited to submit your views in writing by the 4 November 2018 by either emailing or writing to us.

Email: autoenrolment@welfare.ie

Address:

Automatic Enrolment Programme Management Office
Department of Employment Affairs and Social Protection
Floor 1, Áras Mhic Dhiarmada
Store Street
Dublin 1
D01 WY03

Further information: <http://www.welfare.ie/en/Pages/Consultations.aspx>

A Roadmap for Pensions Reform 2018 - 2023

EQUITY

ADEQUACY

SUSTAINABILITY



Rialtas na hÉireann
Government of Ireland

Key Challenges

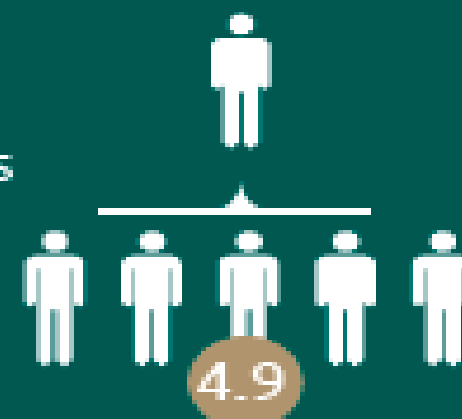
An Ageing Population

Individual Retirement Savings are too low

2015

Pensioners

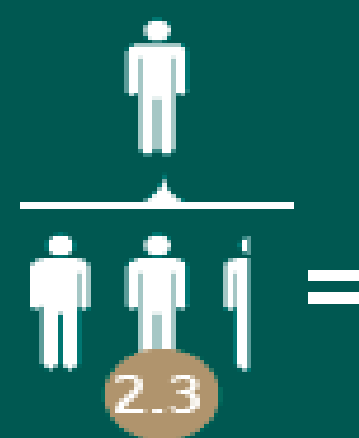
People of working age



2055

Pensioners

People of working age

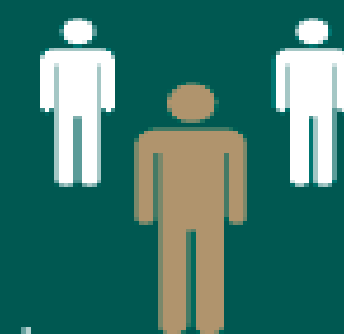


State Pension Spending will increase



Only 1 in 3

Private sector workers have pension coverage



Significant reductions in living standards at retirement



Roadmap Reforms

Strand 1

State Pension Reform

- ✓ Introduce Total Contributions Approach (TCA) to the State pension contributory (2020)
- ✓ Benefits received will more accurately reflect contributions made
- ✓ State pension contributory formally benchmarked at 34% of average earnings
- ✓ Certainty regarding future State pension income and pension age
- ✓ Providing options to defer State pension and increase ultimate payment

Strand 2

Auto Enrolment for Employees without Retirement Savings



A Partnership Approach to Saving for Retirement

Strand 3

Better Member Outcomes through Improved Pension Scheme Governance and Regulation



Improved Scheme Governance Standards

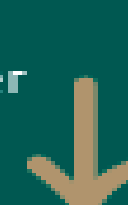
Closer Regulation



Rationalise the number of schemes



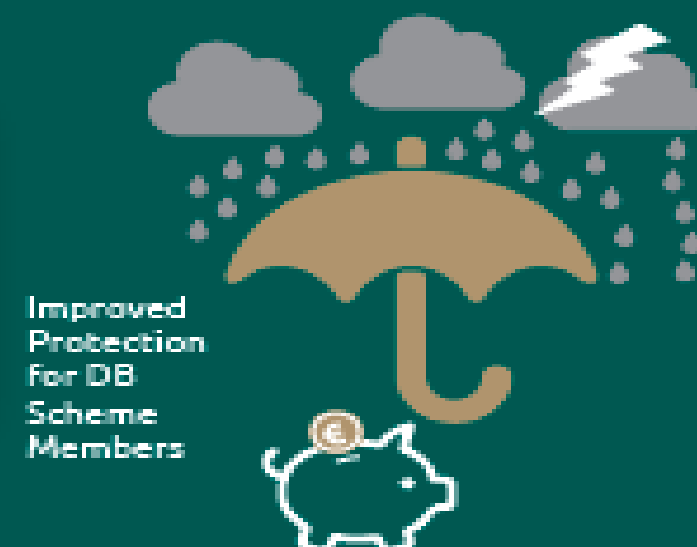
Lower Cost



Strand 4

Measures to Support Defined Benefit Schemes in the Challenges they face

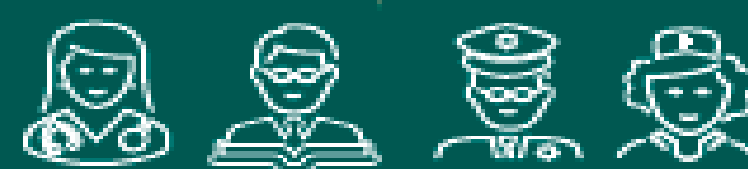
- ✓ Improve Scheme Oversight
- ✓ Introduce New Legislation



Strand 5

Further Reform of Public Service Pensions to Improve Sustainability and the Pensions Promise

Public Sector workers



Additional Contributions



Safeguard System

Age 65 - 70



Retirement Choice

Strand 6

Measures to Support Individual's Choice in the Retirement Decision and Fuller Working Lives



- ✓ Improved retirement income provision
- ✓ Increased retirement choice
- ✓ Personal wellbeing