

DÁIL ÉIREANN

AN COMHCHOISTE UM GHNÓTHAÍ FOSTAÍOCHTA AGUS COIMIRCE SHÓISI- ALACH

JOINT COMMITTEE ON EMPLOYMENT AFFAIRS AND SOCIAL PROTECTION

Déardaoin, 11 Deireadh Fómhair 2018

Thursday, 11 October 2018

The Joint Committee met at 10 a.m.

MEMBERS PRESENT:

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| Deputy John Brady, | Senator Alice-Mary Higgins, |
| Deputy Joan Collins, | Senator Gerald Nash. |

DEPUTY JOHN CURRAN IN THE CHAIR.

Business of Joint Committee

Chairman: As we have a quorum, we will commence in public session. Apologies have been received from Deputy Bailey. The members are welcome to this meeting of the committee.

I remind members to turn off their mobile phones or to switch them to flight mode.

I propose we go into private session to deal with some housekeeping matters after which we will resume in public session. Is that agreed? Agreed.

The joint committee went into private session at 10.08 a.m. and resumed in public session at 10.26 a.m.

Automatic Enrolment Retirement Savings System: Discussion

Chairman: We have resumed in public session. I welcome Mr. Tim Duggan and Mr. Robert Nicholson. I thank them for their attendance. They are very welcome to our meeting. I will ask them shortly to make their opening statement, which we received yesterday and for which we thank them, following which members will be invited to ask questions.

I draw the attention of witnesses to the fact that by virtue of section 17(2)(l) of the Defamation Act 2009, they are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the Chairman to cease giving evidence on a particular matter and they continue to do so, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or entity by name or in such a way as to make him, her or it identifiable.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable.

I remind colleagues to turn off their mobile phones or to switch them to flight mode.

I invite Mr. Duggan to make his opening presentation.

Mr. Tim Duggan: I thank the Chairman. It is critically important we meet and discuss this proposal with as many people as possible, and this committee is critical in that respect. We are delighted the members could find time in their schedule to fit us in.

I will make a few opening remarks and then Mr. Robert Nicholson will present the straw man proposal on an automatic enrolment, AE, savings system. The members will be aware the Government set out in its roadmap for pensions reform back in February that it intended pursuing a supplementary retirement savings system for the nation, based on an auto-enrolment type scheme. It set it out in some detail in that roadmap, with the promise that a more definitive straw man type proposal would be provided later in the year, and that is what we published in August.

I clarify for the committee that it is a proposal but it is not the definitive Government proposal. The reason the Government has published a straw man proposal is that in the past few years the Department has engaged in extensive consultation with up to 35 different stakeholder groups, comprising employer representatives, employee representatives, the community and voluntary pillar and industry. While there was absolute agreement that some form of supplementary pension scheme was necessary for Ireland, there was no agreement whatsoever on how that should be done or in what form. Consequently, we felt the best way to anchor the discussion and get the debate going for real, rather than have people talk about conceptual ideas and abstract notions, was to produce something tangible and to get people discussing that, the rights the wrongs, advantages and disadvantages, and pros and cons of it. Consequently, that is what this straw man proposal is meant to do, namely, to anchor that discussion and debate.

It is something that will feed into the Government's ultimate decisions around auto enrolment in the sense that there is this public consultation based on the straw man proposal and, in addition to that, the Department is assiduously gathering evidence and data from a whole host of different sources to come up with good analysis or evidence-building to help the Government to finalise its decisions. We are also conducting a macroeconomic and microeconomic impact assessment of an auto-enrolment system on the nation. All of those things will feed into the Government's decision. We have not done this in an ivory tower. We have been engaging extensively, as I said, with 35 different stakeholder groups over the last couple of years but we have also been engaging extensively in international discussion. We have engaged with the Organisation for Economic Co-operation and Development, OECD, and a host of other countries. We have also engaged with experts from other countries, who have implemented similar arrangements in their jurisdictions, to try to make sure we worked out what seemed to work best, why it worked, the things that did not work so well, the lessons learned and to try to avoid some of the pitfalls that have occurred in other countries, as best we can in a dynamic environment.

This morning, we thought we would take the committee, as quickly as possible, through the straw man, not only to tell the committee what is in it but also to explain some of the rationale and thinking behind the proposal that has been made. That in itself will, hopefully, answer many of the questions members might have. We will do our best to answer any remaining questions after that.

Deputy Joan Collins: What is the timeline? When is the Government saying that a decision needs to be made? Is it four years or five years?

Mr. Tim Duggan: The Government has already stated that it intends to begin the implementation of auto-enrolment in 2022. The time between now and then is to finalise the design, develop the legislation, do major communications and awareness campaigns, build the relevant information technology and any agency formats required to pursue it etc. There is much work to be done between now and 2022 but there is an absolute commitment to commencing in 2022. I will hand over to Mr. Nicholson.

Mr. Robert Nicholson: I thank the committee. I will try to bring the committee through the proposals in a little depth. That is needed because if automatic enrolment is introduced, it will fundamentally reform the provision of supplementary pensions in Ireland. That will not just be for now but for generations to come and for the broader population. It is a significant reform, probably the most fundamental reform of pensions policy in a generation or two. I will lay out, first, the elements of automatic enrolment already confirmed by the Government. As Deputy Joan Collins just asked, the Government has committed to beginning automatic enrolment in 2022. It is intended that it will supplement the State pension and complement existing private

provision. It is a different population of individuals and employees being targeted, those that have not saved previously. It will be an earnings-related workplace system where the employee can choose to opt out. They will be automatically enrolled but they choose if they do not want to avail of the benefit being provided to them. It will be a defined contribution model with personal accounts. People will own their personal accounts.

For the first time, employees, employers and the State will each be required to contribute. That will be cast under legislation. There is no mandatory requirement at the moment for employers to contribute to supplementary pensions. Broadly, the system is intended to facilitate choice but not to demand member choice. That is particular to the type of employees we are talking about and we will talk more about that as we go on. I will turn now to the elements of automatic enrolment consultation that are up for discussion. These are the broad operational structure and governance of the system. We lay out a proposal in the straw man which we think is an appropriate line of flight. The target membership is another element consisting of who will be enrolled and why will they be enrolled. On the employee and employer contribution rates, we make a proposal but it is up for discussion in respect of the impact on employers, employees and the economy more generally. I refer also to the shape and colour of the State financial incentive. What is the most appropriate incentive for the type of individual we are talking about?

Also considered are the number of providers, the type of savings options being provided and the default options of what happens where an individual does not make choices, the conditionality of member opt-out, how wide or thin should that be, the conditions on re-enrolment if a person opts out. Should he or she be re-enrolled? Should it be possible to take periods out of saving if there are more demands on a person's limited income? Finally, there are the conditions on income drawdown. What sort of shape should the income provide over the course of the person's retirement years? That is what is covered in the straw man.

I will open with the policy side of why automatic enrolment is needed. We have a multi-pillar pension system like most developed economies where the pillars are intended to share and diversify risk between the State, employers and employees. The State pension, which we will call pillar one, is intended to deliver on a narrow interpretation of adequacy. It is to provide a minimum level of income so that individuals avoid poverty in retirement. At the moment, 1.5% of those over the age of 66 are in consistent poverty, so resource are, rightly, targeted at that group. Beyond that, the State pension largely delivers on its objective, as it stands, of avoiding poverty. As I said, it is 1.5% for those aged over 66 compared to an average of 8.3% for the rest of the population in consistent poverty.

There are challenges over the long term for the sustainability of the State pension. Our demographics highlight that the number of workers for the employed population was going to drop from about 4.9: 1 to 2.3:1 in the next 40 years or so. The numbers contributing to the system, therefore, compared to the numbers drawing from it creates funding challenges. The cost of State pensions is going to go up by approximately €1 billion every five years, there will be an extra 17,000 pensioners every year and the number of pensioners will double from approximately 600,000 to 1.2 million over that 40 year time horizon. Our longevity in retirement means pressure to maintain the State pension, as is, will increase rather than decrease. The capacity to go beyond that minimum level of provision to avoid poverty will come under increasing pressure instead of less pressure. There will be less capacity to move, and even to stand still.

After pillar one largely achieves its first objective, we then move to supplementary pensions.

In supplementary pensions, the Government incentivises people to save for a level of income adequate to themselves. What is adequate to themselves is very much an open question. We talk about personal adequacy, that is what people need in retirement so as not to suffer a reduction in living standards. That is what most people target. We do not want to hit retirement and not have enough income over those years of retirement to do that. In regard to that adequacy, only 35% of the working population actually have supplementary pensions. The rest will rely entirely on the State pension and secondary benefits. As a result, the OECD, in reviewing the Irish pension system, has said that the single biggest recommendation for reform is to introduce some sort of mandatory earnings-related retirement savings system. We are one of only two of 37 OECD countries without a mandatory earnings-related element to our supplementary retirement saving. The other is New Zealand, which has a fairly sophisticated backup.

The Citizens' Assembly in June 2018 voted 87% in favour of some form of mandatory system being introduced. Over the past year and a half, this Government, as did many previous Governments, indicated a desire to move towards an increase in supplementary pensions. We have, broadly speaking, three choices. Individuals save more through tax or personal savings, they work longer or they suffer a reduction in living standards in retirement. For the past 25 years in Ireland, the provision of supplementary pensions has tried to increase coverage of people with supplementary pensions. It has not managed to do that and it has remained more or less constant at the level it is now for the past 25 years, despite financial incentives. The adequacy of those retirement benefits are also in question regarding the goal of trying to maintain living standards. There has, in effect, been a market failure. We have not done what we intended to do through public policy. Voluntarism has not worked. The Government decided with that - and, as I said, it has been a long-standing goal - to move towards some form of quasi or full mandatory contribution. That is to address the needs of the roughly 860,000 employees who do not have pensions' coverage and about 240,000 self-employed and begin to encourage them to save more. That is the broad background.

Moving to a system of mandatory contribution, where people are compelled to save to whatever extent we decide upon, we need to decide what the criteria are for telling people they should be in the system. When we are taking contributions from people's pay and putting it into a personal account for them, we need a good reason to explain to them why that needs to happen. It is a system of mandatory contributions. We have carried out extensive research using CSO data on household spending. We have analysed household spending in the period up to retirement and if one looks at the green line, that is the replacement rate for incomes provided by the State pension. At the lower end, the State pension, at approximately €13,000 provides a high replacement rate, in and around 80% for somebody on €60,000. As one moves up the income scale that reduces. What grows is the savings gap that individuals have, to be able to achieve that goal of not having a reduction in their living standards at retirement. That population in between those two lines, are broadly speaking who should be in automatic enrolment, AE, if one agrees with policy objective of trying to avoid a reduction of living standards in retirement.

Trying to identify what exactly what one should have in retirement is a notoriously controversial exercise, as there are all sorts of demands like tax coming in, childcare costs, housing costs and whether one saves for a pension or not - costs that will not arise during retirement. For the generality of the population however we are confident that this replacement rate assessment is suitable.

We carried out this exercise independent of work that was done in the UK by the pensions

commission which set its target group for their automatic enrolment system, and it was broadly similar in terms of the outcomes. We are confident enough that the much-vaunted 50% replacement rate does not suit for the generality of the population. Lower income earners need higher replacement rates, higher income earners need lower replacement rates. That revolves around the element of discretionary income one has in retirement.

Moving on to the broad population of automatic enrolment savers, we have to highlight that it is a different group from current savers. It generally comprises lesser incomes and different cohorts of employee types by employment sector. If one looks at the chart one can see that the higher the income represented by the blue line, the more likely it is that the person has a pension. The red line represents those who do not have a pension. The lower income earners, to a greater degree, do not have pension provision. They are in the typical sectors that one might suspect - accommodation and food services; retail and administration; and, support services. It also includes categories of employment where people frequently change jobs and have periods out of the workforce and so on. They are also the sectors that are less commercially viable for large providers to deliver pensions to compared to higher earners.

With that cohort we have what we call the “pot follows member” approach, which I will talk a little bit about later on, but that is what is informing that approach to frequent job changers and people who take frequent time out of the workforce. We do not want people with multiple pots. The “pot follows member” approach, which we have in the straw man, is based on that.

Moving on to the employer type, this is a very different population from current savers. What one sees with the green line is occupational pensions coverage or personal accounts. The larger the employer, the more likely it is that one is going to have supplementary savings set aside for oneself. The smaller the type of employer, conversely, the less likely it is that one is going to have cover. It is also true that smaller employers tend not to have the same level of support in terms of financial experience, human resources, industrial relations and administrative capacity to support individuals. That is really important. A different type of employer will have a different type of employee.

What are we trying to achieve with automatic enrolment? If we reflect on what I have just discussed, it concerns mainly low and medium income earners with smaller employers to adopt a system not just now, but that will exist in the coming decades, which will fundamentally reshape Irish pension provision, as it stands. We need to address the challenges that are out there for this particular population. We need the right product for the population. We need to remove true barriers to saving that have prevented us from getting into the type of coverage adequacy that we have searching for. We need to ensure that we maintain the competition in choice but address that inertia that stops people from saving for retirement. It is that old chestnut “I will get a pension or I will change my bank account tomorrow”. It is a behavioural economics policy reform which relies effectively upon people’s inertia.

We also have a population that does not know too much about pensions, so we need to make choices for them, but also at the same time to allow them to make their own choices if they so choose. We also need to build trust and confidence in the system. We are all aware that there is a limited trust and confidence in the wider pension system that exists.

For the first time, employers, employees and the State will be compelled to make a contribution, at least initially. Throughout automatic enrolment, however, the employee will retain the choice. If they choose not to avail of it, they can opt out. The reason for this - linking back to some of our conversations with likely members of an AE system and the wider population - is

that they do not want it perceived as a tax or as a mandatory system. They want to have the option to have the control in their own hands. Frequently they will not use that control but they want to ostensibly have it.

The reasons we want to fundamentally reform the existing system for AE are due to the following challenges facing Irish employees preparing for retirement: Saving late and inconsistently or not at all - due to shortsightedness or myopia where the here and now always trumps the long term, even if the long term becomes more important at some point; and, comparatively high fees where, although not in all cases, there is nonetheless an expensive fragmentation in the Irish model of pension provision, generally speaking. Using a figure I am frequently criticised for quoting, we have 1% of the population of the EU and 50% of the pension schemes in the EU. Even when single member schemes are stripped out, the average Irish defined contribution scheme has 24 members. We are looking to create pension schemes with 100,000 members, and the economies of scale that come with that. We are an outlier, as it stands, as to how we provide for supplementary pensions. Not utilising or maximising State tax relief incentives, provided at 20% and 40% at the moment, which is a very generous top-up to anybody's pension, is another feature of the current position where some 65% of the country's population do not use it at all. Some of these may not pay tax but a large body of people who do, do not utilise it. Making poor uninformed information decisions that can be based on discomfort with the pensions world, but with an element of being blinded by choice, is also a feature. There is such a proliferation of products out there that individuals often feel uncomfortable making decisions. There is also a lack of confidence and trust that can lead to a disengagement; that permeates the whole system at some level. There needs to be an improvement in our confidence and trust levels on pensions. Finally, we need to find suitable products.

We know that the population of savers for automatic enrolment are to a greater degree lower earners, and the charges and associated costs that will come with the commercial process of selling to them will impact on their savings. We need to address that. How would automatic enrolment do that? It makes savings easier and automatic and all of the international evidence - we have looked extensively at every country who has introduced similar systems - suggests that the most effective and efficient vehicle for improving retirement savings, and one that leads to better outcomes in the round for the individual, are these types of systems. It makes saving easy and automatic. One has default products and auto-pilots that make good decisions for individuals if they choose not to make them themselves. One can communicate better because one has a captured population. One can improve understanding. One can introduce easy-to-use IT systems and give a greater level of customer service. In terms of scale, one can see reduced member charges due to larger numbers. All of our evidence incontrovertibly highlights, all things remaining equal, that scale improves governance, administration costs and investment returns to the individual. Using a single figure which we quote, 0.5% of an individual's assets would be the charge for the system. That would see the ultimate pot of an individual's savings over their lifetime reduced by about 10%. PRSI in Ireland, for example, is approximately 1%, which is effectively double the cost of what we are bringing forward in our proposal. Many smaller schemes would have higher charges. A really crucial element of the reform is to drive down charges.

Looking at the population of frequent changers who do not understand pensions too well and do not want multiple benefit statements and multiple accounts and who have periods outside of savings, in every country we have talked to who have not introduced a "pot follows member" approach - where the pot is taken by the person from job to job - they have said the single biggest regret they have is not introducing that as an element of the system. It is a key

for us in targeting this population. We can imagine a situation where we have on average 11 jobs per lifetime; if one has a different system and a different fund with every employer one has, one has 11 pots to keep an eye on. The idea then is to amalgamate these and to carry one's pot onward to further employments.

The saving persistency feature of individuals also improves. It suits job changers. It prevents high administration costs on small pots, which eat away at the individual's savings. I have already spoken about professionally selected investment choices. Effectively, this is about introducing bespoke options for individuals in order that they do not have to make decisions for themselves. We have suggested that the system should include some sort of fiduciary responsibility on the providers - I will speak about them in a while - in order to ensure that there is a legal duty on them to act in the best interests of members at all times.

Broadly speaking, there are two systems in operation in Ireland. Contract systems are delivered by banks and insurance providers, with the contract directly between two parties, and then there are trust-based systems, with a board of trustees legally obliged to make all decisions in the best interests of a party. If it does not do so, legal recourse is available. We have suggested a kind of hybrid of the two systems, and we will explain why. At the bottom of it, there should always be a fiduciary duty on trustees. Keeping those principles in mind and the idea that there has been market failure to date in terms of what we are trying to achieve on pensions coverage inadequacy, what could we suggest? When we introduce "mandation" or statutory enrolment, we are saying that it cannot be left to market forces alone and that we must mitigate the failures that have existed. We need to address the complexities and inefficiencies in the system. We are suggesting a central processing agency, CPA, that would effectively be an independent and arm's-length State body to introduce a framework to set standards and harness the expertise that exists in the private sector. It is not an expertise that exists in the public sector or more broadly. This CPA would be statutorily independent; it would not be a regulator. It might be regulated, along with the schemes it would provide, and its role would effectively be to act on behalf of consumers generally.

The proposed agency would tender for registered providers which could deliver services over a central hub to employees generally, providing a limited choice to allow an individual to compare one against another and choose a fund. Where an individual does not choose a fund, he or she would be put through a kind of a carousel to an appropriate default fund designed for the individual. Internationally, we know that somewhere between 90% and 99% of those enrolled will not make a choice. In the UK, 11 million employees have been enrolled, with 6 million in its large NEST fund, with 90% of those not making a choice and being defaulted into a fund. It is not a bad thing but we would always facilitate choice where the individual decides he or she wants to make the decision.

This CPA would act as a central hub. It would be digital first, utilising developing financial technologies and providing online platforms where I could make comparisons and which would charge in a consistent and comparable way so I could make a choice. It would also provide basic required information for the employer and employees, acting as a contribution clearing house. We would use payroll systems to facilitate contributions from payroll to the CPA and on to the provider. It would be similar to a system in New Zealand and also used in Sweden and a couple of other countries. It is basically the harnessing and managing of the service providers in the private sector.

The CPA might make saving easy and automatic for employees, effectively acting as an agent on behalf of members. Its personnel would be highly professionalised and skilled, with

an understanding of the pensions environment. The model should, in itself, engineer an improved system governance, administration costs, communication and investment outcomes by building in this scale. It would limit the number of registered providers through a tender process and also provide choice and competition. It would deliver economies of scale to bring 0.5% charges at the absolute maximum, meaning the charges effectively do not exist for the generality of employees in the market now. As already stated, there would be a default position when an employee is unwilling or unable to choose.

The pot-follows-the-member capacity is critical and would happen through the likes of a personal public service number, MyGovID or some sort of unique identifier that would allow an individual working in, for example, the catering sector to be in a scheme. Typically, one waits six months to go into a pension scheme because of the administrative burden. With frequent job changes, that can lead to a long time out of the savings process. If we use this structure, I could work for Burger King for six months and on day one my employer would make a payroll deduction to my pension account. I could move to McDonald's seven months later and start exactly the same thing without any breach in my savings pattern. I could go to another retailer six months after that and do the same thing. We are addressing a fundamental shortfall that currently exists in terms of savings persistence. The limited number of providers would help individuals make choices and reduce the kind of choice paralysis that exists when people are blinded or confused by the pensions market.

We have taken what might be considered a novel approach in removing the employer from the relationship. Typically, there is a tripartite relationship in pensions provision at an industry level, which equates to the employer, provider and the individual. We are saying we will remove the employer from that process to a large degree. I will explain why in a moment. We have spoken to all the employer groups and received feedback over the past year and a half or so. Employers legitimately highlight that there is a concern around cost base, with direct costs because of the new contribution that needs to be made, and often there is an indirect cost. That is certainly the cost currently with respect to investment and scheme advice, administration time and cost involved with setting people up, changes to the payroll system and so forth.

We spoke to employers at the lower level who do not currently provide pensions and they argued they have no human resources, industrial relations or other administration experience in this regard. In some circumstances, there is no payroll service and the parties involved do not understand pensions. They do not want to make choices for individuals working for them when they have as little knowledge as they do about pensions. They do not want workers coming to them in a number of years saying the pension that was chosen did not perform and it is the responsibility of the employer. Employers want support in that space and they are also concerned about the wider economic impact, as the large-scale introduction of automatic enrolment would have an impact on the economy more generally in the short term. It would have a more beneficial effect over the long term but making long-term decisions can be difficult.

There are 249,000 enterprises in Ireland and 1.4 million employees in this area. Of these, 93% are in the micro sector and have between one and ten employees. An earlier slide indicated that the largest gap in pension provision is among those employers. The structure we have built around accommodating that. We intend to minimise the administrative burden wherever possible on the employer, and that brings in the CPA, which will take responsibility and remove the employer from some scheme responsibilities. We will use scale and technology to reduce service costs for these employers. We will have to introduce statutory duty, and it will be the responsibility of the employer to enroll employees and make whatever contributions are

considered appropriate. To a large extent, that is where the significant burden ends. Contributions would be made via payroll to registered providers using a unique identifier. There would absolutely have to be strong regulatory supports both from the CPA and, in all likelihood, from the Pensions Authority, as regulator. The contributions made would be deductible by the employer for corporation tax purposes. We know, through evidence building elsewhere - the other countries that have introduced this - that it is crucial all the way through to ensure we continue to engage with employers and understand their difficulties. They will have challenges, particularly small employers. Overall, the critical test is if it is easy to operate for employers. We hope our design proposal will help to achieve that.

I have a quick word on registered providers. We want to ensure there is a fiduciary duty to act in the best interests of members. This will provide an opportunity for providers with scale, and it will have to involve large-scale providers currently in the market or an amalgamation of those providers. Internationally, it is frequently the case that a consortium decides to get involved in the space to build service. These would need the capacity and expertise and we see four as the right number, approximately. We have looked at master trusts or large schemes internationally. To deliver the type of scale we are talking about while maintaining competition, 100,000 members per scheme is an appropriate number to start with. That give us approximately four schemes. We are open to it being either side of that but it should be close to that number.

We can look at some schemes in the UK such as, for example, NEST and The People's Pension, which have 6 million and 2 million members, respectively. This is a really big scale, and it is crucial that I get that point across. By international standards, we are an outlier and to scale is the message we learned from everywhere. It is about increasing scheme sizes. It is a fundamental intent of the pensions regulator as it stands on the same basis as I suggest. If we achieve that scale, account administration, investment management and so on are made easier and more effective. In terms of choice for the individual, each registered provider could offer three choices and the parameters would be set by the proposed CPA in order that an individual could look at a provider and see low, medium or higher-risk options. We have set the number of options at a low level due to what is known as choice paralysis, where any more choice is just too much for individuals and they do not make choices. The strategy is to keep the number and the costs low but have a default option when the individual does not make a choice.

I will now deal with the policy side - who will be in the scheme, why, how much will it cost and so on. In regard to the target membership, under the straw man proposal, we have said that employees aged between 23 years and 60 years and earning €20,000 plus should be in the system. That goes back to the policy objective of not having a reduction in living standards at retirement. We definitively believe that those in the group in question will suffer a reduction in their living standards if they do not save for retirement. They are not currently doing so and, as a result, they should be in. We also need to assess membership against current expenditure. There would be many people who might suffer a reduction in their living standards at retirement and who would also save but who do not have the capacity to do so at present. How does one find a sweet swap between those two things, the objective but also short-term affordability? We also need to ensure that we do not enroll the wrong type of people and then have mass opt-outs early on. That might have a contagion effect across the system and encourage others to leave. We must ensure that we have enrolled the right people in the scheme.

We picked the age of 23 years based on the fact that it allows for 45 years of savings. Some 52% of people below the age of 23 years are in education or in low-earning jobs. There is frequent job churn among those below the age of 22. Job churn - people moving from job to

job - tends to decrease by the age of 23. Based on the administrative burden and so on, we have stated that 23 is the appropriate age. On the basis of the contributions system as it stands, that group will then be able to achieve the goal relating to the system. At present, there are approximately 410,000 employees in the cohort aged between 23 and 60 and earning salaries of €20,000 plus. That is the starting-day population. It would also prevent over-saving and limit the level of economic opt-out and shock.

What we have said for other employees is that they would be able to opt in if they do not fall into that group. That opt-in number, namely, those earning less than €20,000 or under 23 years or over 60 years, is approximately 450,000. Those who are on salaries that are below the State pension number in the region of 255,000. Can members imagine enrolling people who, over the long term, are earning less than the State pension and informing that they will be compelled to save from very small incomes now in order to try to achieve incomes in retirement that will be supplementary to the State pension but that said pension will give them more than they are earning now? An individual would ask why he or she should save from such a limited income when he or she knows that the State pension will provide more later on. This is the reason those in that low-earnings group are not included.

We also have to look at the self-employed. There are 240,000 self-employed people who do not save for retirement. We have looked all over the world and we have failed to identify an automatic enrolment system which could, as a starting-day operation, accommodate the needs of the self-employed population. Typically, the self-employed see their businesses as their pensions. They try to keep capital as a backstop for their businesses and they do not, on the whole, like to be interfered with - obviously, we would say supported - to the same extent as employees. We have stated that the self-employed should be able to opt in rather than being automatically enrolled. This is on the basis that a successful business is not always achievable for a self-employed person and that when he or she retires, his or her capital is, in terms of experience, himself or herself. That capital cannot be sold on. In the context of the straw man proposal, we have asked if there are any suggestions as to how the system could be better designed to accommodate the self-employed.

We also need to carry out a further analysis of the population - there is a significant caveat in this regard- in the context of gender impact, the types of savers we have in terms of non-nationals and where they are on the income scale, carers and the self employed. There are particular impacts on certain groups that we need to have a better understanding of as it stands in order to allow us to make better decisions.

We have stated that the employer and employee contribution rate would start in 2022 at a low base of 1% of up to €75,000 and auto-escalate on an annual basis up to 6% of a maximum in 2027. That would be a statutory obligation on employers to match the individual contributions. Individuals could opt out. If a person opts out, his or her employer would not have to contribute. If, however, he or she remains in the scheme, the employer would have to match his or her contribution all the way up to 6%. Fundamentally, that would be a new development in the Irish context. These are ambitious contribution rates.

We were asked to develop a system to allow individuals not to have to undergo a reduction in living standards in retirement. We have laid out those ambitious contribution rates in order to ask whether, from a public point of view, it would be reasonable in ten years' time - in 2027 or 2028 - to have the type of contribution rates we know are required in order to deliver meet the objective that has been set. Again, that matter is open for discussion.

In terms of a State bonus, we are looking at a different population of automatic enrolment employees - many individuals who may be in the system but who do not pay tax and who, we know, do not understand the value of tax relief. We have stated that a State saver bonus - as a matching contribution - should be considered for these people. Under such a scheme, every €3 an individual saves would be matched by a contribution of €1 by the State. It would be a like-for-like contribution up to a prescribed cap. That is fundamentally different from the existing system and there has been a lot of conversation in respect of it. However, we state that the automatic enrolment population is different from current savers. All of those products would, as Mr. Tim Duggan mentioned, be underpinned at the outset by an economic impact analysis. We know that an increase in contribution rate for this many people would have an economic impact in terms of GDP, business expansion and employment. We are working with the ESRI to model that under various scenarios. That will obviously inform Government decisions. What we would absolutely say is that automatic enrolment straw man proposal must set realistic expectations from the outset. The lower the contribution, the lower the outcome for individuals. We must match ambition and temper it with realism in terms of what can be achieved.

I have gone through the investment options, namely, four providers and three standard fund options. We have stated publicly that some of the consultation forums that the Department is by no means a centre for pensions investment specialism. That work will be done later on in the context of deciding how these funds should be structured by low, moderate and medium risk. Typically speaking, default funds internationally operate on the basis of the earlier one is in one's working life, the more one invests in equities and risk-based assets and the closer one gets to retirement, the more the risk is moderated. We have stated clearly that it is not necessarily a second-order issue. It is an issue that will be decided later on but, basically, those forms will need to examine the risk-reward profile. They will be obliged to ask "What is the appropriate level of benefit we are targeting?", "What is the competitive cost for delivering a fund?" and "What is the acceptable level of risk?" There is always going to be a trade-off in that regard because there is an element of risk in direct-contribution retirement saving.

What we know from the experience in the United Kingdom is that there are 6 million members in the NEST fund and that 37% of them wanted no risk whatsoever with their retirement savings. What we need to do is understand that and accept that individuals have free choice. However, we must also highlight that risk is two-ended - one may have safety in the fact that the money one puts into a retirement savings pot is risk free but that attaches itself to risk at the far end. In other words, when a person hits retirement, his or her money will not have worked for him or her and he or she will have far less to see him or her through the 20 years of retirement he or she had anticipated. What is the appropriate risk-reward demand profile for individuals? As I have stated, 90% of people will go into the default scheme. If, therefore, the State is involved to the extent we are suggesting, it will be absolutely critical that the default scheme is designed correctly.

I will now deal with opt-outs and re-enrolment. This is crucial in terms of the window to opt out for individuals. Due to the fact that we are the last in class to introduce this system, we have benefited because we have gained from the lessons learned by other countries. We know, for example, that opt-out windows which are of short duration and which are delayed a little in order to allow individuals see their statements and the benefits to be gained prevent knee-jerk opt-outs. If I have put in €100 and I get a statement which shows that my employer has put in a €100 and that the State has put in €33, I can see that I have €233 as opposed to €100. When people get that sense of understanding, it increases the rates of retention in the scheme so the number of opt-outs is low. In the United Kingdom, there are 11 million people enrolled and

over 1 million employers involved. Some 90% of those, have stayed in the system. These are people who are saving now and who would not have done so previously. Within the automatic enrolment, AE, straw man, the opt out can be used in the seventh or eighth month after someone gets the initial statement and sees the benefit. They can then opt out. If they do opt out, they get back their benefits. We also say that someone would then be re-enrolled every three years. Looking internationally, we have seen that people make temporary choices due to short-term demands. The environment will change. AE acceptability will broaden, there will be a peer group acceptance of AE and people will decide they need to be in because everyone else is in. We also know that of the 10% in the UK who opted out and were re-enrolled after three years, more than 50% stayed in so, effectively, it is worth it. In terms of savings suspension periods, some systems abroad look at allowing individuals periods where they do not save. For example, people may have child care or healthcare costs or unforeseen costs that make them want to stop for six months or whatever period of time is desired and then restart. We say within the document that we would like to hear views on that. What we need to be very careful about is compromising our goals in terms of allowing people opt out of the system who then through inertia do not go back in. We say that if they are considered, there should be a nudge back into the system but we should be also very careful with regard to them. In New Zealand, which allows long periods of savings suspension of up to five years, 40% of its AE-enrolled are on periods of savings suspension so it can lead to unintended behavioural changes; our watchword on it is caution.

With regard to benefits and the pay-out phase, one of the key international lessons we have learned is that our objective is around an adequate and sustainable pension so that a person has a payment over a period of their entire retirement - a traditional pensions idea. This is why our policy objective contains a provision of income for the duration of the retirement years. What sort of structure could provide that? The international lesson based on every system we have looked at is that we should make sure we get the accumulation stage, as they call it, where someone is drawing their income right from the outset and that it is coherent with the accumulation - the savings phase. It has been a major problem in other jurisdictions. It rolls off the tongue easily but it is a really challenging thing to do. This will require us to look again at the options that are available to people in retirement. At the moment, we have a lump sum, an improved retirement fund a person can draw down at their own behest and annuities. We know now that the majority of savers outside defined benefit schemes - defined contribution savers - are opting for approved retirement funds rather than annuities because annuities are costly. However, approved retirement funds bring investment risk and other risks, most particularly longevity risk, for example, if I spend all money before I hit my most vulnerable years. Someone might hit 75 or 80, have increased healthcare costs or other costs, may be less able cognitively to make decisions about their financial future and bomb out their money. What sort of structure should we have to provide security on that income stream over the long term? Internationally, it would involve things like deferred annuities where a person purchases an annuity that they draw down only when they are 80. This is much more cost competitive or cost efficient and the person knows that when they hit the most vulnerable or a more vulnerable stage in their life, they have an income backstop. In short, there is a lot of work involved to do that. We have largely just invited views on it. The Department of Finance is undertaking a review in terms of the provision of approved retirement funds, the degree to which they are fit for purpose and whether they should be changed. Hopefully, this will inform our own processes.

To a degree, that is it. That is a quick run-through. We could speak forever about almost any element of that straw man. It is a policy proposal. As Mr. Duggan said, we wanted to anchor the debate around themes we know are crucial for the system. We do not believe it is perfect

but we do believe it is approximately the right line for a system such as this. Members can see the timelines in terms of our discussions. The consultation on the straw man will close on 4 November. We are travelling the country to deliver regional consultation fora and have had all sorts of other meetings and briefings with interest groups, representative groups, employers, trade unions and so on so a large degree of consultation is taking place. There is a lot of work to do once we finish that.

Chairman: Before I take questions, I have one or two technical points about which I would like clarity. The second last slide indicated benefits and the pay-out phase. It is hugely important that people understand that. It is one of the main reasons people do not take out pensions. It is because they do not have confidence in what will be there at the end of the day. The clarity, narrative and description around it are really important.

I want to confirm one or two points. It was indicated twice during the presentation that the Department looked at what was the target group. It was said that it was people between 23 and 60. Effectively, the 23-year-olds would have 45 years so that is 68. Is 68 the earliest age that is envisaged for pension draw down?

Mr. Robert Nicholson: We suggest that the payment draw down should be the prevailing State pension age be it 66,67 or 68.

Chairman: By the time somebody accumulates a pot, he or she will be 68.

Mr. Robert Nicholson: Forty-three years, absolutely.

Chairman: There is no provision if somebody exits the workforce at 62 or 65 to draw down a reduced pension or anything like that.

Mr. Robert Nicholson: Not as it stands. What we say is that the draw-down conditions would take cognisance of ill health and so on so there would be provision if the person has ill health, as is currently the case, but we have put the prevailing State pension age in the straw man.

Chairman: The witnesses indicated that the contribution level was 1%, increasing annually to 6% - 6% for the employer and the employee, respectively, and 2% for the State. Is there any facility for an employee who feels he or she cannot afford the 6% but could afford a reduced payment or is it set at 6%?

Mr. Robert Nicholson: It is set at 6% in the straw man auto escalating with the option for the individual to opt out early-----

Chairman: Not reduced.

Mr. Robert Nicholson: It is not reduced in the straw man. Some countries do permit it. They auto escalate under legislation but if an individual actively makes a decision for themselves that they cannot cope with it, they can come to a stop but in the straw man, we suggest nudge all the way up. Again, we want to hear the public's views on whether this is sustainable or not.

Chairman: If I am not mistaken about the straw man, the contribution from the employer is tax-deductible against corporation tax. Is there tax relief on the employee's contribution?

Mr. Robert Nicholson: No, that is a percentage contribution from gross, which will be

then matched and, effectively, the matching replaces the tax relief in the straw man for the AE population. We are not commenting on the wider pensions environment. The Department of Finance is chairing a group that is looking at carrying out an assessment of wider tax relief as part of the road map for pensions reform. We are talking specifically about the AE population. It is a matching contribution, not tax relief.

Chairman: So there will be winners and losers. If somebody traditionally had been on the 20%, he or she will do better - getting one and three. Someone earning €50,000 who is paying the top rate - the scheme is for those on between €20,000 and €75,000 - will do marginally less well from using the State contribution rather than tax relief. Is that correct?

Mr. Tim Duggan: Yes, but if individuals are in a pension scheme, they will not be targeted for AE so that would not arise. If they moved from their current pension scheme and became part of AE - we have not worked out how that might work - that would arise but it would be based on a choice that an individual had made. What they may get from going into AE that they do not get in a private pension arrangement is the employer contribution. The person would have to do his or her own sums if they were in that situation.

Chairman: Sorry for delaying the meeting-----

Mr. Tim Duggan: However, we are not concerned about those people because they have already made choices and understand pensions to a certain extent. We are targeting the people who have nothing.

Chairman: The witnesses quite clearly define who they are looking at. Some people out there will have pensions that would be inadequate. If they wanted to migrate to AE, does the pot they have already accumulated migrate as well or does it run its course?

Mr. Tim Duggan: Both are possible. As I said, we have not yet worked out whether we allow integration of that nature and, if so, how that would be done because we would be talking about two disparate systems in the sense that one had a matching contribution while the other had a tax relief element. The question is how that would be dealt with subsequently at the draw-down phase. There are issues such as that to be worked out, but we consider them to be more second-order issues.

Chairman: My final question is a little complicated, as pensions issues generally are. One of the slides of the opening statement indicated that for average earnings of €38,000, somebody who gets the State pension currently would get 34% of that figure. Mr. Nicholson went on to say the Department reckons that to maintain the correct standard they would need 60%.

Mr. Robert Nicholson: Yes.

Chairman: Not in the initial phases of the 1% but when the scheme is operational, say somebody is paying 6% and he or she paying for the 45 years. What percentage would that give in that scenario? Has it been worked out that it will make up the difference?

Mr. Robert Nicholson: Yes, and it will. We have run actuarial calculations. By their nature, actuarial calculations are assumptions in terms of inflation, investment return and so on. However, based on actuarial standards, we have run calculations. With the average earnings of €38,000, the State pension provides 34% and we seek 60% in the round. Based on the contribution rates over the savings period that we have, we know that an individual will achieve that level of income in retirement. Broadly, that is why we set the contribution rates as we set

them. It is a rule of thumb within industry that somewhere between 14% and 17% of a person's income needs to be contributed to hit income target replacement rates and that is why we have set them.

Chairman: State pensions will still provide 34% and the remaining 26% will come from auto-enrolment.

Mr. Robert Nicholson: Yes, it will be bridged at retirement.

Chairman: The combination of the two is the 60% and the actuarial calculations back that up.

Mr. Robert Nicholson: Yes.

Chairman: That was a bit complicated; I thank Mr. Nicholson.

Deputy John Brady: I thank Mr. Nicholson for his comprehensive presentation. The public in general seems to be oblivious to all of this. The consultation period is open until 4 November. What kind of uptake has there been for that process? How many submissions have been made to date? I do not think the public is aware of this. Will it be a seismic shift in policy in terms of pension provision and will it pose challenges for some sectors in society?

On the earnings ceiling that is set in the straw man proposal of €20,000, the third graph goes through the different employment types, including accommodation and food services, administration or support services and the retail trade. They are the three areas in which there is primarily low pay, precarious employment and zero-hour contracts. It is self-evident as to why there is such a low uptake there. A lot of roles in those areas will fit into the category of €20,000. There are concerns around that bar at which people will be auto-enrolled. We should be trying to work towards a living wage and I would be critical of the increase in the minimum wage announced in the budget. It will not move people anywhere near where they need to be in terms of having a real living wage. Sin scéal eile; that is another debate. How fixed is the €20,000 bar in the straw man proposal? I have some concerns around it.

On the employer's and the State's contributions, Mr. Nicholson said that would at least be the case initially. I am not sure what he meant by that. Will it cease to be the case at some point? Will it be looked at after ten or 15 years and could the State stop its contribution? Mr. Nicholson might elaborate on that.

It is very difficult for people to invest in something that may be 35 or 40 years away without seeing what is in the pot for them on an annual basis and knowing what the provision ultimately will be. Some service providers operate app systems allowing people to log in at any stage. This is more the nuts and bolts as opposed to broader policy provision. I am not sure whether something like an app could be considered so that people could see in real time what would be in it for them.

The self-employed and the big challenges in that area were mentioned. A figure was given of 260,000 self-employed people who do not have private pension provision. That absolutely poses challenges. We had a conversation before the witnesses came in about bogus self-employment. Key to the challenge here is addressing the huge level of bogus self-employment that exists. If that is not tackled we will again see employers getting away with not making pension provisions for their employees when auto-enrolment rolls out.

On the seventh or eighth month, people can decide to opt out. Different figures have been bandied about since the consultation opened in August as to how much it would actually cost someone to do so. Will a maintenance charge be imposed on people up to that point? Going back to the straw man proposal, if someone on an income of €20,000 who is automatically enrolled decides - reasonably - that he or she is struggling to put bread on the table as it is, cannot afford this and decides to opt out, how much will it cost to do so after the seventh or eighth month? Three years later if that person is automatically enrolled again and simply cannot afford it - he or she is not looking 30 or 40 years down the road - in real terms, how much will it cost to opt out?

The biggest question in my mind is who will manage this overall. Will it be the private sector or the State? My fear is that the private sector is already rubbing its hands at the thought of this even though the Department is saying nothing and that it will be only about 0.5% because of the scale. With four different providers we are talking about probably 100,000 in each of those providers. The critical question is who will manage this overall.

Chairman: I will get the answers to each speaker's question because some of the questions are more technical rather than general discussion points.

Deputy Joan Collins: I want to ask one question. Will Mr. Nicholson expand on the four registered providers, the varying risk, the low, moderate and medium - what is he talking about? Mainly people want to know that at the end of the day, when they leave work and retire, a stable fund will be there. This takes us back to the issue of trust after austerity, the collapse in the markets and everything, when people lost whole pensions.

Mr. Robert Nicholson: Going from the top, in terms of the consultation process, a list was provided of the activity we have been involved in to date. We have run national and local radio and media ads. We have a full briefing on our website. We have had regional consultation fora; we have already had two in Dublin and more are due in Cork and Galway next week. I must be frank and say they have been attended largely by pensions boffins, if I could put it that way, not by members of the public. We always suspected that would be the case. For a reform that is coming into place in 2022, there is not generally a huge amount of interest in what is going on here and now. To accommodate that we have run focus groups of likely members of an automatic enrolment system. We look at the profile of individuals, bring ten or 12 together in a room over four or six occasions and ask their views on the trust issues, concerns, what type of product they would like, why they would like it, what they would think if it had particular impacts, and model the system with them. That is where we are trying to build our intelligence. There is still a lot of work to do on it. We are just drawing our ideas together.

Mr. Tim Duggan: The Minister is very keen that members of the public would turn up, she keeps saying that. However the difficulty is that we have not yet found a way to make pensions exciting enough for people to give up part of their day to come along. That has been our experience of pensions over the years no matter what the topic. It is very difficult to get ordinary people to turn up and pay attention to it. We did have some at the Dublin fora which was quite informative because, while industry practitioners and boffins will take a particular line, as Mr. Nicholson said, it is interesting to see how an ordinary person views it and what they will say. We would dearly love people to come to the road shows and if members can use their good offices to get people to do so it would be great. We would be thrilled to see them because we genuinely want to hear what normal people have to say, rather than those with vested interests.

Mr. Robert Nicholson: I refer to the closing date for the straw man proposal submissions

specifically because we will continue to consult after that with everyone we can. I am unsure of the number but most of the submissions are currently from individuals. There are probably 30 or 40 of them and we anticipate there will be a flood of submissions around the last week. That is likely to be from employer and employee representatives, the pensions industry and some of the strong advocate groups. Many of the individuals that we would be likely to contribute have done so already.

What we try to do with the target population, as set out in the straw man proposal, is that these people should definitively be in the system. We have also put in the document that strong consideration should be given to that €20,000 threshold. We have highlighted in particular the group between €14,000 and €20,000. From a policy perspective, the objective is maintaining living standards. If we know the State pension is €13,000 plus secondary benefits, we know everyone on incomes below that will achieve the objective of the system without being put in the system because the State pension will reduce over 100% of their income. We either need to change the objective of the system or else say that group should not naturally be included, but allow them to include themselves if they choose to. The €14,000 to €20,000 is probably the most interesting space.

From the perspective of gender, we know that about 150,000 women who do not currently save for retirement will be covered in the €20,000 and above part but the further down one goes, women account disproportionately compared to males because they are on lower earnings, take time out of the work force and so on. The lower down the income scale, the more one will see particular groups. We do not yet have full data on that but if it reflects the UK there will be a gender issue, one of ethnic minorities and people with disabilities who have different work patterns generally and have low earnings. We have asked for views on all those things in the straw man proposal, and particularly on whether people between €13,000 and €20,000 should be introduced. We need to balance that with short-term affordability. Would people on those wages opt out of the system and create a wider contagion arguing that they just do not have the capacity to save at the moment? Where is the sweet spot? There is probably no single answer. Wherever we fit it will impact some who do not want to be impacted and will not impact others who do. It is as much of an educated position as we can get. The Deputy referred to my reference to an employer contribution initially. I am not quite sure what I referred to. The principle is that once this system is rolled out, employers and the State will continue to make contributions for the duration.

Deputy John Brady: Mr. Nicholson made the comment and my ears pricked up.

Chairman: It frightened Deputy Brady.

Mr. Tim Duggan: One could change the word initially to forever.

Mr. Robert Nicholson: On data for individuals, and their being able to see their contributions and so on, all sorts of financial technology platforms exist that do all sorts of things for individuals on their mobile phones and televisions at home to allow them to see and project in a very colourful way the impact their savings are having over the longer term. We would see that as a fundamental part of the system. There is an extra benefit, which we got from New Zealand. In some systems, including Ireland, an individual does not necessarily see their contribution being removed from payroll into the pension scheme and as a result, during the financial crisis, for instance, some employers got themselves into sticky situations where the employees' contribution did not hit their pension pot. Using this system with a central processing agency, CPA, and real time data from revenue which will come in in January 2019, an individual will

be able to log and track their money through the CPA into the fund and see it for them selves. Communications and technology are certainly a central element.

Some 240,000, only 30%, of self employed populations have pensions. It is a very difficult group to get a real understanding of because one self employed person will be entirely different from another in how their business is structured, the sorts of capital requirements they have and so on. No system we have looked at has managed to cater within the orthodox main system for the self employed. We are asking for ideas on it. We see the question of bogus self-employment as something that is more related to employment issues and should be addressed through that. If they are really employees, they should be captured within the automatic enrolment system. It is something to keep an eye on but something that other jurisdictions have struggled with.

On the individual maintenance charge, at present the individual goes into the system. If they opt out after seven or eight months they get their contribution back less the maintenance charge. The reason for that is that it is more expensive to reroute that very small maintenance charge back to the individual from the fund through the CPA. Take someone on €25,000 per annum, which is the kind of population that we are discussing, making 1% of contribution and 0.25% of that goes to a charge, that is around €1 or very marginally more than that after seven or eight months. Administratively, there is not really a reason to hand that back. It would cost more to do that than the value would be to the individual. The administrative cost of doing this would have to fall to somebody and would most likely fall to the other members who stay in the system because the CPA would have to be self-financing to a degree.

Deputy John Brady: I know the witnesses cannot speak to reports published during the summer. However there were indications that maintenance charges could be up to €70 or €80. Mr. Nicholson is saying absolutely not. I do not know if he saw those reports.

Mr. Robert Nicholson: What we have said is that it would be 0.5% of an individual's contribution. If they are staying only for the first six or seven months and we know the wages that people are on are typically lower earners, it is very small, and literally a single euro. From the perspective we are taking with the straw man proposal, there is no intention to have it up at that level. It might reach that level later in the system when an individual is on higher earnings and making 6% but they are staying in the system so they are paying for the service they receive. It is very different compared to current charging structures.

Mr. Tim Duggan: Somebody would have to save about €14,000 annually for that to be true. That would be some saving.

Chairman: It would be outside of the €75,000 threshold.

Mr. Tim Duggan: I doubt I would be hugely worried about them.

Chairman: Will Mr. Nicholson respond to Deputy Joan Collins' question about the security of the fund?

Mr. Robert Nicholson: Yes, and there was also a general question about who manages the system. As I think I said earlier, the CPA is there to look after the individual's interest in the first place. It is setting the standards, asking providers who have significant scale and the capacity to deliver to tender to deliver this service. They would set the standards on the number of funds, how the funds would be broadly structured and how charges are presented to individuals so that one is readily comparable with another. The CPA would look after quality assurance and the regulator, the Pensions Authority, would ensure legal compliance with whatever legislation is

in place. That is the principle.

On scale, the suggestion that there is a ready body of financial providers out there ready, as the Deputy put it, wringing their hands. At those charges, it is a really competitive service to deliver. We need to model it further but we are now seeing international systems and large providers getting involved in this space partly because they have to because they see the line of sight over 20, 30 or 40 years. They know not being involved is not the best thing for their businesses. Initially they need to make large capital outlays to build the systems to accommodate this. They are frequently loss-making early on and they look at commercial capacity over the longer term rather than the short term. There has been a lot of interest. In the document we say there will be four providers initially but after five, seven, or ten years, it will be retendered and the best in show will get the action. Registered providers have told us they may not have enough time over five, six or seven years to make it commercially viable. How do we structure it to achieve those two things? We have looked at data which highlights that a large capital outlay is required. That is also why we say in the document that each provider will have a statutory duty to deliver services to all comers because we know somebody on €5,000, €6,000 or €10,000 who decides to opt into the system will be loss-making for the provider. We have said they will have to provide services. There is much work to do and we intend to build up intelligence over the next number of months and have a much closer look at similar administration systems in Sweden, Malaysia, New Zealand and a couple of other states. We will look at them and see exactly where that role should start and finish but the intention is to make all of these decisions in the best interest of members. That is why we go to the idea of the fiduciary responsibility of the providers operating the system. There recently has been a royal commission in Australia. It sounds as if it is far away but its systems are quite similar. The royal commission in Australia, which looked at the whole financial services system delivering pensions, raised questions about that structured fiduciary duty versus large insurance companies or banks and so on that are providing services. It raised questions about decisions that may not have been made by those large private institutions in the same way if they were trust-based schemes. There are concerns around costs and further outcomes for individuals. We need a structure, which we do not have at the moment in Ireland, to marry those two things, that is a contract between the individual and the provider and a fiduciary responsibility. Hopefully we have enough imagination to come up with a structure along those lines.

With regard to the forms, at the moment we table low, medium and moderate risk. That is to project the idea that the risk goes two ways. One can put one's money in the bank or under the bed and it will be there on one's retirement but the problem is if one has 20 years of retirement and wants to achieve a level of adequacy that goes beyond the saving, one needs to make it work. As a broader economy, we need to make sure that money is working to generate income for us and for the economy more broadly. Typically speaking, pension funds have an element of investment around them. If an individual does not want to do that, there should be a choice for that person. Early on in a person's working career there is investment in equities to generate a return to provide that type of adequacy. Finding the right balance between those two things and understanding what an individual actually wants is a job that has not been done yet and which needs to be done. Risk goes two ways, not just to protect capital cash but to protect the chance of achieving what one wants to achieve. To an extent that is down to a qualified decision by the individual. That means education is a concern. It is about making sure when default choices are made that an individual understands what he or she is getting into.

Senator Alice-Mary Higgins: I thank Mr. Nicholson. We first talked about this about four or five years ago in a completely different forum. I recognise it is one of the policy areas into

which a lot of very considered thought has gone. There are a lot of really strong and positive aspects to some of the proposals. I also quite like the straw man proposal as one part of that consultation. Compared with the total contribution consultation of the summer it was not as clear for people. People found it very difficult to navigate in terms of what they were looking at and what was being asked for. This sets out some of the key decision points and people can see where the thinking is at in a very clear way and that is useful. From my perspective, I am thinking of it in terms of the first tier, second tier and what I will call the third tier, which is the tax relief space. The priority has to be the first tier and the fixing of our first-tier system. I reckon that will come in 2020. How do we ensure the focus on what might be a very positive scheme does not take away from our commitment to deliver on the first tier, especially as approximately 50% of all women workers are on €20,000 or less? They are almost falling out of this already. That is a huge number of workers. The question is about adequacy and what we consider adequate in terms of replacement income. Mr. Nicholson said the replacement rate is about 37%. With regard to the replacement rate we have now within the first tier, we need to continue to have an ambition for it to go up a little so it does a better job of delivering adequacy. It is very important the scheme is not used in any way as a rationale to take away the pressure of adequacy that should be there in both our contributory and non-contributory first-tier pension scheme. It will give confidence to people if it is married to an ambition to continue. The question of how it is benchmarked has been raised. How do we keep going that conversation and expectation of adequacy? I have noticed in some of the rhetoric around it, although not from the Department, that there has been a slippage suggesting that if one wants an adequate income replacement one needs something specific. We should treat this as an additional thing which would be a very positive additional element for most people.

I will move on to the other side of the second-tier system and my specific questions on the system. It was mentioned that it is a question for the individual. Those who are already in tax relief schemes and so forth were mentioned. There is a tension because it is an expensive scheme. It is a good scheme but if it is put in place something needs to give and what needs to give must not be the first tier or any other part of the social protection budget. What has to give is our current tax relief system. We see it starkly that those on €60,000 and €70,000 are benefitting most from the marginal rate tax relief at the moment.

Mr. Nicholson spoke about the less commercially viable aspect of supporting lower income earners in schemes and the fact of the market failure. We need to be honest that the State has created an environment in which it is less commercially viable because the State has rewarded pension systems and pension schemes for targeting higher earners because the marginal rate tax relief, the 40% they get, is much higher. There is a huge supplement there. For decades now, we have incentivised pension schemes to go after, support and push for higher earners. It can be seen in the advertisements for the schemes and in who they are targeting and reaching out to. We need to address that tension. There is a long lead-in time here but that lead-in time needs to be accompanied by a shift away from the marginal rate tax relief that we give at the moment which costs €2.6 billion. That is what we pay out in marginal rate tax relief at the moment. It is important. Mr. Duggan stated he would not be too concerned about those who earn €13,000 or €14,000 but at the moment people can put up to €30,000 through the tax relief system in a year. This scheme is the right way for us to go. We cannot have it sit alongside the tax relief system. There will be tension between them. If we are looking at a supplementary system, it should be this one rather than this in addition to a scheme that works for the highest earners only.

I have a number of practical questions. On the question of risk and where risk sits, Mr. Nicholson spoke about risk working both ways but the question is not just what way risk works

but where it sits. If we know that people want security, will the firms that are tendering for this, which is the next 30, 40, 50 or 60 years of private pensions, not take some part of that risk? In 2008, there was a 33% fall in pension values. People have memories. The OECD reported that as the figure in Ireland at the time. The risk needs to sit with the company to an extent. It should not sit with the individual. If it does not sit with the company, we have to ask to what extent the State underpins the risk. Should there be a public option among the four options of providers? A credit union option has been suggested. One option is a savings scheme with some level of fallback, rather than a scheme designed purely for investment.

There is a question as to how the fiduciary duty that was mentioned can coexist with risk. Given that the scheme will be heavily subsidised by the State, if we look at environmental and social considerations and decide we do not want to invest in arms and fossil fuels - the fossil fuel divestment Bill is moving through the Oireachtas at the moment - how does the fiduciary duty sit alongside ensuring there is a responsiveness to demands for better ethical standards in a public schemes using public moneys? Many people would like that to be the default option. It is a matter of great concern for many individuals.

The redistributive element that was mentioned is one of our pension policy goals. The corporate tax element is used by employers. Can all contributions be written off against corporate tax? Is it not then the case that the State is effectively subsidising both the employer and the State contribution? I wonder about the decision to allow it all to be written off. I could understand were a portion of it to be written off.

Employers pressing on employees to opt out is a real concern in terms of bogus self-employment. What are the mechanisms to ensure that cannot happen?

I refer to gaps in employment in situations where people have low wages and precarious work, and where people are moving in and out of schemes. How is that managed? Does that simply add up at the end?

I agree with the Chair and wonder whether this should be tied to the pension age. These are contributions with a slight difference. It might be enticing for people if they knew that there was an option to stop paying in and to take it out at 60 years old. It would become an additional incentive for persons who know they will not work until 68, or that their employer will not facilitate it, for example, in the case of firefighters. I acknowledge that is different because it is a public appointment, but it is an example.

A cap on the State's matching of funds was mentioned. That is a good idea. It addresses the point that this scheme should be delivering on what are the State's original pension goals, as set out in pension policy papers for many decades, which is to bring in the widest net of people, rather than simply to give a higher benefit to the highest earner. Cap-matching is a good idea but I would like to know what the current thinking is.

Who will manage the central processing authority at the end of the day if there is a problem and a scheme goes bust or falls through? Where does the final responsibility sit? Who underwrites this?

Mr. Robert Nicholson: It is envisaged that the central processing authority would be a statutory agency and would report into a Department. The degree to which that would underpin the savings of individuals is perhaps a different question but its overall responsibility would be as a statutory agency answerable to a Department.

In terms of age of access, we suggested the age of 68 based on the fact that retirement savings are really designed to provide for individuals to cover their living costs and continue to have income in retirement. People are now living to an average age of 82, with a slight difference depending on gender. We took the principle that if individuals save to try to achieve that objective, it is reasonable to maintain the spending of that in the retirement window if they are being funded by the State and employers. We are frankly open as to what that window is, but we thought that linking it to the State pension age was a nice hook, connecting it to the culturally normal age of retirement. We are open to discussing it.

Mr. Tim Duggan: We are also conscious that, even though the average lifespan extends to the low 80s, it is not unusual for somebody to be retired for 30 years, even after State pension age. Many people are getting into their 90s and beyond. We are trying to return to the original objective, which is coverage and adequacy in retirement.

Chairman: That argument works both ways. If the average lifespan is 82 and some people are living well into their 90s, it is also the case that others are not. The converse of that argument is that a person in their early 60s might have health problems-----

Mr. Tim Duggan: There are also people who do not get to retirement age, and that has an impact on that average. We could have a very long discussion on that issue. We have to be mindful of the fact that many more people are living much longer in retirement than was the case heretofore. Consequently, any system we put in place has to facilitate the longevity of retirement.

Chairman: We might make the point that as the pension age is increasing, we are meeting more and more of our constituents who are experiencing the gap between finishing work and getting the State pension. Some are finishing at 65 and some are perhaps a bit younger. However, they are not receiving the State pension for two or three years. Some people might look at this as an interim measure. They might have some savings when they leave work but then have difficulty coping until pension age.

Senator Alice-Mary Higgins: It is fundamentally different from the State system in that a set amount is not provided to reflect what has been saved .

Mr. Robert Nicholson: We are certainly open to discussing that point. In terms of the question of in and outs for people who are frequent job changers, one of the most beneficial parts of the system is that traditionally when people leave work and join another employer, there is a window before the employer registers them within the system because it is administratively difficult. With the central processing authority, a person will have a unique identifier from day one and can begin contributing, meaning that the employer and State can begin paralleling that contribution. It will allow a much more continuous pattern of saving for a population that changes jobs frequently. Having said that, it is an earnings-related system, so if one is out of the system and is not contributing, a contribution will not be made. It will certainly increase savings consistency, and will shorten the window where many employees are not saving for retirement. If one is not in work he or she will not be making contributions, as things stand. We have asked in the straw man scenario whether we should be accommodating people outside of work and how it can be done. We have asked for views on that, but as it stands we are operating an earnings-related system.

In terms of employer compliance, we have looked at many international examples and found that non-compliance is not as big an issue as one might imagine. That said, there are always

unscrupulous people in every field. As it stands there is an administrative sanction suggested within the straw man proposals and if it does not work, there can be a criminal sanction. We are confident that we can ensure compliance, but it requires the involvement of the pensions regulator. We also have to ensure that we have appropriate compliance facilities. One of the benefits of the central processing authority is that we can have a central element of compliance, in that employers would be legally obliged, whether the individual is in the system or not, to register any employees who have pensions coverage and their details, in order to ensure transparency.

The question of appropriate fund types is certainly one which we are open to discussing. We envisage the central processing authority having that role. In the UK and Australia, environmental and social rules govern the structure of pension funds. It is actually part of the institutions for occupational retirement provision, IORP directive, an EU directive we adhere to. It covers investments in arms, Sharia funds, such as those in the UK, and funds which do not invest in things like tobacco companies. It would certainly feature in terms of how funds are structured.

In terms of risk, as it stands it has been decided that it is a personal pot and will operate on a defined contribution basis. The individual decides the level of risk he or she wants to take. At the moment the first pillar pension involves the State suggesting in its own right that it will guarantee a certain level of pension. That is the fiscal risk the State takes on on a person's behalf and it redistributes income.

Personal saving is about saving what is appropriate for a person and the State will support a person in doing that. The risk in this system from a defined contributions, DC, point of view would lie with the individual. We then get into the situation of how much risk an individual wants to take. If an individual just wants to put it in the bank or post office and take no risk whatsoever, he or she could do that. If that was the ideal thing for everyone to do, there would probably be no need for this system. We would just legislate to say that everybody should have a post office account and save a certain amount of money and we would probably not be sitting here.

Senator Alice-Mary Higgins: The incentives are for people who do not and will not save. The incentives relate to matching from the employer and from the State. It would be appropriate to have at least one of the four options be a low or no risk option. I am not simply talking about the State underpinning it but also about those who are seeking what will be a contract for perhaps 100,000, 200,000 or 300,000 people down the line if it becomes a default option. If people put in all their money and get the same amount back, that may seem like an awful scenario, but if people know that is the worst that can happen, that will give them assurance compared to a situation where they can lose everything. The question is not just about the risk to the individual and the State but also to what extent the risk is taken on by those providers.

Mr. Robert Nicholson: There are ways and means to achieve that. One could have a cash fund with an individual having a guarantee of funds coming out the other end. There would be capital requirements for providers to ensure that is delivered. For anything more than that, one would begin to move into a quasi defined benefit, DB, scenario, which begins to become more challenging. There could certainly be a fund. We will have to do an analysis of the client group and what the goals for them are but there could certainly be a cash-based fund. Whether that is best would have to be debated. It could be done.

The Senator referred to tension with tax relief. Tax relief is the responsibility of the Department of Finance and our colleagues in the Department, as part of the commitment made in the

roadmap for reform, are currently reviewing the cost to the Exchequer of tax relief and looking at it in that space. We concentrated on trying to identify the needs of the particular population that we are talking about and suggesting that if the policy objective is as we set it, then it would appear that the kind of structure we are talking about would be better for that population. We have not taken a position on the wider system of tax relief. Having said that, it has been one of the lightning rods of conversation among the sectoral interests we have discussed. Some have expressed the view that the Senator has. Others have said that the marginal rate of tax relief in Ireland is particularly low and any suggestion of reducing that higher rate of tax relief will compromise what the Senator is talking about with regard to adequacy. Many moderate earners who are saving for their retirement will effectively have a wage drop if the current system of tax relief is reduced. That is an open question. For somebody on €40,000 to €45,000, if tax relief was moved from 40% to 33%, a three for one, or some other structure, they would suffer tax relief and may well behave in a way that we do not want to see as a result, such as backing out of pension savings.

Senator Alice-Mary Higgins: One does not suffer tax relief, though. Tax relief is not income. It is a public subsidy. It is a balancing of the goods. It is simply a matter of saying that this is public expenditure and that they will still have whatever they put in so far. They benefit from tax relief on a yearly basis so there is nothing that they have not benefitted from. There is a matter of deciding if we spend the €2.6 billion on that. There are many things that would be wonderful. We have to balance it against our public policy pension goals and that is core. This scheme for those people on €40,000 or €50,000, which effectively gives 33%, is very positive. There is not a reduction to the standard rate but 33% from the State and an employer contribution. I think this scheme will be significantly better for most people in that bracket. I worry that we would end up continuing to subsidise, as was specifically mentioned, someone on a private scheme getting between €30,000 and €40,000 getting 40% and having it customised. It is an extraordinary idea that 1% of the population has 50% of the schemes. If one has a personalised investment scheme that the State is subsidising to a 40% rate, why would one move to this scheme? This scheme should be taken up as much as possible and should work for as much of the population as possible. I think it is a better scheme for someone on €40,000 or €50,000.

Mr. Tim Duggan: It is a slightly different argument. It is a policy decision rather than the operation of the auto-enrolment scheme.

Senator Alice-Mary Higgins: They intersect.

Mr. Robert Nicholson: We envisaged the cap on the financial incentive being €75,000, approximately twice the average wage. It is 2% of whatever one contributes, to a maximum of €75,000. The Senator asked about corporation tax. It is not particularly this Department's policy responsibility. We saw a continuation of the current status for current employers making private provision of 10%.

Chairman: I will come to Deputy Brady next. It will take half a century for the scheme to be fully operational, by the time it gets up to 6% and somebody having the opportunity to pay into it for 45 years. This is way down the road. When the scheme is initially introduced, there will be people who have been in work for ten years or who have been working for 20 or 30 so they will be in transition. They will never get the full pot to bring them to 60% or whatever. Are they still restricted to the 6% of earnings or is there an opportunity for them to pay in at a top-up rate to increase that pot?

Mr. Robert Nicholson: We have said that an individual can decide to put in what he or she

wants. The State's matching contribution would end when one hits that €75,000, as will the employer's. In the short term, individuals can make more of a contribution than they are legally required to under the conditions of the system. Employers will only be required, during the first six years, to match up to that 1%, 2%, 3% or 4% and that is a managed cost. Individuals can make what decisions they like.

Chairman: I am talking about the fact that someone might suddenly realise that 50 years of age represents only 20 years of contributions. To be meaningful, that person might need to go beyond the 6% and the scheme accommodates that.

Mr. Robert Nicholson: Yes. We need to be cautious with our messaging. There is an element of under-promising and over-delivering in achieving what we have always said is adequate, based on that idea of maintaining living standards. For somebody who has not saved or is saving a moderate amount, it is a high bar. An element of our marketing and sales on this will be that one is improving one's preparedness and financial readiness for retirement. Selling it as something that will achieve the sun, moon and stars for a person will probably get us into a bad space just because of the level of contributions that people make during the course of their career. It is a matter of improving one's financial readiness.

Chairman: That is why I am making the point that somebody who is halfway through his or her working life needs to be aware that he or she will not hit that 60%. If he or she wants to get closer to the 60%, the scheme allows for additional payments. People's children may be finished in college or such and their circumstances change.

Mr. Tim Duggan: As part of the communications, we will try to set out pen pictures and models to give people an idea of what it will really mean for them, in the same way that pen pictures are put together relating to the budget to give people some indication of the impact it may have on them. Similarly, we will try to do something like that as part of the communications on this.

Deputy John Brady: On an unrelated issue, we know the State has failed to put in place a pensions scheme following a Labour Court ruling for community employment, CE, supervisors. I am looking at the entire community and voluntary sector where the Minister has said repeatedly that to enact the Labour Court ruling and put in place a pension system for CE supervisors and assistant supervisors would require a look at the entire community and voluntary sector which would cost €500 million. What is the impact of employers being able to roll this scheme out on the community and voluntary sector? Has an assessment been carried out on the ability for the community and voluntary sector to fund this? We know that the funding is very tight. Has there been any discussion or are we open to the Labour Court ruling? I had hoped that provision would be made in the budget this year for a pension scheme for community employment, CE, supervisors but that did not materialise. Is the Department considering a separate pension scheme for the community and voluntary sector?

Mr. Tim Duggan: "No" is the short answer. The Deputy asked about community employment, CE, and the community and voluntary sector, which are two different things. CE-----

Deputy John Brady: The Minister has muddled the issues together.

Mr. Tim Duggan: Although that may be so, CE is a matter for the Department of Public Expenditure and Reform. We are not involved in determining pension arrangements for employees of CE and, as a result, I cannot comment further on the matter because I am not certain

of the current policy of that Department.

On the community and voluntary pillar, it is like any employer. If a person is an employee of an organisation, is not in a pension scheme and fits within the parameters set out in the straw man, such person would be auto-enrolled, assuming that those parameters are ultimately adopted by Government and put into law. Obviously, in the same way as with any employer, that would have an impact on the bottom line for the employer, which will have to be considered as part of the continuous consultation. However, the community and voluntary pillar is quite extensively involved in the consultation and is turning up to roadshow events, which is to be welcomed. We expect to hear what it thinks about how the scheme will work for it and its staff.

Senator Alice-Mary Higgins: It is very positive that people can make voluntary contributions to the contributory pension but it is currently quite difficult to do so. I have often pushed for it to be made easier to make voluntary contributions to the contributory pension. Those on particularly low incomes may be concerned that the scheme may affect their eligibility for the non-contributory pension. I recognise the role of the €20,000 threshold in that regard.

I acknowledge that the community and voluntary sector is engaging with the Department. However, the State often has contracts with the community and voluntary sector and private employers. There may be implications in regard to State procurement, for example. Although private companies may be able write off corporation tax to compensate for increased pension contributions, that is not an option for the community and voluntary sector because such tax does not apply to it. There may need to be consideration of a compensatory measure in that regard, particularly in regard to long-term eight or ten-year contracts which may be taken out by the State with a community organisation. The corporation tax write-off will be available to some employers but not others, so a supplementary measure may be required.

On the related matter of the contributory pension, the numbers of contributions was discussed. The very strong feedback from most representative organisations is that the requirement to have made contributions for 40 years in order to be eligible for the full contributory pension is excessive and we should retain the 30-year requirement detailed in the original pension plan. That issue was raised by the large representative organisations during the recent consultation. I am interested in how these matters intersect.

Chairman: I thank the Senator and call on Mr. Duggan or Mr. Nicholson to respond.

Mr. Tim Duggan: We received approximately 300 submissions expressing varying viewpoints on the total contributions approach to the State pension. We are currently assessing the submissions and will prepare a report for the Minister and the Government in due course. The point highlighted by the Senator is one of those made in the submissions but other slightly different opinions were also expressed.

Chairman: Do not upset the Senator.

Senator Alice-Mary Higgins: The larger representative organisations have been quite clear in that regard.

Mr. Tim Duggan: We will take on board the Senator's point about making it easier to make voluntary contributions in order to gain entitlement to a contributory State pension. We will consider the issue and see what can be done. There are rules set out in legislation in regard to means assessment for a non-contributory pension. There is no current intention to change those rules, which means that reckonable incomes will be assessed in that regard. The introduction

of a new pension system or a person saving into a pension system do not impact on those rules as things stand. However, that will, of course, be considered as the process is progressed. Each aspect and its implications will be considered. In light of the income levels in question and the savings that would accrue, it is not obvious that it would have a massive material impact. However, we will consider it.

Senator Alice-Mary Higgins: I also asked about community and voluntary sector employers.

Mr. Tim Duggan: The Senator pointed out that community and voluntary sector employers cannot avail of corporation tax write-off. I do not currently know what measures or incentives could be brought in to ameliorate that but it is a secondary issue which will be considered as we progress the project.

Mr. Robert Nicholson: On the State pension, as the Senator will appreciate, some of the commitments in the roadmap for pensions for the first time try to maintain the State pension at 34% of average wages in the long term and remove the decisions around State pension levels from the annual budget cycle into some form of indexation were made specifically with automatic enrolment in mind. The aim is to engender confidence that this first pillar will be available to people in the long term such that they can calculate what further saving is necessary for them to achieve the pension they desire. However, they can be assured that first pillar will not reduce if they save for their retirement. The intention was to give confidence over the long term that that is safe and secure, which gives transparency in terms of what one needs to save for oneself. That was done specifically to ensure a coherency between the two systems.

Senator Alice-Mary Higgins: The individualisation of means testing could be one way to tackle that issue such that if one person in a household engages in the scheme it does not jeopardise another member of the household who is hoping to avail of the non-contributory pension. That area may need to be considered.

Chairman: I thank Mr. Nicholson and Mr. Duggan for their presentation which was very informative. It is obviously a complex and detailed process which will further evolve. I ask that they periodically keep the committee updated on progress, particularly after the closure for submissions for the straw man and, in particular, on any wider analysis. I am struck by the fact that this will cause a seismic shift in terms of the amount of money that will go into private pensions. That money will be removed from the economy and there must be an assessment of the impact which that would have. As Mr. Nicholson stated at the outset, that amount of money which is clearly not being saved currently being removed from day-to-day expenditure will affect growth figures and there will, therefore, be a wider economic impact. I ask that the committee be kept informed of any data which are obtained in that regard. We look forward to having the witnesses back before the committee to further discuss the issue as it evolves over time.

The joint committee adjourned at 12.19 p.m. until 10 a.m. on Thursday, 25 October 2018.