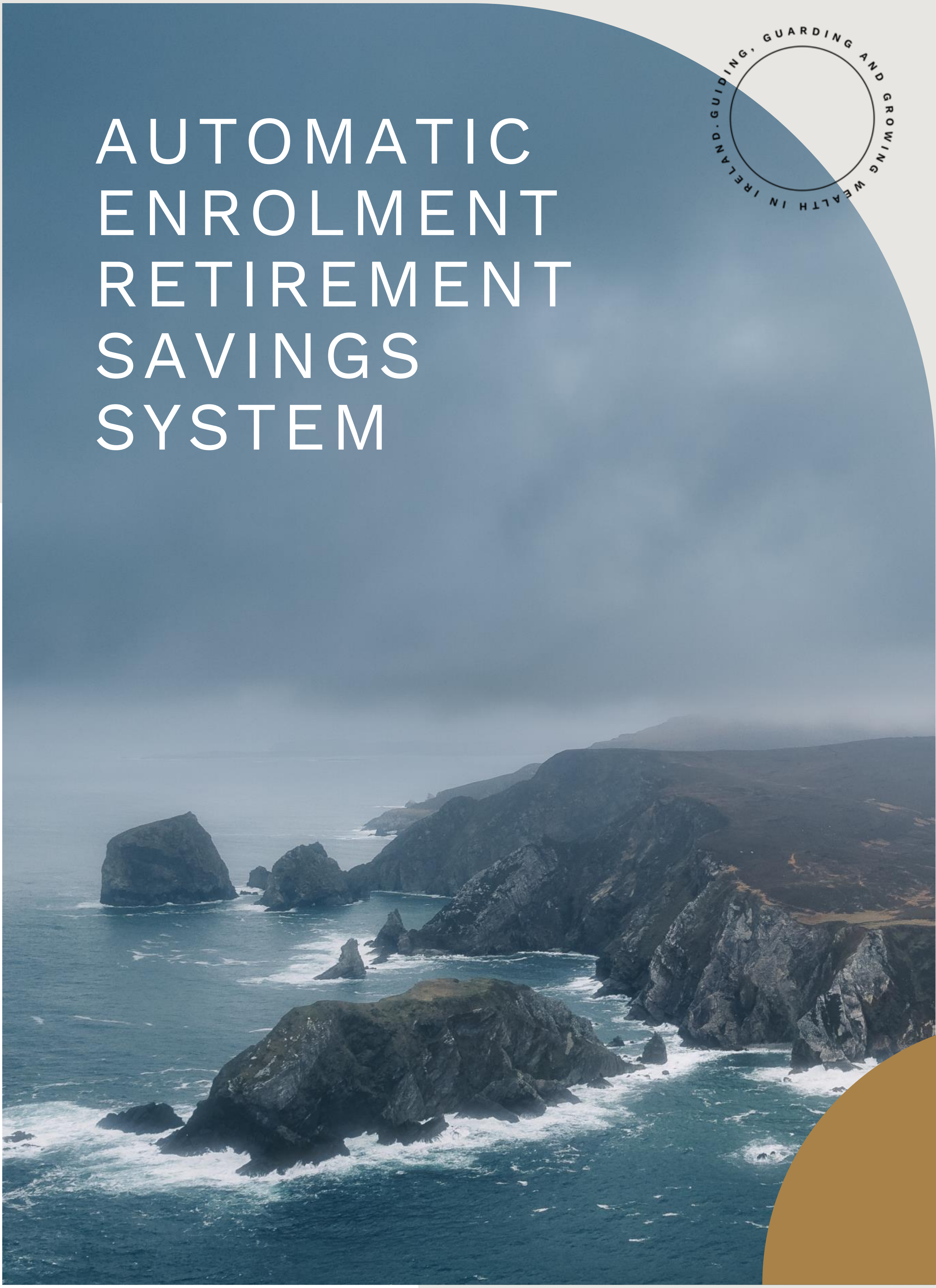
AUTOMATIC ENROLMENT RETIREMENT SAVINGS SYSTEM



GUIDING, GUARDING AND GROWING WEALTH IN IRELAND ·

September 2023

UNIO
EMPLOYEE BENEFITS

Automatic Enrolment Retirement Savings System

Auto-enrolment (AE) – Status September 2023

The Joint Committee on Social Protection, Community and Rural Development and the Islands on May 3rd 2023, published its pre-legislative scrutiny report on the Automatic Enrolment Retirement Savings System Bill.

Ireland is currently the only OECD country that doesn't operate an Automatic Enrolment (AE) or similar system as a means of promoting pension savings. The proposed new system would be designed to simplify pensions decisions for workers and make it easier for employers to offer a workplace pension.

What is proposed?
Under the proposed AE scheme, employees will have access to a workplace pension savings scheme which is co-funded by their employer and the State. Participation in the new scheme will be voluntary and workers will have the ability to opt-out or suspend participation for periods of time.

Implementation Date
Expected implementation period is Q2/Q3 2024. While this is the official timeline, we believe it may take longer to implement and latest indication suggests the second half of 2024.

Oversight
An independent body, the Central Processing Authority(CPA), will be set up to administer the scheme and look after participants' best interests. At the time of drafting , the CPA has yet to be established. Investment will be managed by 4 Registered Providers (RP), who have yet to be appointed.

This document, prepared in September 2023, outlines key aspects of the proposed scheme and next steps for employers.

1. Who will be auto enrolled?

- employees earning over €20,000 per year, aged between 23 and 60, and who aren't already in a pension scheme.
- those outside the earnings and age cohort, and who aren't already in a pension scheme, will not be auto enrolled, but they may choose to opt in if they wish.
- employees who are enrolled will have to stay in the system for six months, but they may opt out in months 7 and 8.
- in the first ten years, employees may opt out in months 7 and 8 after each contribution rate increase.
- employees may suspend or pause their contributions at any time outside of the mandatory six-month participation period.
- all contributions from the employee, the employer, and the state will cease when an employee opts out or suspends their contributions.
- employees who opt out or suspend their contributions will be automatically re-enrolled after two years, once they are still eligible for the scheme.

2. What does auto-enrolment mean for employers

- employees who meet the AE eligibility criteria will be enrolled into the auto-enrolment pension.
- employers will need to ensure that their payroll can take instruction for enrolment, calculate, and pay employee and employer contributions to the Central Processing Authority.
- employers will be required to match members' contributions up to an eventual maximum of 6% subject to an earnings threshold of €80,000.
- employer contributions will be deductible for corporation tax purposes.
- if you fail to meet your auto-enrolment obligations as an employer, you will be subject to penalties and possibly to prosecution.

3. AE Contribution Rates

Employee contributions will start at 1.5% of gross pay in the first year, increasing at intervals up to year 10. In year 4,contributions will increase to 3%; in year 7 they will increase to 4.5%; and, in year 10 they will increase to the maximum rate of 6%. All employee contributions will be matched by their employers and topped up by the State. Contributions will be fixed and employees won't be able to contribute less or more than the set rate.

Year	Employer Contribution Rate*	Employee Contribution Rate*	State Top-Up
Year 1, 2, 3	1.5%	1.5%	0.5%
Year 4, 5, 6	3%	3%	1%
Year 7, 8, 9	4.5%	4.5%	1.5%
Year 10 +	6%	6%	2%

*% of gross earnings

Note:

AVCs will not be permitted on Day 1 however, the government will examine this option later. Policy and tax treatment need to be considered/determined.

There is no tax relief on employee contributions. A state top-up contribution will be made on a 3:1 basis for example if the employee rate is 6%, the state will provide a 2% top up.

4. What do employers need to do at this point?

1. Employers who have an existing scheme should now start to think about how to get this scheme AE ready:

   Standards will be reviewed on an “equivalent pot basis”, i.e., does the existing scheme meet the AE equivalent?

   However, the Department’s comments at the last IAPF meeting were that they will not be introducing any equivalency test to compare schemes initially, and it might only be developed and introduced once the contribution rates have increased to the 3% level. Occupational schemes may have to meet certain minimum criteria in the future but that they will not be introduced for a few years.

   May need to review:

   - waiting periods for entry.
   - compulsory rather than voluntary (this may impact employment contracts).
   - probationary periods.
   - Potential for an AE subcategory to be included within the existing DC private arrangement.
   - Consider whether an occupational scheme or AE will be more advantageous for employees depending on income levels (those paying 40% marginal rate tax may be better in an occupational scheme whereas on the 20% marginal rate AE might be better in the long run).

- Earnings basis. AE will be based on “earnings” and not basic salary.

2. Contribution collections will be driven through payroll providers. Ensure that payroll processes can support AE instructions and contribution remittance.

3. Are employees who are eligible for AE contributing to a pension? Identify those who will fall under AE requirement.

4. Plan and budget for potential AE requirements.

5. Additional points to note

- Employers passing the additional cost of AE on to the Employees by reduction in salaries will be frowned upon.
- Retirement Options / Drawdown Options not fully known yet.
- No drawdown allowed for the first 6 years. Government plans to develop drawdown options over the next 6 years and may look outside the current retirement options format.
- Opting out of an existing scheme will not be sufficient or accepted as opting out of AE. This may require an opt out of the existing scheme, enrolment in AE and then a further opt out of AE.
- There is no facility for drawdown before the official age of 66 proposed currently.

6. Industry Consultation

The Joint Committee on Social Protection, Community and Rural Development in their pre legislative scrutiny report of the Bill have put forward 21 recommendations which span over 9 key issues.

The Committee held meetings with officials from a number of stakeholders and expert consultants carried out a review of the proposed scheme. The Committee's key recommendations are outlined on the following page. Please note that these are recommendations only at this stage.

Key Committee Recommendations

- The lower age limit be reduced from 23 to 16 years, aligning it with the PRSI minimum age threshold.
- The lower income threshold of €20,000 be removed as the threshold of €20,000 can penalise young workers, low earners, and disproportionately women.
- When participants are auto enrolled, they should be given a sample of the likely pension they will receive on retirement in real terms by adjusting for inflation.
- Automatic Enrolment be covered by a strong governance framework, incorporating annual evidence-based reviews.
- Investment advice be offered to all AE members to allow them to select the most appropriate fund for their age, gender, financial position, and circumstances from the funds which will fall under the following 4 risk profiles (CPA to determine the parameters):
  1. Conservative
  2. Moderate
  3. High Risk
  4. Default Lifestyling
- Clarity be provided on the form of taxation to be applied to pension pots in retirement so that members can make proper provision for the future over the long term.
- An examination be carried out as to why only 20% of Investments by Irish Pension funds are invested in Irish equities and bonds and whether there should be a mandatory minimum of auto-enrolment funds invested in Ireland to ensure that this country benefits economically from these very large funds.
- The investment funds be prohibited from investing in fossil fuels or the arms industry.
- A minimum percentage of the funds should be invested in Irish renewable energy developments to help our Climate Action obligations. Without achieving these, the future of all pension funds will be at risk from climate change.
- There is a two-year lead-in period following the Bill being passed and signed, to allow business to be ready for the implementation.
- Recommends that workers are not required to spend a short time in the AE system if they will be joining an occupational pension as part of their employment within 12 months.
- The total amount of all charges should equate to a maximum of 0.5%.
- The Department to carefully consider tax relief in the General Scheme of the Automatic Enrolment Bill and its impacts on the wider pension system.

Additional info on AE can be accessed at www.gov.ie/ae.

E&OE

We are here to help

If you have further queries on Auto-enrolment or any aspect of your employee benefits, speak to your Unio consultant or contact us at enquiries@unio.ie.

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