Rialtas na hÉireann
Government of Ireland

A Strawman Public Consultation Process for an Automatic Enrolment Retirement Savings System for Ireland

Closing Date 4th November 2018

Department of Employment Affairs and Social Protection
Automatic Enrolment Programme Management Office

Contents

Foreword from the Minister

The idea behind pensions is simple – save now to spend later. However, it is clear that many people find pensions complicated. Too many find it difficult to save what they need for retirement. This is reflected in the fact that just 47% of those in employment have a supplementary pension and just 35% of private sector workers have such coverage.

Over the last 20 years, in a period where the policy objective has been to increase this overall rate (to around 70%), the level of supplementary pensions coverage has remained stubbornly low, ranging from just less than 50% in 1995 to a high of 55% in 2005 and thereafter reducing to the current rate of 47%. Clearly, and despite the considerable efforts of Government and the pensions industry to promote and incentivise voluntary participation in supplementary pensions, the marginal changes in coverage over the last 20 years indicate that the purely voluntary approach to participation has not achieved the desired goal of increasing coverage to an appropriate level.

The Government is determined that the State pension is, and will remain, the bedrock of the pension system. To this end, the recently published 'Roadmap for Pensions Reform 2018-2023' confirmed our intention to maintain the State pension at 34% of average wages over the long term. However, it is clear that many people are not setting aside personal savings to meet their own income expectations for when they retire (relative to the income they enjoyed while working). With the welcome increases in life expectancy this 'retirement savings gap' means that, without action, large numbers of people may face significant and unwanted reductions in living standards in their retirement years.

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

In its 2014 'Review of the Irish Pensions System', the OECD concluded that the single greatest goal in Irish pension policy should be to increase coverage through the introduction of a mandatory or quasi-mandatory earnings related system. In making this recommendation, the OECD highlighted that Ireland is one of only two member countries without a mandatory earnings related pillar for retirement savings[1]. The need for action to address barriers to saving was also reflected in the outcome of the Citizens' Assembly deliberations with

1 The other is New Zealand which has introduced a national 'KiwiSaver' system to which all new employees must now be enrolled.

87% of members agreeing that the Government should introduce some form of mandatory pension scheme to supplement the State pension and reduce the retirement savings gap.

As confirmed in the 'Roadmap for Pensions Reform 2018-2023', the Government now intends to develop and introduce, by 2022, an 'Automatic Enrolment' (AE) supplementary retirement savings system. In order to inform debate prior to the finalisation of the design of an AE system for Ireland, this document sets out a 'Strawman' proposal for the AE system and invites feedback and suggestions from interested individuals and parties. This design is informed by a number of key principles, which are outlined below.

1) CHOICE

a) All employees within defined age and earnings thresholds will be automatically enrolled as members, subject to an opt-out provision, of a registered qualifying retirement savings scheme.
b) People who do not fall within the defined age and earnings thresholds will have the ability to opt-in to the AE system and become members.

2) COMPETITIVE RETIREMENT SAVINGS PROVISION

All members will have access to a range of retirement savings products from approved providers, with access to these providers mediated by the State via a new 'Central Processing Authority' (CPA). The options presented under this AE system are:

Option (A) All providers could, subject to meeting specified standards, apply to the CPA to be registered as an AE provider, offer a range of AE retirement savings products and be available for selection by AE members.

Option (B) The Government could, via the CPA, tender for and select a short-list of AE 'Registered Providers' to deliver a defined range of retirement savings products.

Given the size of the Irish market and the requirement to achieve scale efficiencies and reduce management fees and other costs, the Government is minded, subject to consideration of feedback to this consultation document, to develop AE on the basis of Option (B). We have set out the Strawman model in the remainder of this document on this basis. However, views are sought on whether Option (A) might be feasible in an Irish context.

3) A DEFAULT PRODUCT TO HELP OVERCOME INERTIA

Experience in other countries is that many people who are automatically enrolled into an AE system do not always select a preferred provider or retirement savings product from the menu of options available to them. This inertia is attributed, by some, to the perceived complexity of retirement savings products and a lack of trust in providers given relatively 'poor' returns from schemes during the recession years.

To overcome this inertia, our approach would mean that members who do not exercise choice would be allocated between the default options provided by each of the AE Registered Providers on a 'carousel' basis. i.e., members who do not exercise choice would be allocated in turn between the Registered Providers.

This form of allocation of members to the Registered Providers should support the achievement of scale and the reduction in management and other fees.

Again, the Government welcomes comment and feedback on this approach and any alternatives which are thought suitable in an Irish context.

4) FINANCIAL SUPPORTS FOR SAVERS

a) There will, for the first time, be a mandatory employer contribution to the employee's account, both to recognise the value employers gain through employees having access to savings on retirement and to assist employees with the cost of accumulating such savings.
b) The State will also make a contribution to incentivise and reduce the cost to individuals of retirement savings.

5) SIMPLICITY/TIMELINESS

a) Administrative costs and burdens are to be kept to a minimum both for employers and employees.
b) Service will primarily be provided and supported through easy-to-use online channels.
c) AE will not substitute for existing pension provision – it will supplement the existing State pension and complement, rather than replace, existing private pension provision.
d) AE should be operational and available by the end of 2022.
e) AE will then be rolled out on a phased basis within a relatively short timeline of no more than two years.

Based on these principles, having reviewed international experiences in implementing AE in other countries, and following engagement with a large range of sectoral interests and pensions experts, this Strawman consultation sets out in some detail how an AE system might work in Ireland.

The Government now invites interested individuals and representative organisations to consider the Strawman proposal and submit views in writing by 4th November 2018 to autoenrolment@welfare.ie. In addition to this formal response mechanism, the Government will host a number of consultation fora in the coming months at which interested individuals and representative groups will be able to contribute views and ideas. Details of the dates and venues will be posted to the Department's website in due course.

To provide that Government is fully aware of the views of those who will be most impacted by AE i.e. the membership, dedicated focus groups will also be undertaken to draw together potential members of the system to identify preferences regarding the structure and operation of the AE system.

Through this consultation process, the Government will seek to generate as broad a consensus as possible and ensure that the final design of an AE system will be trusted by employees and employers, will be affordable and will enhance personal independence during retirement.

To help us ensure the new system is the best we can make it, I would strongly encourage the participation of all interested parties in this national consultation process.

Regina Doherty

Regina Doherty T.D.
Minister for Employment Affairs and Social Protection

Section 1

Our Approach to the Consultation Process:

Interpreting and Responding to this Automatic Enrolment Strawman

STRAWMAN PROPOSALS

This Strawman proposal is a high-level draft intended to generate discussion and to prompt suggestions. It is not 'the' answer but it is one possible answer.

Depending on feedback received, and further analysis to be completed, the final design may closely resemble the Strawman or may deviate significantly from it.

The Government is publishing this Strawman proposal to deliver on the commitment made under Action 2.1 of the 'Roadmap for Pensions Reform 2018 – 2023' and in order to support the design and development of an Automatic Enrolment (AE) system for Ireland. The Strawman is intended to act as the basis for a wider national public consultation process on AE and to help develop a preferred operational structure and design for a new national retirement savings system.

In developing this Strawman model, the Government has relied on significant levels of direct engagement with pension experts and wider sectoral interests both domestically and internationally. This has included analysis of systems in use in a number of countries which have implemented similar retirement saving reforms over recent years.

Readers should not take the key features as definitive. Instead, the intent is to help interested parties conceptualise plausible approaches to AE and to facilitate a focused debate around key design issues.

In considering this consultation document and submitting viewpoints, a distinction should be made between those policy areas on which Government has already indicated key decisions have been made and those policy areas on which the Government is seeking consultation views and submissions (see overleaf).

Elements of Automatic Enrolment already confirmed by Government

- Implementation of an AE retirement savings system will begin by 2022.
- AE will supplement the State pension and complement existing private pension provision.
- AE will be an earnings related workplace savings system where employees will retain the freedom to opt-out if they so choose.
- AE will entail a Defined Contribution[2] (DC) model with personal accounts.
- Members will have the option to choose from a range of retirement savings products.
- Employees, employers and the State will each make a contribution to the member's account.

Component Elements of Automatic Enrolment which form part of this Consultation

a) The preferred operational structure and governance of the AE system.

b) Whether the preferred overall AE structure for member choice should be –
   - Option A: Open to all providers (subject to satisfying specified standards).
   - Option B: Delivered using a small number of AE 'Registered Providers' selected by tender process.

c) The means by which enrolled members who elect not to exercise choice will be allocated to a default fund.

d) The target membership – i.e. exactly who will be automatically enrolled.

e) The contribution rates that may be required of employees and employers.

f) The financial incentives that may be provided by the State.

g) The range of savings products/investment options and providers available to members.

h) Conditions relating to member opt-out, re-enrolment and members' 'Saving Suspension' periods.

i) Options available at the income draw-down/pay-out phase.

2 A DC model is one where contributions by the individual and/or the employer are invested and the proceeds used to buy a pension and/or other benefits at retirement. The value of the ultimate benefits payable from the DC scheme depends on the amount of contributions paid, the investment return achieved less any fees and charges, and the cost of buying the benefits. While this paper supposes a DC model based on individual accounts, it is not intended to exclude consideration of a risk sharing mechanism such as Collective DC.

The design elements d) to h) have been identified by the OECD as being the key factors that determine coverage and contribution levels of AE systems[3]. In addition to these five elements, the Government is interested in stakeholder views with regard to the administrative and operational arrangements, as per points a), b) and c), and the arrangements which should be made in respect to savings draw-down in retirement, as per point i).

To this end, this document is structured as follows:

- Section 2 summarises the key points of the Strawman design.
- Section 3 provides some further detail on the background to the AE proposal.
- Section 4 outlines the Strawman design in further detail covering each of the elements of AE set out in points a) to i) on the previous page.

In addition, Section 4 sets out a number of questions in relation to each of these design elements to prompt comments and feedback. Interested parties are invited to respond to each of these questions but should not feel confined to these questions alone. The Government will welcome feedback and suggestions on any other issues relevant to the design of an AE system which readers feel are not covered by these questions.

Responses are requested by 4th November 2018 and should be forwarded by email to autoenrolment@welfare.ie. While submissions in electronic format are strongly encouraged, those who wish to make a submission but are not in a position to do so by email may make their submission in writing and post it to:

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

In addition to this formal response mechanism, the Government will host a number of consultation fora in the coming months at which interested parties will be able to contribute their views and ideas. Details of the dates, venues and how to register for these events will be posted on the Department's website.

3 OECD (2014) Review of the Irish Pensions System. https://www.welfare.ie/en/downloads/OECD-Review-of-the-Irish-Pensions-System.pdf

Section 2

A New Automatic Enrolment System:

Strawman Proposals Summarised

It is estimated that somewhere in the region of 860,000 employees are currently not setting aside personal savings for their retirement to supplement the State pension. Our goal is to introduce reforms which overcome the barriers that prevent saving and to make it easier for more people to access savings options. To achieve this, beginning in 2022, we will introduce and roll-out a new quality assured and cost competitive system which will automatically enrol members into retirement saving schemes. If built on the proposals set out in this Strawman, which is being published for public consultation, the AE model would have the following key features:

STRAWMAN: ORGANISATIONAL STRUCTURE

- An organisational framework based on economies of scale[4], ensuring a quality assured service, low charges and greater account portability where the 'pot-follows-member'.
- A new 'Central Processing Authority' (CPA) which will be responsible for contracting and licencing a small number of private sector AE 'Registered Providers' to offer a range of savings products.
- Informed by views received during the consultation process, the operational structure will entail a limited number of AE Registered Providers where, if members elect not to select a preferred option, they will be allocated to the default fund of one of the Registered Providers (with allocation between the providers being made on a 'carousel' basis).
- The AE Registered Providers would provide options on a Defined Contribution (or potentially target benefit[5]) basis with personal accounts where the value of the ultimate benefits payable from the scheme depends on the amount of contributions paid, the investment return achieved less any fees and charges, and the cost of buying the benefits.
- The CPA will act as a contribution 'clearing house' in collecting contributions from employers via payroll and remitting them to the providers.
- A web-based CPA Portal will be provided to allow employees, and other members, to access and select from the available saving scheme options which will be presented in a readily comparable manner.
- Providers will be required to deliver services to all of those eligible for automatic enrolment including those who can 'opt-in' to the system.

4 Achieving economies of scale in a system best supports the policy goal of long term retirement income adequacy and sustain ability due to the ability of systems with scale to reduce member costs and better mitigate against investment risk.

5 A target benefit plan is a type of pension plan that is similar to a defined contribution plan in that it involves fixed contributions, or a fixed range of contributions, which are determined by a formula to calculate the amount needed each year to accumulate (at an assumed interest rate) a fund sufficient to pay a projected retirement benefit, the target benefit, to each participant upon reaching retirement.

STRAWMAN: KEY FEATURES OF AUTOMATIC ENROLMENT FOR EMPLOYEES

- Employees, aged between 23 and 60, earning over €20,000 per annum and not already contributing to supplementary pensions, will be automatically enrolled.
- Employees will be free to opt-out of the system at the end of a minimum membership period (during the 7th and 8th month of membership).
- Employees/members will be free to choose from a range of retirement savings options.
- Where employees elect not to exercise choice and select a preferred provider or fund, their contributions (together with those of the employer and the State) will be allocated to the default fund of one of the AE Registered Providers on a carousel basis.
- Employees/members will initially contribute a minimum of 1% of gross earnings.
- The member's minimum contributions will be increased on a phased basis as the AE system is rolled out (1% from the system's launch in 2022, increasing annually by 1% up to 6% from the beginning of year 6). Those enrolled in the AE system in the years after 2022 will do so at the prevailing contribution rate applicable at that time i.e. in 2024 all members, including new entrants, would make 3% contributions.
- The State will provide an incentive. Although the level of this incentive and the mechanism through which it might be paid will be finalised after the consultation process, the illustrative approach in this Strawman suggests a contribution equivalent to €1 for every €3 saved by the member.
- AE Registered Providers will deliver services on a Defined Contribution basis.
- Benefit draw-down will also be linked to the State pension age. Members will be able to draw-down their funds as a lump sum, annuity or other approved retirement products in line with pension and taxation law prevailing at the time of retirement.
- Administrative fees for all provider/fund options will be minimised through leveraging the scale of the CPA with a maximum envisaged annual management charge of c. 0.5% of assets under management.
- Member account portability between employments will be facilitated by a 'pot-follows-member' approach.
- Self-employed people and employees outside the age and earnings band thresholds designated for automatic enrolment will be able to opt-in[6].

6 Consideration will also be given during the planning and design phase to opt-in access for others not in paid employment.

STRAWMAN: KEY FEATURES FOR EMPLOYERS

- Supports will be introduced for employers in delivering on their statutory duties in the roll-out of AE.
- Employers will be required to enrol employees and organise the remittance of contributions to the CPA but, for the purposes of this Strawman, will not be required to select a Registered Provider or savings option for their employees. In this Strawman, employees will select their own providers from among the providers registered with the CPA.
- Employers will match the member's contributions up to an eventual maximum of 6% (initially limited to 1% of the member's earnings to a ceiling of €75,000, increasing at 1% a year to a maximum of 6% from year 6).
- Employer contributions will continue to be deductible for corporation tax purposes.
- Failure of the employer to enrol, deduct and remit contributions as required will be subject to administrative penalty initially and to prosecution as a criminal offence if sustained.

STRAWMAN: KEY FEATURES FOR PENSION PROVIDERS

- Existing customers of pension providers will not be enrolled in the AE system (but may opt-in if they so choose).
- Private pension providers will be invited to tender to become an AE Registered Provider as part of the AE system.
- A shortlist of up to four AE Registered Providers will be selected to deliver services to members. Subject to further analysis of the target population and appropriate investment strategies, each provider will be required to offer a limited number of 'Lifestyle' or 'Target Date Fund' options, each of which may incorporate an evolving investment profile as the fund matures, for example:
  - > Low risk (e.g. an appropriate mix of Government bonds, blue chip private bonds and stock market index funds) – this would serve as the default fund for each provider.
  - > Moderate risk (e.g. investment portfolio involving a mix of Government bonds, blue-chip equities and property).
  - > Medium risk (e.g. predominately equities).

- Enrolled employees will be asked to select from the range of provider and fund options available. Those who decide not to exercise choice will be allocated to the default fund of one of the AE Registered Providers on a carousel basis.

- Contracts in respect of the service provided will be completed between the member and the Registered Provider.

- Contracts in respect of provision of service and information via the CPA portal will be concluded between the CPA and the Registered Provider.

- Registration for private providers will cover a period of c. 5 to 10 years, at which time a new tender competition will be held.

- Providers who are not successful in retaining their place following any tender process will transfer member accounts to existing or incoming providers.

Section 3

Introduction and Background

1. In February 2018 the Government published 'A Roadmap for Pensions Reform 2018-2023' in which it confirmed an intention to develop and implement, by 2022, a State sponsored supplementary retirement savings system into which workers will be automatically enrolled.

2. In order to support the design and development of the Automatic Enrolment (AE) system for Ireland, the Government further confirmed an intention to publish a 'Strawman' design for public consultation.

3. Ireland's supplementary pensions coverage rate, which includes both occupational and personal pensions, has remained relatively static over the last 20 years at approximately 50% of those in employment, reducing to 47% in Q4 2015[7]. This reduces further to just 35% when the private sector workforce is considered in isolation. Despite significant State incentives being available through tax relief to employers, employees and the self-employed, supplementary pensions coverage has not increased to an appropriate level.

4. It is now considered that without reform, the pension system, as currently structured, will not deliver the necessary improvements in levels of retirement saving. From the viewpoint of the individual, with the improvement in life expectancy and an increasing time spent in retirement, many will not accumulate sufficient savings to adequately replace their pre-retirement income level.

5. As a consequence, many retirees may suffer an unwanted reduction in living standards and increasingly rely solely, or mainly, on State supports. From a public policy viewpoint, pressure from demographic trends will become such that, without reform, the long term adequacy and sustainability of the overall pension system could be compromised.

6. Initial consultations regarding AE retirement savings systems have previously been undertaken with citizens, employer representatives, trade unions, the pensions industry, advocacy and interest groups, as well as other Irish and international experts. Evident throughout engagement with sectoral interests was a consensus on the need for strong action to deliver improved levels of retirement provision.

7. Therefore, the Government intends to deliver on a long-standing public policy goal and prioritise the development of AE for those employees without supplementary retirement savings. This reform, where the employee will be enrolled into a quality assured system whilst maintaining the freedom of choice to opt-out, will encourage long term personal savings and asset accumulation. It will increase the wellbeing, financial security and independence of future retirees.

7 CSO Pensions Module for Q4 2015 indicates that coverage decreased from 51% in Q4 2009 to a rate of 47% in Q4 2015. http://www.cso.ie/en/releasesandpublications/er/q-penp/qnhsmoduleonpensionsq42015/

8. The decision to implement an AE system is consistent with the key recommendation contained in the Organisation for Economic Co-operation and Development's (OECD) 'Review of the Irish Pensions System', published in 2014. The review concluded that the single greatest goal in Irish pension policy should be to increase pensions coverage through the introduction of a mandatory or quasi-mandatory system and/or by improving financial incentives. The review highlighted that Ireland is one of only two OECD countries that do not have a mandatory earnings related component to retirement saving and therefore faces the challenge of filling a retirement savings gap.

9. The AE reform reflects the broad intent of the 'Programme for a Partnership Government' to address long term pension policy challenges. Support for this major reform was evident in the July 2017 Citizens' Assembly deliberations regarding retirement income where 87% of assembly members agreed with the proposal that the Government should introduce some form of mandatory pension scheme to supplement the State pension[8].

8 https://www.citizensassembly.ie/en/How-we-best-respond-to-challenges-and-opportunities-of-an-ageing-population/

Section 4

The Strawman in Detail

Section 4.1 AE Strawman - Administrative Arrangements and Organisational Approach

1. International experience suggests that the success of AE will depend, inter alia, on good communications and the implementation of an effective, easy to use customer service and operating system. The design of the AE system should make it easy for participants to understand and use, particularly in respect of default mechanisms. This will impact on savings behaviour as well as roll-out costs to the taxpayer, providers, employers and members. The successful delivery of any AE system will also depend heavily on securing widespread trust and confidence with regard to the governance requirements of any organisation(s) involved, including how they are supervised and regulated, and the administration of member interests.

2. Some of the main system design features and conditionality such as the target population, contribution rates, financial incentives etc. have already been outlined in Section 2 and are considered further in the following sections. However, in advance of focusing on these matters, it is appropriate to set out the approach with regard to the service structure and operational model for AE.

3. The Government believes that the organisation and delivery of AE should support:

    - A cost effective system infrastructure and design where services are delivered first and foremost in the interest of members and from which members will benefit from economies of scale.

    - A high and consistent standard of service.

    - The facilitation of choice - members should not have to be interested in, or engaged with, their retirement savings to benefit and a suitable default option with minimum standards should be available. However, individuals should also have the choice to engage and make preferred personal decisions.

    - Portability across different employments using a ‘pot-follows-member’ approach.

    - Administrative simplicity - the system should be easy to use for employees and employers.

    - Adherence to prescribed regulatory and quality standards.

4. Towards these ends, it is proposed to establish a ‘Central Processing Authority’ (CPA) to administer the AE system. The CPA will provide a front-end information and processing portal, collect/remit contributions and channel funds to the limited number of AE ‘Registered Providers’ sourced via an open competition. All providers will, in turn, deliver account administration and fund management services.

5. The CPA will be statutorily independent in the exercise of its functions and will either form part of an existing agency or be established as an agency in its own right.

STRAWMAN PROPOSALS

UTILISING A NEW CENTRAL PROCESSING AUTHORITY AND LIMITED NUMBER OF APPROVED AE 'REGISTERED PROVIDERS'

- A new Central Processing Authority (CPA) will be established and be responsible for sourcing, on a competitive basis via an open tender, a limited number of AE Registered Providers (maximum of four) to provide a defined suite of retirement savings options.

- The CPA will establish minimum standards for service delivery and product features required of all providers, e.g. the number of investment fund options for members, service response times, etc.

- Registered Providers will be expected to deliver retirement savings services, potentially on a 'Master Trust'[9] or other multi-employer basis, at low unit cost via an online portal to be provided by the CPA. This will encompass the full range of scheme services including account administration, investment management and member communication.

- The CPA will establish and operate a web-based 'AE Provider Information and Administration Portal'. This will provide access to AE services and a central repository of key AE information.

- Contributions will be collected by the employer via payroll systems and transferred to the CPA. The CPA will remit contributions thereafter to the selected AE Registered Providers[10].

- The member will be able to keep track of their contributions, and the contributions remitted to the provider on their behalf, via the CPA Portal. The portal will also provide access to online account statements to be populated by the providers.

- Employers will be responsible for the initial enrolment of employees via the CPA Portal.

- Employees will be responsible for selecting a provider and savings fund option. In the absence of any savings decision, the enrolled employee will be automatically allocated to the default fund of one of the AE Registered Providers on a carousel basis.

- As the CPA will be publicly operated, each employee's PPSN will be used as a unique identifier to support service transactions and to facilitate the pot-follows-member approach.

9 A Master Trust is a multi-employer occupational pension scheme.

10 The Revenue Commissioner's 'PAYE Realtime' project scheduled for launch in 2019 will likely see significant software development by payroll providers and allow for greater disaggregation and identification of individual member contributions than is currently the case.

- The contract for service will be between the selected AE Registered Provider and the member (not the CPA). All regulated communications relating to the member's retirement savings account, including annual member benefit statements and other administrative material, will issue from the Registered Provider (Trustee or Board) to the AE member.

- Employees will be able to exercise their opt-out via the CPA Portal. Re-enrolment will be processed, via the employer, as for any new enrolment.

- The CPA will tender for service delivery by AE Registered Providers out to the open market on a periodic basis – most likely every 5 to 10 years. Where existing Registered Providers are not successful in each new round of tenders, responsibility for member accounts will be passed to incoming providers and the unsuccessful provider will not be allocated any new AE members.

- The CPA will be statutorily independent in the exercise of its functions and will either form part of an existing agency or be established as an agency in its own right.

- The CPA will not assume any of the functions of the national pensions regulator[11].

RATIONALE FOR THE STRAWMAN CPA PROPOSAL

6. Given that a large proportion of the overall target population for AE is lower and medium income earners, achieving low unit operating costs through scale in the operation of the system is essential and is, itself, a driving rationale in establishing AE. By acting as a 'bulk' purchaser, a CPA helps to achieve these scale economies.

7. Similarly, simplicity and ease of administration will be key, both to reducing costs and to securing acceptance of the service by employees and employers. By acting as a contributions clearing-house and by providing efficient administration services via an online portal, a CPA may simplify administration for employers, providers and employees.

8. An institutional structure such as a CPA can mitigate the complexities involved in supporting lifetime retirement savings, for example by providing pot-follows-member portability as members change employments. A pot-follows-member approach would likely improve persistency in saving and increase the member's sense of ownership of their retirement savings.

9. A CPA approach, using open-tendering to select Registered Providers, facilitates the achievement of scale while supporting, and taking advantage of, competition between new or existing specialist pension service providers.

11 The Pensions Authority as Regulator will be responsible for scheme regulation and will supervise compliance with the requirements.

10. The CPA approach can, through the tender process, improve service provision by driving down investment and administration fees. Under the AE system, Registered Providers will be responsible on behalf of members for negotiating fees with any administrators/investment managers they contract to deliver services. However, the CPA tender process will specify a maximum permitted annual administration and investment management charge of no more than 0.5% of assets under management.

11. The CPA approach, using a small number of Registered Providers with a suitable automatic default mechanism for members who elect not to make a choice, will help reduce product marketing and brokerage expenses incurred through the full retail model (for example by reducing the level of initial advice required and reducing product proliferation costs[12]).

12. A CPA approach can reduce costs through centralising 'shared service' IT and administration infrastructure. For example, one of the most challenging aspects in the administration of any pension scheme is the collection and allocation of member contributions. Using the CPA as a single contribution clearing-house may provide opportunities for greater efficiencies/commonalities in the development of payroll software on the one part and Registered Providers' scheme administration software on the other.

13. Any AE system will collect, manage and store a significant amount of data in relation to members. Personal information held might include name and contact details, date of birth, fund chosen, contribution levels, details of opt-outs, transfers etc. By using a State run CPA the Irish AE system will have access to using the secure online identity authentication tool - MyGovID.ie. This will help to minimise the risk of any unauthorised access to customer data.

14. A system with the capacity to systematically deliver to employees across multiple employers under one structure would also begin to address the fragmentation of pension provision in Ireland. This has been identified as a significant shortcoming by the Pensions Authority[13] and sees Ireland accounting for 50% of the pensions schemes in the EU, even though we have just 1% of the EU population. Ireland's average membership of 24 people per scheme[14] (excluding single member schemes) is in sharp contrast to international practice which routinely achieve economies of scale with hundreds of thousands, and even millions, of members. Whether services are delivered by Registered Providers on a Master Trust basis or other multi-employer structure such as an insurance contract based system, provisions will be required to ensure that providers have a duty to operate in the best interest of members.

12 The introduction of AE in the UK coincided with the introduction of the retail distribution review (RDR), which banned sales commission on new schemes sold from January 2013 and required that all costs must be disclosed and agreed up-front.

13 The Pensions Authority Annual Report 2016 https://www.pensionsauthority.ie/en/About_Us/Annual_reports/

14 Figures obtained by disaggregating Pensions Authority 2017 data

SOME SUGGESTED QUESTIONS TO CONSIDER

1. Is the rationale for use of a CPA sound?
2. What are the potential strengths and weaknesses of a CPA structure? Do you believe that the CPA model proposed can be improved? If so, how?
3. If you don't agree with the CPA model, can you suggest alternatives?
4. Have you suggestions for how the operating costs of the CPA could be covered?
5. Is the use of commercial providers for the provision of retirement savings options the right approach?
6. Is it appropriate to limit the number of approved AE Registered Providers, as proposed, in order to provide economies of scale and drive down unit costs?
7. If so, is the maximum figure proposed of four providers about right? Or should it be more or less, and if so, why?
8. Are there alternatives that can achieve the economies of scale required other than to select a limited number of providers by open tender?
9. What do you believe is the optimum governance structure for Registered Providers and why? (e.g. Master Trust or insurance based contract providers).
10. Where a member elects not to choose a provider and fund option, is it appropriate to allocate them to the default fund of one of the AE Registered Providers on a carousel basis, or is there a better alternative you would suggest?
11. What is an appropriate maximum limit on the level of administration/investment management fees?
12. What is the appropriate timeframe between each tender round (e.g. 5, 7, 10 years) and why?
13. Do you think the proposed timeframe for the roll-out of AE is reasonable and achievable?
14. Do you believe that employees should select their preferred provider or should employers be required to select a Registered Provider on their behalf?

Automatic Enrolment Strawman Structure

Central Processing Authority (CPA)

Via an online portal the CPA will:

- Provide AE Information to the Employer and Employee
- Enable Employer and Employee Registration with the CPA
- Enable Employee Selection/Allocation of a Registered Provider and Savings Fund
- Collect Contributions and Remit to Registered Providers

Employer **Employee**

Register themselves and Employee with CPA

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

Employer and Employee Contributions transferred to CPA via payroll

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

Registered Provider A

Registered Provider B

Registered Provider C

Registered Provider D

Registered Providers have overall responsibility for member:

- Account Administration
- Investment Management
- Contracts and Statements
- Communication of Benefits
- General Account Queries

Section 4.2 AE Strawman – Target Membership

STRAWMAN PROPOSALS

Target Membership

- Thresholds based on annualised gross earnings and employee/member age will be used to determine who will be automatically enrolled.
- Current and new employees aged between 23 and 60 years of age and earning €20,000 or above per annum would be automatically enrolled.
- Those earning under €20,000 per annum and those employees aged under 23 and over 60 will be able to 'opt-in' to the system.
- There will be no employee waiting period before enrolment.
- Rather than being automatically enrolled, self-employed people will be able to 'opt-in' to the system.
- Employees who are existing members of a pension scheme/contract which meets prescribed minimum standards and contribution levels will not be automatically enrolled.
- An opt-in facility will also be considered for those outside of the paid workforce.

RATIONALE FOR EARNINGS TRIGGER FOR AUTOMATIC ENROLMENT

1. The two key considerations in setting the earnings trigger level are the affordability of contributions for people on very low incomes and the target retirement income replacement rate (i.e. the proportion of pre-retirement income that can be achieved by people in retirement).

2. With regard to the first of these considerations – affordability - people on very low incomes, unless they are second earners, generally consume all of their income and have little if any scope to fund savings, particularly if those savings are 'illiquid' (i.e. cannot be accessed or drawn down in the short-term to meet urgent needs and will not yield any return until the very long term). Therefore, notwithstanding that one of the objectives of the AE system is to increase the level of supplementary savings coverage, the Government considers that it may not be appropriate to enrol all low earners in a quasi-mandatory savings system. Instead, people below a designated earnings threshold will be given access to the AE system on a purely voluntary or opt-in basis.

3. Turning to the issue of income replacement rates in retirement, it is generally agreed that target replacement rates are not fixed across all income levels but that people on lower incomes generally need higher replacement rates than those on higher incomes if they are to maintain living standards in retirement. Preliminary Department of Employment Affairs and Social Protection (DEASP) analysis of household spending patterns[15] shows target replacement rates to trend in this manner for the Irish population.

15 Household Budget Survey 2015 - Central Statistics Office (2017)

4. Table 1 below illustrates how the current State pension replaces income in retirement at various earning levels. It also includes adjusted net replacement rates when taking into account other secondary benefits that may accrue to older people. As can be seen, the State pension payment already delivers a relatively high gross replacement rate for people on very low incomes. An individual on the minimum wage working 40 hours per week would be in receipt of an annual salary of c. €20,000. If replacement rates accommodate the value of secondary benefits (fuel, electricity, TV licence etc.), then State pension benefits deliver a net replacement rate of nearly 80% for such an individual.

Table 1: State Retirement Benefits: - Income Replacement Rates

In Employment Income	€13,000	€15,000	€17,000	€19,000	€20,000	€25,000
Net Income (Approx)	€12,900	€14,900	€16,700	€17,600	€18,600	€22,300
State Pension [16]	€12,652	€12,652	€12,652	€12,652	€12,652	€12,652
Potential Secondary Benefits	€1,786	€1,786	€1,786	€1,786	€1,786	€1,786
Total Potential Pension Benefits	€14,438	€14,438	€14,438	€14,438	€14,438	€14,438
Gross Replacement Rate from State Pension Only	97%	84%	74%	67%	63%	51%
Net Replacement Rate From State Pensions Only	98%	85%	76%	72%	68%	57%
Net Replacement Rate Including Potential Secondary Benefits	112%	97%	86%	82%	78%	65%

5. On this basis, €20,000 is advanced as an appropriate level at which to trigger automatic enrolment. However, employees on earnings of below €20,000 will be allowed to opt-in on a voluntary basis. The earnings trigger of €20,000 will be reviewed every five years and adjusted in line with the evolution in the statutory minimum wage level.

6. However, it is also clear, based on an analysis of CSO Household Budget Survey data, that some of those in receipt of annual salaries in the bracket between c. €13,000 and this proposed trigger of €20,000 may see a reduction in living standards if relying solely on the State pension in retirement. Therefore, views are welcome on the merits and potential drawbacks of including all, or some, of this group in AE.

7. In addition to taking account of replacement rates and affordability issues, the earnings trigger should be set cognisant of gender differences and not disproportionately impact on any group. For example, females in employment are twice as likely to be earning the minimum wage relative to males[17]. Not surprisingly, therefore, Department of Employment Affairs and Social Protection analysis indicates a substantial gender based pensions coverage gap in the private sector, with male employees almost twice as likely to have pension coverage than female employees. Setting the AE employment trigger at €20,000 will begin to address this gender based coverage gap and extend greater retirement savings coverage to women in their own right as opposed to them being (more typically than men) classed as a dependant on their spouse/partner's cover. Cognisant of the above, further consideration may need to be given to those earning below €20,000 (a group which would include a relatively greater proportion of women, part time workers and ethnic minorities).

16 Includes the Living Alone Allowance (€468 per annum) Telephone Support Allowance (€130 per annum), Fuel Allowance (€607.50), Household Benefits Package (€420 per annum), TV Licence (€160 per annum).

17 http://www.esri.ie/publications/a-study-of-minimum-wage-employment-in-ireland-the-role-of-worker-household-and-job-characteristics/

8. No upper earnings threshold limit is proposed for the purposes of enrolment i.e. there is no earnings level above which employees would not be subject to automatic enrolment. This is because it is presumed that an opt-out model of retirement provision should be offered to all income earners without coverage and above the minimum €20,000 earnings threshold. However, it is proposed to set an upper earnings limit above which employers will not be required to contribute (see Section 4.3). Any contributions in excess of minimum obligations could remain at the discretion of the employee and sponsoring employer. Any State financial incentives would be subject to prevailing tax law and related legislation (see Section 4.4).

9. As can be seen from Table 2 below, one of the consequences of setting the earnings trigger at €20,000 is that the population of potential members who will be subject to automatic enrolment (as opposed to voluntary opt-in) will be lower than if automatic enrolment was applied to all employees. While this reduction in the population of people subject to quasi-mandatory automatic enrolment may pose some challenges in achieving scale economies, people at lower income levels will still be eligible to participate on a purely voluntary basis.

Table 2: Target Population Breakdown[18]

Automatically Enroled	Annual Salary Threshold	Age Threhsold	Approximate Population
Employees	Gross Salary > € 20,000	23-60	410,000
Employee Opt-In - Breakdown			
Work Status	Salary level	Age Group	Approximate Population
Employees	Gross Salary > € 20,000	< 23	15,000
Employees	Gross Salary > € 20,000	> 60	30,000
Employees	Gross Salary < € 20,000	23-60	310,000
Employees	Gross Salary < € 20,000	< 23	55,000
Employees	Gross Salary < € 20,000	> 60	40,000
Employees - Total			860,000
Self-Employed - Total			238,000

10. In addition, the potential population would be increased through granting access to self-employed people. The overall percentage of the workforce that is made up of self-employed people has remained largely static over the last 10 years. However, the numbers of self-employed who are choosing not to save for retirement and the potential future growth in the self-employed population means this group merit special consideration.

11. The self-employed often rely on selling their business, their partner's income or pension and on income from property for their retirement income. Whilst many are making an active choice not to save and to rely on the success of their business to provide for them in retirement, a very successful business will not be a reality for everyone. It is also not an option available to those freelancers or contractors who rely on their individual skills or professional services.

12. It is accepted that an AE model of fixed contributions may not work for many self-employed people given the intrinsic variability in their weekly/monthly earnings. Recognising these particular issues and the systemic challenges associated with accommodating this group, most other countries do not include the self-employed within their AE systems[19].

18 Preliminary Department of Employment Affairs and Social Protection estimates based on available data.
19 Chile appears to be the only country with a system that targets the self-employed.

13. Nevertheless, given that self-employed people make up c. 16% of the working population (c. 338,000 workers) and given that latest figures indicate that only 30% (c.100,000) of self-employed people have supplementary pension coverage, it is proposed that self-employed people will be granted opt-in access to the AE system.

RATIONALE FOR AGE TRIGGER FOR AUTOMATIC ENROLMENT

14. It is widely acknowledged that the best way to improve the chances of achieving a target retirement income is to begin saving early and therefore contribute for a long period[20]. The key determinants in identifying an age threshold relate to typical ages at which people commence full-time careers, the relationship between age and earnings and the time required to accumulate retirement savings sufficient to fund the desired level of income in retirement.

15. With regard to the age at which people commence full-time or 'career' employment, Ireland has one of the highest levels of participation in third level education among OECD countries. Participation in higher and further education among people under 25 is now at 52%[21] while workforce participation for people under 25 has fallen to 66% (from 76% in 1998)[22]. This data indicates that people are consciously delaying their entry into full-time, permanent employment.

16. Data in respect of earnings also indicates that those young people who do take up employment are proportionately more likely to be at the lower level of earnings such that they may not qualify for automatic enrolment as they may not meet the earnings threshold.

17. Another consideration in respect of the age threshold is the rate of separation/churn out of, or between, employments. Data indicates that the rate of separation attributed to each age rises steadily up to its peak at age 22[23]. Beyond the age of 22, the rate of separations falls steadily with age (until it increases in the years of the retirement phase). This issue is relevant insofar as a high level of churn/separation will impose disproportionate administrative burdens on employers, retirement savings providers and the proposed CPA.

18. Taking these factors together and also considering that a minimum of 40 years contributions is likely to be required if a person is to accumulate sufficient savings to fund an adequate supplementary retirement income, it is proposed to set the entry age threshold at 23 years of age.

20 Returns on investments are also crucial though cannot be influenced by policy makers in the same way as the contribution rate and the contribution period.

21 CSO (2017) Students as proportion of population aged 18-24, 2016.

22 CSO QHNS (2018). Refers to ages 20-24 and 'current rate' is 2016 (latest available)

23 CSO (2017) Job Churn – relates to 2015 data (latest available)

19. It is also suggested that 60 will be the cut off age for automatic enrolment[24] because, given the proximity to the retirement phase, the retirement savings which could be accumulated may not be considered by the potential members to merit the administrative and financial cost of inclusion. Citing proximity to retirement and adequacy through alternative assets, experience in the UK's AE programme indicates that the opt-out rate for those aged over 50 is up to twice that of younger members[25].

20. As with the earnings trigger, those under 23 and over 60 will be provided with the option of voluntarily 'opting-in' to the AE system.

21. As Table 2 highlights, the AE Strawman suggested earnings (over €20,000 per annum) and age triggers (between 23 and 60) would result in a 'starting day' core target population of c. 410,000 individuals[26] with a further c. 450,000 employees without supplementary savings, a portion of whom would likely elect to opt-in. In addition, some of the c. 238,000 self-employed without retirement savings may opt-in. Thereafter, new entries to the labour force and existing employees newly falling within the age and annual earnings triggers would also be subject to enrolment requirements[27]. Further analysis will be undertaken to estimate approximate future year on year inflows through automatic enrolment.

SOME SUGGESTED QUESTIONS TO CONSIDER

15. Should there be a lower/upper earnings threshold triggering automatic enrolment?
16. If so, is the proposed earnings threshold of €20,000 p.a. above which members will be automatically enrolled into the system appropriate? If not, what would you propose as the earnings threshold and why?
17. Do you agree with the proposal to review the earnings threshold on a five yearly basis? If not, what adjustment process would you propose?
18. Should there be a lower/upper age threshold for automatic enrolment?
19. If so, are the proposed age thresholds appropriate? If not, what would you propose as the age thresholds and why?
20. Should employees outside of the age/earnings criteria triggering automatic enrolment be able to opt-in?
21. How should those with more than one source of employment be treated?
22. Do you agree with the approach proposed for self-employed people? If not, what modifications would you propose?
23. Should people outside of the workforce (e.g. carers, homemakers) be eligible to opt-in? If so, suggest how that might work in terms of contributions, etc.
24. Should all eligible members be enrolled immediately on commencing employment?
25. Should members of existing pension schemes be allowed to transfer into the AE system?

24 Though participation would continue as normal for those reaching age 61 whilst in the system.
25 UK Department of Work and Pensions – Automatic Enrolment Evaluation Report 2013 p.68.
26 The figure of 410,000 consist of employed individuals who meet the AE qualification criteria and are not currently members of a pension scheme.
27 Job changers becoming deferred members of their previous employer's occupational pension scheme may also be automatically enrolled.

SECTION 4.3 AE STRAWMAN – EMPLOYER AND EMPLOYEE CONTRIBUTION RATES

STRAWMAN PROPOSALS

CONTRIBUTION RATES

- Contributions will be calculated as a percentage of gross annual earnings.
- ‘Qualifying earnings’ will be set at gross annual earnings with an upper earning limit capped at €75,000.
- During a phased roll-out of AE, employees will be required to make initial minimum default contributions at 1% of qualifying earnings increasing by 1% per year thereafter to a maximum contribution of 6% at the beginning of year 6.
- Employers will be required to make a matching (tax deductible) contribution on behalf of the employee.
- The State will provide a financial incentive linked to the member’s own contribution (see Section 4.4).
- Employer and State contributions will be limited to a qualifying earnings threshold of €75,000.
- The member will be allowed to make voluntary contributions in excess of the minimum which may be matched by the State on a pro-rata basis subject to a prevailing limit (see Section 4.4).
- The employer will not be required to match these voluntary contributions.

RATIONALE FOR CONTRIBUTIONS APPROACH

1. Ultimately, the objective of the system is that the level of contribution made by members should be sufficient to yield a reasonable income replacement rate in retirement (when taken together with the State pension). For example, when purchasing a pension in the private market, an individual aged 23 who is on the current average wage of c. €37,775, intending to retire at 68, and with a target replacement rate of say 60% (or c. €22,600 per annum), would need total contributions of approximately 13% of their annual salary for pension purposes[28]. This is in line with the ultimate contribution rate of 14% proposed in this Strawman.

2. However, requiring a contribution rate at such levels from the outset in an AE system carries a risk that it might, due to ‘bill shock’, result in very significant opt-out by members, defeating the purpose of the system.

28 For details and assumptions see http://www.pensionsauthority.ie/en/Calculators/Pension_Calculator/. This figure presumes the individual receives the full rate of State pension (contributory). 13% could include both employee and employer contributions. Based on DEASP modelling, 60% represents an appropriate target income replacement rate for an individual on this income level if they wish to maintain living standards in retirement.

3. In addition, cognisance needs to be taken of the potential impact on labour costs and consumption of any significant increase in pension contributions (the Department of Employment Affairs and Social Protection is conducting a separate analysis of these impacts).

4. Therefore, it is suggested that a pragmatic approach should be employed that requires a modest minimum level of contributions for members initially joining AE, with a phased increase over a period of time. This would help increase individuals' retirement readiness and independence through improved financial wellbeing. While it will not fully bridge their retirement savings gap it will move people closer towards income replacement rates in retirement which are appropriate to them.

5. In order to limit the cost impact on employers and the State while still preserving a necessary incentive for low to middle income workers, it is proposed that an upper limit on employer and State contributions be set at approximately twice the average earnings in gross terms i.e. €75,000. Employee contributions can continue above this level but employer contributions will be voluntary in respect of that portion of salary above the €75,000 threshold. The State will match member contributions on a pro-rata basis subject to an overall prevailing maximum level (see Section 4.4).

6. The €0 to €75,000 earnings band will be reviewed on a five yearly basis and modified to reflect the evolution in average wages over the period of the review.

7. Based on the foregoing, it is suggested that the minimum employer and employee contribution rates for new members joining in the introduction phase will be set at a modest level of 1% employee and 1% employer matching contribution (together with a State contribution – see Section 4.4).

8. International experience shows that when members are enrolled at a low default contribution rate, inertia may mean that many anchor their levels of contribution at that default rate (often in the belief that their retirement needs are 'taken care of'). This is despite the fact that this minimum rate was established for the pragmatic reasons outlined rather than for the purposes of achieving retirement income adequacy. To counter this inertia, these employee and employer contribution rates will be auto-escalated by 1% per annum thereafter to an ultimate target of 6% in year six. Those enrolled in the AE system in the years after 2022 will do so at the prevailing contribution rate applicable at that time i.e. in 2024 all members, including new entrants, would make 3% contributions.

Table 3 – Illustration of Contributions Based on Strawman Proposal for an Employee on the Average Annual Salary of €37,775

Gross Salary	€ 37,775	
	Employee Contribution	Employer Contribution
Year 1 Contribution - 1% of Gross Salary	378	378
Year 3 Contribution - 3% of Gross Salary	1,133	1,133
Year 6 Contribution - 6% of Gross Salary	2,267	2,267

SOME SUGGESTED QUESTIONS TO CONSIDER

26. Do you agree with the approach to starting with a low level of contributions increasing on a phased basis to a higher level over a period of six years? If not, what approach would you propose and why?

27. Do you agree with the proposed contribution levels? If not, what contribution levels would you propose and why?

28. Should there be an upper threshold on qualifying earnings along the lines described in the Strawman or should qualifying earnings be uncapped?

29. Should the Irish AE system incorporate a 'disregard' such as used in the UK's AE system whereby earnings between £0 and £6,032 are not subject to a contribution requirement? If so, why do you believe a 'disregard' should apply and at what level?

30. Should employer matching contributions be required for those outside the automatic enrolment age/earnings trigger criteria, who choose to opt-in?

SECTION 4.4 AE STRAWMAN - FINANCIAL INCENTIVES PROVIDED BY THE STATE

STRAWMAN PROPOSALS

FINANCIAL INCENTIVES PROVIDED BY THE STATE

- The State will provide an incentive for people to participate in the AE system.
- Although both the value and the mechanism for providing this incentive will only be finalised following this consultation, the incentive is, for the purpose of this Strawman, presented as a contribution worth €1 for every €3 the employee contributes towards their retirement savings account.
- Where the employee makes contributions in excess of minimum requirements, the State may also make additional contributions subject to a maximum level of contributions of 2% of annualised salary.
- The State contributions will match employee contributions on a pro-rata basis subject to a cap – possibly linked to a defined annual earnings level such as the proposed €75,000 maximum earning threshold or an average annual earnings threshold as reported by the Central Statistics Office.

The Government has confirmed that, under an AE system, the State will support employees by financially incentivising retirement saving. To this end, and to underpin the development of an AE system, the Government's 'Roadmap for Pensions Reform 2018-2023' contains a commitment to review the cost of funded supplementary pensions to the Exchequer[29]. This review is in progress and a separate public consultation process is currently being undertaken via the Interdepartmental Pensions Reform and Taxation Group and the Department of Finance in this regard[30].

It is intended that this review, together with feedback received during the AE Strawman consultation process, will inform future Government decisions relating to the level of financial incentive and the most appropriate manner in which this incentive should be delivered under the AE system.

RATIONALE FOR STATE INCENTIVES

1. Within the resources available, any State provided financial incentive should be structured in a way that best supports the policy objective of AE and promotes long term saving. This should target the current gap in coverage of retirement savings, i.e. primarily those with low to middle incomes. It should improve coverage and adequacy for those with intermittent employment patterns and help address the gender gap in pensions coverage amongst private sector employees.
2. Available literature indicates contributions to voluntary retirement saving pension plans benefit from tax advantages in most OECD countries. Typically these tax advantages take the form of a deduction on the

29 At present, the State incentivises supplementary pension provision in the form of tax relief on a saver pension contributions.
30 See https://www.finance.gov.ie/updates/invitation-to-make-a-submission-to-idprtg-public-consultation

income tax base. The OECD has expressed the view that given that retirement savings generally increase with income level, "an incentive structure skewed toward higher income may be far from the best way to increase participation and contributions[31]".

3. At present, Ireland's highly progressive income tax system results in, for example, a single individual entering the higher income tax bracket below average earnings. At these moderate income levels, marginal relief represents a significant financial incentive for pension savings. In addition, the 'Exempt, Exempt, Taxed' (EET) structure of providing tax relief means that while those on higher incomes may receive higher levels of tax relief during the savings phase, a pension is taxed at prevailing tax rates through the income tax system in retirement.

4. Nevertheless, tax reliefs as currently structured in Ireland provide a more limited incentive, or indeed no incentive, for workers on lower incomes.

5. In addition, despite the cost of tax reliefs to the State[32], the benefits of tax relief are not at all well understood. Research in the UK has shown that 66% of those surveyed had little or no understanding of how the tax system impacts pension contributions[33]. To enhance the potential for the success of AE, the financial incentives should be structured in such a way that caters best for the target employee group and be sufficiently attractive to encourage such earners to participate.

6. Any financial incentive for AE should be effectively communicated, easily understood and appreciated. The €1 for every €3 saved approach, set out for illustrative purposes, is easy to communicate and simple to understand. This could counteract the risk of opt-outs, in a system which will for the first time introduce an element of compulsion to retirement saving.

7. A system of 'matching contributions' for retirement savings has previously been advocated and would be income-neutral (i.e. the incentives are the same for all income levels)[34]. A key advantage of any system which standardises the level of saving incentive and presents it as a 'top up' to a member's contribution is the simplicity of the message. Standardisation of the incentive for pension saving was previously proposed as a way to restructure the pensions system in the National Pensions Framework (2010). The reasoning given for this reform proposal was that it would "promote simplicity and equity and ensure that similar options are available to all groups of employees"[35].

8. Irrespective of the manner in which the incentive is designed, a new form of incentive could be introduced based on the State uprating the worker's contributions on a matching basis and be presented as a '€Saver's Bonus'.

31 OECD 2012 Pensions Outlook p.173.
32 The Department of Finance estimate that the annual subsidy is €2.4 billion, and it represents the single biggest component of tax expenditures, accounting for about 45% of total tax expenditures (€5.3 billion) in 2014.
33 http://www.aviva.com/media/news/item/uk-two-thirds-of-people-in-thedarkover-pension-tax-relief-17526/
34 https://www.oecd.org/daf/fin/private-pensions/DCPensionDesignHighlights.pdf p.7.
35 The 2009 Commission on Taxation also recommended equalisation of tax relief for an individual's pension contributions citing reasons of equity and to provide an incentive to save. A matching contributions approach was also advanced. See http://irserver.ucd.ie/bitstream/handle/10197/1447/Commission_on_Taxation_Report_2009.pdf?sequence=1

9. Some AE systems around the world operate a cap on the value of the State incentive, the purpose of which is to help to manage costs. This consultation process will consider the cost to the State, and by extension the taxpayer, of providing a financial incentive to encourage sustained participation in the AE system. As an illustration, if 80% of the 410,000 people eligible for automatic enrolment under the contribution levels detailed in this Strawman proposal (6%, 6%, 2%) remained enrolled for a full year then the cost to the State of a 2% contribution, presuming all were on the average national wage, would amount to c. €248m.

10. Further evidence building and detailed analysis and sectoral engagement will be undertaken before any Government decisions are made.

SOME SUGGESTED QUESTIONS TO CONSIDER

31. Do you agree with the Strawman approach to State incentives – i.e. a potential State bonus top-up based on matching member contributions with a payment of €1 for every €3 they save?

32. What level of top-up or State incentive would you propose?

33. If you don't agree with the 'top-up bonus' approach what type of incentive would you propose?

34. Is it appropriate to cap State incentives? If so, what should be the value of this cap?

SECTION 4.5 AE STRAWMAN - INVESTMENT OPTIONS

STRAWMAN PROPOSALS

INVESTMENT OPTIONS

- The type and number of retirement savings fund options that must be made available by AE 'Registered Providers' will be determined as part of the detailed AE design process.
- In tendering for Registered Providers, the Government will set target annual management and investment charges of no more than 0.5% of assets under management. This charges cap will apply to all providers.
- Each Registered Provider would be obliged to offer a similar range of 'standard choice' savings fund options including a default fund for those who elect not to exercise choice.
- Although other options might be required as part of the final design, it is assumed, for the purpose of this Strawman that these funds will operate on a Defined Contribution (DC) basis.
- These products will incorporate a 'Lifestyle' or 'Target Date Fund' investment approach and be defined by reference to risk profile. It is proposed that there be three 'standard choice' savings products with three levels of risk: low, moderate and medium, each of which may incorporate a suitably evolving investment profile as the fund matures.
- Members who select the 'standard choice' fund options will be entitled to transfer accumulated funds (contributions plus investment returns minus investment and management fees) between the savings products.

RATIONALE FOR STRAWMAN INVESTMENT OPTIONS

1. One of the factors believed to have inhibited private supplementary pensions saving is the range and perceived complexity of pension products offered by a large number of providers. Very many savers find the underlying decision around investment difficult and unfamiliar. The proposed limitation on the number of Registered Providers and products will help to respond to this challenge and address the reality of provider/consumer information asymmetry[36]. As proposed, each provider would have a limited number of carefully designed offerings with an appropriate risk profile.

2. The AE Registered Providers will each offer three 'standard choice' fund options intended to accommodate different risk/reward profiles and with the capacity to generate improved levels of income adequacy in retirement. One of these three 'standard choice' funds will act as a default

36 Asymmetric information, or information failure, occurs when one party to the transaction possesses greater material knowledge of the relevant facts and details than the other party.

fund when a member is unwilling, or feels unable, to choose. Members will be able to switch between funds offered by the AE Registered Providers. These funds will utilise typical investment approaches in managing this de-risking process including strategies such as a 'lifestyle fund' or 'target date funds'. Lifestyling is intended to lock in investment growth as retirement approaches and involves gradually switching fund allocation to less risky assets such as cash and bonds.

3. Management and investment fees dilute the returns available for distribution to members. Even at very low levels, this dilution can have a significant effect on retirement incomes. For example over a 40 year savings period, an annual management charge of 1% of the member's fund would result in a reduction of approximately 20% to the final capital value of the fund[37]. Annual management fees for all provider/fund options will be minimised through leveraging the scale of the CPA and restricting the number of Registered Providers with a maximum envisaged charge cap of c. 0.5% of assets under management.

4. Another factor inhibiting take-up of supplementary pensions in recent years is believed to be the uncertainty regarding retirement incomes in an environment where the model of supplementary retirement provision is moving to a defined contribution rather than a defined benefit[38] model. For people at the lower end of the income distribution, this is likely to be a significant concern as, given the less discretionary nature of spending at lower income levels, any underperformance of an investment fund will have a disproportionate impact on their retirement income.

5. Research undertaken by the National Employment Savings Trust (NEST) in the UK showed that 37% of its automatically enrolled members favoured no risk whatsoever with their retirement savings[39]. The 'choice architecture' of investment fund options presented to savers will be particularly important. Choice architecture is the design of how choices are presented to consumers and the impact of that presentation on consumer decision-making. Providing individuals with a large range of fund options for investment may not lead to optimum outcomes in the aggregate[40].

6. The inclusion of a default low-risk fund option may provide people who are very risk adverse or unsure of the private financial/pensions market with greater confidence as to the security of the contributions made in their name.

7. The use of the PPSN or unique identifier which is transportable between providers to map member accounts could provide greater scope for a 'pot-follows-member' model. A capacity for job-to-job portability and/or tracking of individual pension accounts should be a key attribute of this system considering the ever increasing number of jobs individuals may have in a working life. Portability would minimise the risk of lost pots, may improve savings persistency, reduce costs and limit administrative burden on employers.

37 http://www.iopsweb.org/Working%20Paper%2020%20Update%20on%20IOPS%20Work%20on%20Fees%20and%20Charges%20.pdf

38 A defined benefit pension plan is a type of pension plan in which an employer/sponsor promises a specified pension payment, lumpsum (or combination thereof) on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.

39 https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/member-research-brief,PDF.pdf

40 An August 2017 review of Sweden's Premium Pension System which offers a choice of 850 funds found that market forces did not prevent the presence of poor funds due to low levels of member engagement/understanding and efforts have been made to reduce fund numbers and introduce member defaults.

SOME SUGGESTED QUESTIONS TO CONSIDER

35. Do you agree with the suggested approach to limiting the AE Registered Providers to offering three ‘standard choice’ DC savings options with one fund acting as the default?

36. If not, what retirement savings options do you consider should be provided?

37. An alternative to conventional DC is the target benefit approach – do you believe that a target benefit approach merits consideration as one of the ‘standard choice’ options for the AE Registered Providers?

38. Do you agree with the approach to provide for maximum annual management and investment charges at 0.5% of assets under management?

39. If not, what approach to management and investment fees would you propose?

40. Do you agree with the proposal to allow members switch between funds?

SECTION 4.6 AE STRAWMAN - POLICY FOR OPT-OUT AND RE-ENROLMENT

STRAWMAN PROPOSALS

POLICY FOR OPT-OUT AND RE-ENROLMENT

- Members will be automatically enrolled on the CPA by their employer on commencement of employment.
- Contributions during the first six months of membership will be compulsory.
- Member opt-out of the system will be facilitated in a two month 'opt-out window' (between the start of the 7th and end of the 8th months).
- Thereafter, under prescribed circumstances limited member 'Saving Suspension' periods will be facilitated where members wish to temporarily cease making contributions. Employer and State contributions will also cease in this scenario.
- Members who opt-out will be automatically re-enrolled after three years but will have the ability to opt-out again under the same circumstances just described.
- Members who opt-out during the opt-out window will receive a refund of personal contributions paid (less management fees) up to the point of opt-out. Employer and State contributions, with management fees deducted, will be transferred to the CPA as a contribution to its administrative costs thus lowering overall costs and fees to remaining members.

RATIONALE FOR STRAWMAN OPT-OUT AND RE-ENROLMENT

1. For those enrolled, deferring the ability to opt-out until an 'opt-out window' in month seven and eight may support an increase in the rate of those remaining within the scheme for the long term.

2. This period is believed to be sufficiently long to enable members see the value of their personal fund accumulate at a higher rate than their own personal contributions (2.33 times higher than their own contribution due to employer and State contributions). Limiting the opt-out window to two months will also tend to support higher retention rates and will also reduce administrative burdens.

3. People's circumstances change over a period of time. Therefore, in order to 'nudge' people who opt-out to re-evaluate the benefits of personal retirement saving, it is considered appropriate to automatically re-enrol those people who opted-out after a period of time has elapsed. This is evidenced in the UK where 62% of workers re-enrolled by medium sized employers and 45% of those re-enrolled by large employers remained in once re-enrolled[41].

41 AE Review 2017 – UK Department of Work and Pensions p.43.

4. As AE will stress the importance of individual free choice, employees should be able to opt-out again. A benefit of a CPA system based on individual lifelong accounts is apparent when considering a re-enrolment requirement where, for instance, an employer could more easily confirm whether a new employee has previously opted-out within the previous three years. In such instances member/account tracking and employer administration burden would be significantly eased compared to a system of multiple providers, member accounts and administration systems.

5. For people who may be concerned at their ability to sustain continual payments into the AE system, the availability of member Saving Suspension periods will provide some comfort that they can manage their finances in the event of unanticipated or temporary demands on their budgets.

6. However, international experience suggests that recourse to periods where savings can be suspended can defeat the purpose of AE (e.g. 40% of New Zealand's KiwiSaver members were availing of 'contribution holidays' in 2015). As highlighted by the OECD, if such contribution holidays are a feature of AE systems, it is critical to set clear time boundaries and to automatically 'nudge' workers and restart or increase their contributions after the end of the Savings Suspension period.

SOME SUGGESTED QUESTIONS TO CONSIDER

41. Do you agree with the concept of a minimum compulsory membership period and that six months is an appropriate minimum period?

42. What is your view on an opt-out window of two months in months seven and eight of membership?

43. Do you agree that people who opt-out should be automatically re-enrolled after a defined period (e.g. three years)?

44. Do you agree with the concept of allowing members to take a period of Saving Suspension? If so, are there specific conditions that should attach to such suspensions?

45. Do you agree with the approach which sees employer and State contributions retained/credited to the CPA to contribute to its costs, in the case of member opt-out?

SECTION 4.7 AE STRAWMAN - ARRANGEMENTS FOR BENEFITS AND THE PAY-OUT PHASE

STRAWMAN PROPOSALS

ARRANGEMENTS FOR BENEFITS INCLUDING PAY-OUT PHASE (DECUMULATION)

- AE 'Registered Providers' will be required to offer a set of standard decumulation stage options.
- These options will be required to comply with the retirement fund draw-down options in place under tax legislation and associated regulations applicable at the time of draw-down. At present, individuals can take a tax-free lump sum and/or purchase an annuity and/or transfer some or all of the funds to an Approved Retirement Fund[42] (ARF) from where funds can be drawn as required.
- Management and investment fees for each of these options will be no higher than those applying to funds invested during the accumulation phase (i.e. an upper limit of 0.5%).
- The contribution phase will cease for each member no later than the prevailing State pension age. However, members may opt to retain accumulated funds with an AE Registered Provider after that date, subject to the prescribed conditions established for the pay-out phase.
- An identified minimum level of annuitisation (or deferred annuitisation) may be mandated to protect against longevity risk[43].
- Upon death, and as is currently the case with DC retirement savings, any assets the member has accumulated in their retirement savings fund will be payable to their estate (i.e. this will be equal to the accumulated value of contributions plus investment returns, less fees, at the time of death).
- Early access to accumulated retirement savings may be provided on the grounds of ill health and enforced workplace retirement.

42 Approved Retirement Funds are post-retirement investment plans that allow you to continue to invest your pension fund in retirement and draw down money as you need it, rather than buying an annuity.

43 Longevity risk includes the potential to spend excessively and outlive one's income source.

RATIONALE FOR BENEFITS AND THE PAY-OUT ARRANGEMENTS

1. The primary reason for the existence of any supplementary retirement savings system is to provide a regime that supports members in saving towards an adequate level of income replacement in their retirement that is appropriate to their own needs. A review of international experience has demonstrated the importance of ensuring that AE design is internally coherent between the accumulation (saving and investment) and decumulation (pay-out) phases. If the ultimate objective of any AE system is to improve the adequacy of retirement income, an accumulation/decumulation formula is required that has the best capacity to provide for an adequate and affordable lifetime payment stream.

2. Detailed analysis will be required to underpin the framing of AE pay-out phase options and to allow for clear, understandable and user friendly member communication of these options. The pay-out phase options for AE will be structured with reference to the approximate level of retirement income which it is intended would be delivered through the State pension over the long term[44].

3. Retirement income will largely depend on choices made with respect to the investment of a person's accumulated fund. For those in DC retirement savings plans, a significant proportion of the income stream in retirement may be attributable to post retirement investment. Whilst the need for risk aversion and protection of savings increases in later years, this points towards the potential benefits of draw-down facilities which accommodate post-retirement investment.

4. However, research demonstrates that individuals are not good at estimating probabilities or understanding the consequences of mortality risk (and outliving their retirement fund). For example, when provided with multiple options, most individuals prefer a lump sum over an annuity even where the present value of the annuity is greater than the lump sum[45].

5. Income draw-down arrangements should seek to minimise complexity and support optimum outcomes for members by providing a relatively small number of investment options and by communicating the economic value of these options. The options provided should allow flexibility to cover ongoing costs in combination with limiting longevity risk.

6. Therefore, members should be in a position to combine the various drawdown options to cover the full retirement period. Subject to further analysis and feedback from this consultation, a minimum level of annuitisation may be mandated where the accumulated value of a member's retirement fund exceeds a specified threshold. Where the accumulated value is relatively low, members will be able to take the full value as a lump sum.

44 The Government's 'Roadmap for Pensions Reform 2018-2023' confirms the State pension (contributory) will be benchmarked at 34% of average earnings.

45 Whilst individuals may make such a decision for entirely legitimate personal reasons, the scale of preference for a lump sum would suggest that sub optimal decision making is a factor.

7. In order to synchronise supplementary retirement savings provision with the State pension system, members will cease making contributions on reaching the State pension age. However, consideration will be given to developing 'whole of life' structures where members can stay within their scheme past this age (although no further contributions will be accepted) and continue to receive support and draw-down retirement funds as necessary from a product such as an ARF.

8. Current rules allow early access options to support members who, because of ill health, are no longer able to work. It is appropriate in such circumstances that similar options are provided to members of the AE scheme.

9. Similarly, it is appropriate that provision be made for the disbursement of member funds in situations where a member dies during the contribution/accumulation phase.

SOME SUGGESTED QUESTIONS TO CONSIDER

46. Do you agree that Registered Providers should provide a standard range of investment/ draw-down options?

47. Should members be allowed to allocate their accumulated fund across all of these post-retirement options?

48. Should members be required to invest a minimum proportion of their accumulated fund in a lifetime annuity (pension)? If so, in what circumstances?

49. Do you agree that the appropriate age to grant access to the retirement draw-down products is the State pension age? If not, what age would you suggest?

50. Do you agree that early access to accumulated retirement savings should be provided on the grounds of ill health and enforced workplace retirement? If so, under what conditions and from what age?

APPENDIX: INTERNATIONAL COMPARISON OF AUTOMATIC ENROLMENT SYSTEMS

	Automatic Enrolment System			Mandatory System
	UK Automatic Enrolment	New Zealand 'KiwiSaver'	Canada - Pooled Registered Pension Plan (PRPP)	Australia 'Superannuation'
Introduced	2012	2007	2012	1992
Rate of State Pension	Dependent on Social Insurance Contributions, max rate c. €9,700	Dependent on Marital Status and income, max rate c. €14,000	Determined by length of residency in Canada after the age of 18, max rate c. €7,500	Dependent on Marital Status and income, max rate c. €13,700
Model	Decentralised - contributions paid to AE provider	Central Administration (Inland Revenue) - collects contributions and remits to provider	Decentralised - contributions paid directly to a PRPP account	Decentralised - contributions paid to a complying super fund or retirement savings account
Capacity - State or Private Sector Provision	Open market provision with the exception of the National Employment Savings Trust (NEST) - a Government established scheme with a public service obligation	Nine Government selected default schemes and market provision	Private Sector Provision	Private Sector Provision
Main Institutional Setup	Large DC Master Trusts/Group Personal Pensions	Large DC Master Trusts	Large DC Master Trusts	Large DC Master Trusts
Primary Target Membership	Unpensioned EEs aged 22 to State pension age, earning over c. €11,300 per annum	Unpensioned EE full time or permanent part time job starters of any income, aged 18-64	Full time EEs and part time EEs with at least 24 months of continuous employment are eligible. ERs may offer a PRPP to any EE class. If they do so, they must enrol all eligible EEs within this class	EEs aged 18-64 and earning more than c.€3,400 per year
Self Employed	Opt-in available	Opt-in available	Opt-in available	Opt-in available

	Automatic Enrolment System			Mandatory System
	UK Automatic Enrolment	New Zealand 'KiwiSaver'	Canada - Pooled Registered Pension Plan (PRPP)	Australia 'Superannuation'
Contributions	Initially set at 1% of qualifying earnings from EE, rising to 3% in 2018 and 5% in 2019. ER initially matched contributions as 1% increasing to 2% in 2018 and 3% in 2019	EE selects 3%, 4%, or 8% of gross pay. ER provides 3% minimum matching	Optional Levy by EE and ER	Mandatory ER contribution of 9.5% of EE's salary. No mandatory EE contribution.
Qualifying Earnings	Approximately €6,655 to €51,000 per annum. Upper limit relates to cap on mandatory employer contributions	All Gross Pay	All Gross Pay	Total 'ordinary time' earnings, not including overtime earnings
State Financial Incentive	Tax relief on pension contributions provided at the marginal rate of income tax - Exempt, Exempt, Taxed system	Government 'top up' of 50% on contributions, up to a maximum of c. €300 contributed by EE in a year - Taxed, Exempt, Exempt system	Tax relief on contributions - Exempt, Exempt, Taxed system	Some tax benefits to personal contribution, subject to upper limit, dependent on circumstance - Taxed, Exempt, Taxed system
Early Withdrawal	No early withdrawal available	After 3 years, a member of KiwiSaver may withdraw savings to put towards purchase of first home, provided they leave €582 in their account. Early withdrawal is also possible when a member is emigrating or suffering financial hardship or serious illness	Limited access in cases of disability and emigration - taxes and penalties apply to withdrawal before retirement	No early withdrawal available. However, some exemptions do exist for cases of severe financial hardship and serious illness
Opt-out Window	EE can opt-out within 1 month - re-enrolment every 3 years	EE can opt-out between 2nd & 8th week after enrolment - Re-enrolment if/when new employment is taken up	EE can opt-out within 60 days - no automatic re-enrolment	Compulsory participation - no opt-out