Submission to the Strawman Public Consultation Process for an Automatic Enrolment (AE) Retirement Savings System for Ireland

November 2018

The Scheme to Support National Organisations is funded by the Government of Ireland through the Department of Rural and Community Development

1. Introduction

Age Action is the leading advocacy organisation on ageing and older people in Ireland. Our mission is to achieve fundamental change in the lives of all older people by eliminating age discrimination, promoting positive ageing and securing their right to comprehensive and high-quality services.

We want to make Ireland the best country in the world in which to grow old and we work with older people to build a society free of ageism where their rights are secured. A central feature of our work is raising awareness about the lived experience of growing old in Ireland.

We are glad to have the opportunity to make a submission to the Strawman Public Consultation Process for an Automatic Enrolment (AE) Retirement Savings System for Ireland.

Age Action is pleased to see a commitment under the *Roadmap for Pensions Reform 2018* to comprehensively look at the wider pensions sector and at the issue of longer working lives.

The policy objective of an automatic enrolment system in Ireland is to supplement the state pension and enable people to maintain, to a reasonable degree, the standard of living enjoyed whilst working, for the duration of their retirement years.[1] We welcome efforts to increase pension coverage while ensuring greater numbers of people are kept above the poverty line and in income adequacy in retirement.

Any changes to the design of a supplementary pension system should be fair and meet adequate needs.

Clear consultation is needed to build people's capacity to engage and make decisions around pensions.

Across future retirement planning, targeted communication is needed to help people make informed choices about their retirement options and to understand the interplay between the state pension and supplementary supports. This is especially relevant for those under pension age who may have broken service records or who will fall outside of the state pension safety net.

As with measures under the state pension system, the principles of adequacy, equity and sustainability should underpin the new system.[2] Any policy changes should be gender and poverty proofed.

[1] Robert Nicholson (3 October 2018) *Developing an Automatic Enrolment Retirement Savings System for Ireland.* Presentation made to IIPM.
[2] Government of Ireland (2018) *Total Contributions Approach Consultation 2018*. Available at www.welfare.ie.

2. Context

According to the most recent Census figures, the number of people aged over 65 saw the largest increase of population since 2011. This age group has increased since 2011 by 19.1 per cent (to 637,567). The number of people aged over 85 increased by 15.6 per cent (to 67,555).[3]

At present, just over 13 per cent of the total population is over 65 years of age.[4] Each year in Ireland, the over 65 age group increases by 20,000 people.

The number of people aged over 65 is projected to increase very significantly to close to 1.4 million by 2041,[5] from one-fifth to over one-third of the working population over the next two decades. The number of people over 80 is set to rise even more dramatically, increasing by over 250 per cent to between 470,000 and 484,000 in 2046.[6]

Even with the retirement age due to rise to 68 years by 2028, there is a legitimate question about the sustainability of the State Pension system. People are living longer, healthier, more active lives.

An increasing number of older people are experiencing fear about retirement due to worries about income adequacy, particularly in the context of rising costs. Less than half of those (47 per cent) aged between 20 and 65 have a private pension.[7] Three out of four private sector workers have no pension apart from the contributory state pension.[8]

For average earnings of €38,000, the Department of Employment Affairs and Social Protection estimates a replacement figure of 60 per cent of earnings to achieve income adequacy in retirement. Taking current pension rates, a 26 per cent gap in replacement earnings exists for those on the state pension alone.[9]

Many of those in retirement are without adequate coverage for their cost of living, and many rely solely or mainly on State pension supports. Latest CSO SILC figures show a largely unchanged 'at risk of poverty' and 'consistent poverty' rates for the over 65s. One in 10 older people are living in poverty in Ireland (10.7 per cent). In 2016, 13.1 per cent of those aged over 65 years experienced deprivation. This means that

[3] http://cso.ie/en/media/csoie/newsevents/documents/pressreleases/2017/prCensussummarypart1.pdf
[4] http://www.cso.ie/en/releasesandpublications/er/q-cv/qnhscrimeandvictimisationq32015
[5] http://rebuildingireland.ie/Rebuilding%20Ireland_Action%20Plan.pdf
[6] Based on 2011 base figures. http://www.cso.ie/en/csolatestnews/pressreleases/2013pressreleases/pressreleasepopulationandlabourforceprojections2016-2046
[7] CSO (2016) *QNHS Pension Provision Q4 2015*. Available at www.cso.ie.
[8] Irish Life pension research quoted in https://www.independent.ie/business/personal-finance/half-of-workers-have-no-access-to-pension-35654880.html. 26 April 2017. See also CSO (2016) *QNHS Pension Provision Q4 2015*. Available at www.cso.ie.
[9] Based on average earnings of €38,000, with the state pension replacing approximately 34 per cent of earnings.

approximately 83,500 were unable to afford basic goods and services, or one in ten older people were living on less than 60 per cent of the national median income of €20,597 (€12,358 or €237.35 per week.[10])

3. Recommendations

Age Action is pleased to see the current autoenrolment consultation process offer a greater opportunity for older people to provide their views directly and to meet with the Department at regional face-to-face consultations and focus groups. We also welcome the initiative to enable greater participation by people in the consultation by expanding beyond online correspondence.

However, work remains to effectively communicate needs and changes around the pension system to both people in retirement and people of working age.

As part of the consultation process on the design of the AE system, Age Action canvassed its members on their views. **The introduction of additional occupational pension coverage was largely welcomed by our members, with concerns remaining around the coverage and administration of the scheme, specific fund initiatives and its impact on existing measures.**

i) Coverage

Key features of the proposed new autoenrolment scheme include the automatic enrolment of employees aged between 23-60 years where they are earning over €20,000 per annum and not already contributing to supplementary pensions. An opt-out will be available at the end of a minimum membership period (month 7-8). While an employee's contribution will begin at a minimum rate (e.g. 1% proposed from the system launch in 2022), it will increase annually and be matched by an employer contribution and State incentive.

Increased supplementary pension coverage is welcome. The strawman proposal to provide for wider access to supplementary pensions is a positive proposal where consideration will be paid to allow those under €20,000 per annum, the self-employed, those in non-paid employment, and those aged under 23 years and over 60 years, to be able to opt-in to the system.

Age Action welcomes further information on the opt-in facility for those outside of the paid workforce; this will be a crucial support for those in unpaid roles such as carers.

The suggested cut off age of 60 years for automatic enrolment is based on balancing retirement savings against the administrative and financial cost of inclusion. The

[10] Equivalised disposable income per individual.

proposal notes that experience in the UK AE programme indicates an opt-out rate for those over 50 years up to twice that of younger members.[11]

Any upper age threshold for automatic enrolment must take into account an increasing state pension age and changing legislative provisions for later working lives.

Positive working examples in other AE systems show clear guidelines around eligibility, employer contributions and employer commitments based on age and earnings including post-state pension age.

An estimated 450,000 employees are earning less than €20,000 or under 23 years of age or over 60 years.[12] It is not yet clear what level – if any – of employer and state contributions will be available for those opting in outside the core age and earning criteria, nor whether a disregard similar to the UK AE system (e.g. for earnings between £0-£6,032) will take place. **Consideration should be given to encouraging those without pension coverage and over the proposed maximum age of 60 years to register in the AE system.**

Further reflection on the UK model is merited where employer contributions remain mandatory for certain categories outside the core group (e.g. non-eligible job holders which relates to earnings over £5,824 for those aged between the state pension age and 75 years)

The setting of the earnings trigger level against the affordability of contributions for those on very low incomes and the target retirement income replacement rate is clear. An early review of the phased UK autoenrollment scheme in 2015 found that women, part-time workers, disabled people and those from an ethnic minority were less likely to be eligible for autoenrolment due to underlying labour market factors such as earnings, work patterns and participation rates.[13]

Age Action frequently receives calls to our Helpline from those close to retirement who may have transitioned to part-time working or fewer hours and were unaware of the resulting impact on their pensions.

We welcome the strawman suggestion of further consideration for those earning below €20,000, because it would protect women, ethnic minorities and part-time workers who represent a higher proportion of low-income earners.

We support the strawman proposal to review the earnings threshold on a five

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[11] Simon Foster. *Autoenrolment: The UK Experience.* See https://www.iipm.ie/resources/files/Auto-enrolment%20%E2%80%93%20The%20UK%20Experience.pdf

[12] Joint Oireachtas Committee on Social Protection (11 October 2018). *Automatic Enrolment Retirment Savings Scheme: Discussion*. Available at www.oireachtas.ie.

[13] Department for Work and Pensions (2015). *Workplace pensions: Update of analysis on Automatic Enrolment.* Available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/460867/workplace-pensions-update-analysis-auto-enrolment.pdf.

yearly basis and suggest an in-built safety net provision for an earlier review in the event of negative prevailing economic conditions.

We also call for clarity as to the proposed indexing of the earnings trigger, for example:

- Will it be linked to average earnings?
- Will it rise/fall proportionally in line with changes to the cost of living?
- Will it take into account any changes to the state pension system following actuarial reviews of life expectancy?

Age Action welcomes the provision for the making of additional voluntary contributions. This will assist those who are close to retirement, took time out of the labour market, or have broken service records in Ireland. Many of this number are women who took time out of work to care for their children or for other reasons. Clearer details regarding administration fees and draw down is needed on this.

The strawman approach to increasing employee contributions on a phased basis from a lower 1 per cent rate to 6 per cent over a period of six years will work best for individuals joining early in the registration process. However, this will place a disproportionate and unfair burden on new entrants joining later and subject to similarly higher contributions immediately upon joining the scheme. **We recommend the clear phasing in of contributions for all new entrants, regardless of their time of joining of the AE system.**

Provision is needed for those who simply will be unable to meet the cost of these scaled up contributions. It is not yet clear whether the automatic escalation of contributions will allow for an employee to opt-out at an earlier stage or under what conditions. Such a facility would provide additional security for those who may find the increased payments to be unsustainable. **Consideration should be given to including an opt-out from automatically scaled up contributions for employees, similar to those in evidence in other country schemes.**

The current strawman proposal details an opt-out at the end of a minimum membership period (month 7-8) with 'Saving Suspension' periods facilitated under certain grounds. It is not yet clear on what grounds these suspension periods can take place or whether employee, employer and State contributions will be retained by the CPA to contribute to administration costs. **Further analysis on the take up of this opt-out option in other AE systems is needed, as is analysis of participation rates in systems where multiple or later opt-outs are provided for e.g. the New Zealand model.**

ii) Funds

Provisions under the strawman proposal for administration of the schemes include the creation of a statutorily independent Central Processing Authority (CPA), with responsibility for sourcing a limited number (maximum four) of Autoenrolment Registered Providers and the setting minimum standards around service delivery.

The provision of clear information on pension options is crucial to the success of any autoenrolment scheme. **The specified role of the CPA to provide information on autoenrolment to the employee and employee is welcome. Information should be communicated in a suitable, user-friendly and widely accessible format.**

We are pleased to see the strawman proposal outline CPA responsibility for an 'AE Provider Information and Administration Portal'. **We ask that a similar web-based information service is provided for employees and employers**. This is particularly vital for employees who will be expected to select a provider and savings fund option before they automatic default to registration according to a 'carousel' of Registered Providers on offer.

Questions remain around the oversight of autoenrolment funds in terms of administration, cost, risk and regulatory capacity.[14] Fiduciary responsibility of legal responsibility on allocated Registered Providers to put members' interests first is a welcome benefit.[15]

The strawman proposal outlines a suggested administration charge of 0.5 per cent of an individual's assets. It is not clear at what level the fee structure will be imposed or the frequency. **It is crucial that a maximum limit on the level of administration and investment management should be set at a level that reflects the economies of scale of large funds, while passing this saving on to employees and catering for those on lower earnings.**

Discussion has taken place regarding the clawback option for those who choose to opt out of the AE scheme in the seventh/eighth month timeframe. It is not yet clear what level – if any – of costs will apply in the case of later and permanent opt outs.[16]

It is clear that a range of funds will be needed to offer employees freedom of choice in terms of security and risk management. **We are pleased to see a recognition of the need for a variety of providers and standard fund options, to be structured according to low, moderate and medium risk and with the ability for employees to switch between funds. Clear information on these options – and the two-**

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[14] Robert Nicholson (3 October 2018) *Developing an Automatic Enrolment Retirement Savings System for Ireland.* Presentation made to IIPM.
[15] *Ibid*.
[16] Joint Oireachtas Committee on Social Protection (11 October 2018). *Automatic Enrolment Retirment Savings Scheme: Discussion*. Available at www.oireachtas.ie.

ended aspect to risk – is needed for employees. Consideration of a State-backed option (such as a credit union fund) is encouraged.

Certainty is needed around whether autoenrolment funds may in future be met with a pension levy similar to that applied to private pension funds during the Recession. The use of commercial providers and the absence of a government guarantee underpinning the AE fund will see any risk borne solely by the employee.

Security regarding the draw-down for those in retirement is central to the operation of any supplementary system. **Further discussion regarding possible deferred annuities is needed prior to enrolment in any scheme. We welcome discussion in the strawman of access to an early draw-down in cases of ill-health or enforced retirement. Further information regarding terms, conditions and costs is needed.**

To provide additional security and remedy to employees, it is crucial that the Pensions Regulator retains oversight of the AE system with appropriate enforcement powers.

iii) Impact

A number of questions remain regarding the potential impact of an autoenrolment scheme on statutory pensions and existing occupation schemes.

Currently employee and employer tax relief are available on supplementary (occupational and PRSA) pensions. It is not yet clear whether this will be affected by a mandatory autoenrolment scheme with arguably less state support than the equivalent of the current top rate of tax relief.

The issue of tax relief for employees and employers under the AE scheme requires further clarification.

Strong protection of state pensions (contributory and non-contributory) is needed against any unintended impact of the AE system.[17]

It is not yet clear what – if any – impact the AE system will have on employers or new staff entrants. A mandatory requirement for employers to make an AE contribution will incur a significant cost, particularly in instances where no occupational pension was previously on offer. This may, in turn, discourage employment, with mandatory employer AE contributions simply seen as a levy on employment. **We look forward to further information on this arising from current research modelling the macro and microeconomic impact of the AE system.**

[17] Age Action has welcomed the commitment in the Roadmap for Pension Reform to benchmark the State Pension to 34 per cent of average earnings for the State pension, with future increases to depend on the Consumer Price Index (CPI) or average wages. This shows a welcome move away from setting the level of pension income provided to pensioners through the annual budget process.

The potential exists to create inequalities between staff, firstly by restricting new staff to access to an AE scheme only and secondly, by moving to lesser occupational pension contributions in line with autoenrolment terms.

Planning is needed to ensure that autoenrolment does not provide an incentive to employers to close occupational schemes should contributions exceed those required under the AE scheme.

iv) *Transitional Measures*

The introduction of an autoenrolment scheme will require careful planning to minimise disruption and confusion during the transition between systems for employees and employer.

The introduction of an autoenrolment system should take place in a fair and phased manner, with sufficient time given to current employees without a supplementary pension to understand the complex new system and to register in preferable existing schemes.

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