

# **Auto-Enrolment Retirement Savings Scheme**

Submission to the Joint Oireachtas Committee on Social Protection

**November 2022**

## Executive Summary

The Irish Congress of Trade Unions recognises that the current voluntary approach to supplementary pension provision has failed to achieve widespread coverage, and agrees in principle with a move to auto-enrolment as a means of increasing income adequacy in retirement and ensuring employers fulfil their moral and social responsibility to contribute to their workers' living standards in old age.

ICTU recommends that the proposed retirement savings scheme be made fully mandatory, not quasi-mandatory, with one time-limited 'contribution holiday' facility for workers which can be claimed as a single continuous period or a number of separate periods, and that low-paid and young employees and sole traders be automatically enrolled.

ICTU also recommends that the State contribution should instead be valued at €1 for every €2.50 a worker saves, that the employer contribution should be 7% on all earnings, and that the employee contribution should be graduated up to €20,000 and a flat 5% on all additional earned income.

Individual trust in the management of their pension fund is vital to building widespread support for and confidence in this radical new policy departure. The Irish public remain understandably wary of commercial pension providers and investment funds, the charges and fees levied on retirement savings and poor investment decisions. To bolster public support, ICTU recommends the proposed maximum management fee of 0.5% be revised downwards and that the total charges and fees over the lifetime of the pension be capped. ICTU further recommends trade union representation on the board of the Central Processing Authority.

As is standard in existing workplace pensions, ICTU recommends provision be made for an entitlement to a death-in-service benefit and a facility to require members nominate the beneficiary who should receive their pension pot upon death. ICTU also recommends State provided annuities for small pension pots.

ICTU has long advocated for concrete action to address the alarming low levels of second tier pension coverage in the private sector. The draft legislation setting out the design principles for an automatic enrolment retirement savings scheme represents a significant step towards achieving this objective. The amendments put forward by ICTU aim to deliver a scheme that workers can be confident will secure them with a decent income and standard of living in their retirement.

## Introduction

The Irish Congress of Trade Unions (ICTU) is the representative body for 45 affiliate unions and the largest civil society organisation on the island of Ireland, representing and advancing the interests of some 700,000 workers and their families in all sectors of the economy.

ICTU is pleased to accept the invitation of the Joint Oireachtas Committee on Social Protection to input in to your pre-legislative scrutiny of the General Scheme of the Automatic Enrolment Retirement Savings System for Ireland Bill 2022.

The Bill, when enacted, will legally require employers to automatically include all employees who satisfy certain criteria into a pay-related pension savings scheme, and to make minimum contributions. Contributions will also be made by the worker and topped up by the State.

This new retirement savings scheme will be in addition to, and not in place of, the State pension. The Roadmap for Pensions Reform (2018) commits to formally setting a benchmark of 34% of gross average earnings for the State pension (contributory). ICTU views this as essential for safeguarding the State pension against displacement by the auto-enrolment scheme over time, and calls on Government to deliver on this commitment as a matter of urgency.

ICTU recognises that the current voluntary approach has failed to achieve widespread coverage of supplementary pension provision, and agrees in principle with a move to auto-enrolment as a means of increasing income adequacy in retirement for low- and middle-income employees and ensuring employers fulfil their moral and social responsibility to contribute to maintaining their workers' living standards in old age.

The key operational and design details for ICTU can be categorised under a number of headings:

- I. Target membership
- II. Contribution rates
- III. Opting-out, re-enrolment, and saving suspension
- IV. Operational model
- V. Registered providers
- VI. Draw-down arrangements

These are discussed in detail in the following sections.

## Auto-enrolment

Little over half (56%) of all workers have a workplace or private pension to supplement their State pension - 90% of public sector workers do, compared to one in three workers (35%) in the private sector.<sup>1</sup> As the State pension (contributory) is paid at a flat rate (€253.30 a week), rather than as a percentage of previous earnings, workers without a supplementary pension are exposed to a significant drop in their normal living standards in retirement.

Tax incentives have failed as a policy instrument for encouraging low- and middle-income earners to save enough towards a financially secure retirement, and there is no legal obligation on employers to provide a workplace pension for employees or to make pension contributions.<sup>2</sup>

In response, Government plans to follow international best practice for boosting second-tier pension coverage by legally requiring employers to automatically enrol staff who meet certain criteria into a retirement savings scheme. Under the proposed scheme, workers can choose to opt out following a minimum period of compulsory participation. Aside from inertia, i.e. people don't get around to opting out, the number remaining enrolled is critically influenced by particular features of the pension such as contribution rates, confidence in the scheme and how the financial incentive is communicated, discussed below.<sup>3</sup>

Cabinet has agreed the details of an automatic enrolment retirement savings scheme. The necessary legislation is now before the Oireachtas Committee on Social Protection for pre-legislative scrutiny.

*ICTU agrees in principle with the introduction of auto-enrolment as a means of increasing supplementary pension coverage, income adequacy for workers in old age, and employer responsibility to contribute to their employees' retirement savings.*

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<sup>1</sup> CSO (January 2022) Pensions Coverage Survey 2021 <https://www.cso.ie/en/releasesandpublications/ep/p-pens/pensioncoverage2021/>

<sup>2</sup> Since 2003, employers are obliged to make a Personal Retirement Savings Account (PRSA) available for an employee who did not have a second pillar pension. The employer must deduct the contribution from the wage and pay it to the PRSA provider. There is no obligation on the employer to make a contribution.

<sup>3</sup> European Commission (2018) *Pension Adequacy Report Vol. I* p.138  
<http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8084&furtherPubs=yes>

## Target membership

Under the proposed scheme, automatic enrolment will apply to all employees:

- aged between 23 and 60 years<sup>4</sup>; *and*
- earning at least €20,000 a year across all employments; *and*
- not an existing member of a workplace pension scheme or one that meets the minimum contribution requirements.

Employees outside the age range and lower earnings threshold will be able to opt-in on a voluntary basis, and their employer will be legally required to contribute and all registered providers will have to accept them if they do so. In future phases, self-employed workers will also be able to opt-in.

That the self-employed will not be obliged to comply with the auto-enrolment rules is a cause for concern for ICTU. Aside from the low pension coverage among the self-employed, introducing a compulsory employer contribution will further increase the financial incentive for unscrupulous employers to use bogus self-employment arrangements.

ICTU recommends self-employed workers with no employees be automatically enrolled, and to make the business they provide work or services to liable for an employer contribution.<sup>5</sup>

ICTU also rejects the proposal to restrict auto-enrolment to workers over 23 years of age and recommends that the age trigger be aligned with the PRSI minimum age threshold of 16 years. A person could have seven wasted years between ages 16 and 23, when they have started their working lives but are not saving towards a more financially secure retirement.

ICTU views an upper age limit for first time entrants as warranted given that the small savings which could be accumulated close to retirement would not merit the cost of inclusion in the scheme.

The proposed scheme restricts automatic enrolment to workers with at least €20,000 annual gross earning across all employments. No upper earnings threshold for auto-enrolment is proposed.

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<sup>4</sup> 60 is the proposed upper age limit for new entrants. Workers enrolled before they turn 60 will continue to be covered by auto-enrolment up to the State pension qualifying age.

<sup>5</sup> This recommendation mirrors Suggested Approach 1 in the Department of Social Protection's own review of bogus self-employment, DEASP (January 2018) *The use of intermediary-type structures and self-employment arrangements: Implications for Social Insurance and Tax Revenues* p.28

The Government's rationale for including a lower earnings threshold as a feature of the scheme rests exclusively on replacement rates (i.e. the income after retirement as a percentage of income before retirement) and affordability (of contributions for workers on very low incomes).

That is, the income replacement rate from the State pension is high for low-paid workers. For a full-time worker earning the National Minimum Wage (€21,300), the State pension (contributory) provides an income of two-thirds (62%) of their pre-retirement net earnings, before the value of secondary benefits are factored in. For a worker earning €15,000 p.a. the replacement rate is 87%. Given that low earners who aren't second earners generally consume all of their income and have little scope to fund savings, particularly savings that cannot be accessed in the short-term to meet urgent needs, it is reasoned that it may not be beneficial to direct income from working life into pension savings and that low earners should make a conscious choice to save in the full knowledge of their individual circumstances, rather than being automatically enrolled.

However, it is the view of ICTU that including a lower earnings limit before compulsory retirement savings kick-in runs the risk of introducing unintended consequences. For workers, in the form of income-cliffs and an employment disincentive. That is, if working more hours, taking a promotion or a new job brings earnings over the earning limit it can result in less take-home pay. For employers, it increases the incentive to keep wages below the earnings threshold so as to avoid the obligation to contribute to their employee's pension pot.

Taking into consideration the above, ICTU recommends there be no lower income threshold.

*ICTU recommends extending auto-enrolment coverage to self-employed workers with no employees, and to make the business they provide work or services to liable for an employer contribution.*

*ICTU recommends that the minimum age at which automatic enrolment applies be aligned to the PRSI minimum age threshold of 16 years.*

*ICTU recommends there be no lower income threshold.*

*Failing that, without prejudice, ICTU recommends a statutory requirement for the low income threshold to be reviewed annually, as is the case in the UK auto-enrolment scheme.*

## Contribution rates

The proposed scheme provides for a total minimum contribution of 14% of the wage between employer, employee and the State. Employees will be required to make a minimum contribution of 6% gross earnings to the scheme, which will be payable from net after-tax pay.<sup>6</sup> Employers will be required to match the minimum contribution on behalf of their employee, subject to an annual earnings cap of €80,000, which will be deductible for corporation tax purposes, as is currently the case with employer pension contributions. The State will contribute €1 for every €3 an employee saves, with the pro-rata matching also subject to a €80,000 maximum earnings cap.

The 6% employee and employer contributions will be gradually introduced over a 10-year period, starting at 1.5% when the scheme commences in 2024 and rising by 1.5 percentage points every three years thereafter up to 6% gross earnings in 2034. New entrants enrolled in the years after 2024 will do so at the prevailing contribution rate applicable at that time e.g. in 2028 all members, including new entrants, will make a 3% contribution.

Getting the contribution rates right will be critical to the success of the scheme. If the employee contribution is too high, it may cause widespread public resistance to the scheme and if too low, the aim to produce an adequate retirement income may not be met.

To make auto-enrolment attractive and affordable for low income earners, ICTU recommends the employee contribution be graduated up to €20,000 gross total earnings, while maintaining a flat rate employer contribution to all workers' retirement saving fund. Failing a mandatory employer contribution on low earnings in the final design of the scheme, without prejudice, ICTU recommends the reduced Class A PRSI rate for low paying employers to end.<sup>7</sup>

Under the proposed scheme, the State contribution is different to current tax relief on pension savings. Currently a €100 pension contribution costs €60 for workers earning two-thirds the average full-time wage or above, as they can avail of relief at 40%, whereas low-pay workers attract tax relief at the standard rate of 20%, meaning a €100 contribution costs them €80. Under the proposed

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<sup>6</sup> As the Government contribution will replace rather than augment the existing tax reliefs, the employee contribution will be payable from net after-tax pay.

<sup>7</sup> Where a Class A employee earns less than €410 a week the employer rate is reduced to 8.8%. Employers pay 11.05% Class A employer PRSI on weekly earnings over €410.

scheme, all employees contributing €100 will pay the full cost, although they get an additional €33 into their pension, rather than as an immediate tax benefit.

Given that the proposed SSIA style structure will allow for the financial incentive for auto-enrolment to be effectively communicated, easily understood and appreciated, ICTU supports the proposed mechanism for the State's contribution.

With regard to the value of the contributions, ICTU recommends that the State contribution should mirror the value of the current 40% tax relief arrangement. That is, it should be increased to €1 for every €2.50 a worker saves. The employee contribution should be 5% and the employer contribution be 7%. A 7% employer pension contribution together with the 11.05% employer social insurance contribution will bring Ireland up to the OECD average for employer contributions. The 5:7:2 ratio has the added benefit of upholding the established principle in collectively bargained DC and DB pension schemes of the employer contributing more than the employee to the pension pot. Employers who already contribute into good workplace pensions will welcome the fact that their competitors are obliged to move even further towards doing likewise, as this will reduce the competitive advantage of lower labour costs.

Employers contributing to existing occupational schemes below the auto-enrolment employer contribution level will have to either increase their contribution or merge their own scheme into the auto-enrolment scheme.<sup>8</sup> In this way auto-enrolment creates a floor for employer contributions, which ICTU welcomes.

However, there is a risk some employers may view the auto-enrolment contribution rate as a ceiling resulting in 'levelling down' contributions to the minimum, causing a reduction in the contributions to existing workplace pensions. Auto-enrolment also brings a risk of displacement, with some employers responding by closing their workplace pension completely or to new employees. ICTU recommends provision be included in the legislation requiring for contributions and membership trends in existing DC and DB schemes to be independently reviewed annually. In the event of evidence of auto-enrolment resulting in levelling down and displacement, ICTU recommends the mandatory employer contribution be revised upwards.

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<sup>8</sup> Employees who are with employers that already have a qualifying scheme, but are not members of those schemes, will have to choose between joining the existing workplace scheme or being automatically enrolled.



*ICTU recommends the employee contribution be graduated up to €20,000 and 5% on the remaining annual earnings.*

*ICTU recommends the employer contribution be 7% of total earnings from the first euro.*

*Failing a mandatory employer contribution on earnings below €20,000, without prejudice, ICTU calls for the reduced employer Class A PRSI to be abolished.*

*ICTU recommends the employer contribution be revised upwards in the event of evidence of auto-enrolment resulting in levelling down and displacement of existing workplace schemes.*

*ICTU recommends the State contribution be €1 for every €2.50 a worker saves.*

*ICTU supports the proposed mechanism for the State's contribution.*

*ICTU recommends a statutory requirement for the upper earnings threshold to be index-linked.*

*ICTU supports the gradual introduction of the scheme.*

### **Opting-out, re-enrolment, and savings suspension**

Under the proposed scheme, all eligible employees will be automatically enrolled by their employer on commencement of auto-enrolment in 2024 and, thereafter, immediately on starting with a new employer. Participation in the scheme will be mandatory for a minimum six-month period before opting-out is permitted. The rationale being:

“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 contribution (2.33 times higher than their own contribution due to the employer and State contributions)”.

A further proposed measure designed to increase the number of workers saving for their retirement is to limit the opt-out facility to the two months immediately following the period of mandatory participation i.e. between the start of the seventh and the end of the eighth month after enrolment. Workers who opt-out will have their personal contributions refunded. In contrast, the employer and State contributions will not be returned. Instead, they will go towards the administration costs of the

scheme, thus lowering overall costs for workers remaining opted in. To nudge workers who opt-out to reconsider their decision not to save for their retirement, it is proposed to automatically re-enrol them after two years.<sup>9</sup> Workers can again choose to opt-out after the compulsory six-month period.

To reassure workers concerned of their ability to make contributions over the long term, a 'savings suspension' is proposed which will allow for a temporary cessation of contributions. Employer and State contributions would also cease for this period. Personal contributions are not refunded and the worker is automatic enrolled again after two years. This is so as not to defeat the purpose of the scheme.<sup>10</sup> However, workers can opt for a further saving suspension after six months.

Given that it is not unusual for existing workplace pensions to have a waiting period, there is a risk that the requirement to immediately enrol new employees in the auto-enrolment scheme will result in displacement. ICTU recommends that the entry rules for existing schemes that prohibit day one membership be reviewed by The Pension Authority.

ICTU also recommends the proposed opt-out, re-enrolment and savings suspension facilities be merged and replaced by a 'contribution holiday' which will be limited to a defined period of time, for example three years over a worker's career which can be claimed as a single continuous period or a number of separate periods. Employer and State contributions will continue during the holiday.

Failing this, without prejudice, ICTU recommends the minimum period for compulsory unbroken participation in the auto-enrolment scheme be extended to 12 months. In addition, ICTU recommends the legislation includes strong sanctions and penalties on employers who seek to pressure their staff to opt out, and by so doing deny workers the pension contributions they are entitled to.

*ICTU recommends the opt-out, re-enrolment and saving suspension facility be replaced and merged into one time-limited contribution holiday, which can be claimed as a single period or numerous separate periods. Employer and State contributions will continue during the employee's holiday(s).*

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<sup>9</sup> Re-enrolment has proved successful in the UK, where over one in two re-enrolled workers remain in the scheme.

<sup>10</sup> Having not included a time limit into the savings suspension option, 40% of New Zealand's KiwiSaver members were availing of a contribution holiday in 2015.

*Failing that, without prejudice, ICTU recommends the minimum period for compulsory unbroken participation in the auto-enrolment scheme be extended to 12 months.*

*ICTU recommends the legislation provides for strong sanctions and penalties on employers pressurising staff to opt out.*

*In light of the requirement to immediately enrol new employees, ICTU recommends that the entry rules for existing schemes which prohibit day one membership be reviewed and amended to protect against displacement.*

## **Operational model**

Under the proposed scheme, all members will have access to a range of retirement savings investment funds from approved providers, with access to these providers mediated by the State via a newly established Central Processing Authority (CPA), which will be statutorily independent in the exercise of its functions. Contributions will be deducted at source by the employer and transferred to the CPA. The CPA will then remit contributions to approved providers. A web-based portal, operated by the CPA, will allow members access to auto-enrolment services and information, keep track of their contributions and the contributions remitted to the provider on their behalf. The portal will also provide access to online account statements. Each employee's PPSN will be used as a unique identifier to support service transactions and to facilitate portability across different employments using the 'pot-follows-member' approach.

ICTU recommends worker representatives nominated by ICTU to be assured an agreed number of places on the board of the CPA.

*ICTU recommends trade union representation on the CPA board.*

## Registered providers

Under the proposed scheme, the State, via the Central Processing Authority (CPA), will tender for four commercial investment companies to each provide four types of retirement saving investment fund. The funds will have three levels of risk: low, moderate and higher and one default fund which will follow a lifecycle approach. Workers will be responsible for selecting an investment fund type (i.e. level of risk). In the absence of any decision, they will be automatically allocated to a default fund. The CPA will then pool all pension contributions according to the fund (risk) choice and allocate the pension contributions among the four providers.

The CPA will tender for service delivery for a contract periods of between 5 to 7 years.

There will be a maximum annual fee permitted of no more than 0.5% of assets under management.

Individual trust and confidence in the management of their pension savings is crucial to the success of auto-enrolment. The Irish public remain understandably wary of pension providers and investment funds, the charges and fees levied on retirement savings and poor investment decisions.<sup>11</sup> While the pension levy is still fresh in the public memory, strong legislative protection for the fund from raids by future governments can help rebuild damaged trust.

Given the size of the market (approximately 750,000 workers) and the opportunity to achieve scale efficiencies and consequently reduce management fees, ICTU supports the proposal to limit the number of approved providers at four.

ICTU recommends the contract for services be for 10 years.

ICTU rejects the proposed maximum permitted annual charge, viewing 0.5% as excessive. ICTU also recommends a weighting bonus for low fees in the tender marking system and that the maximum *total* charges and fees over 35 years be capped.

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<sup>11</sup> A 2012 report on the charges and fees pension providers levy on retirement savings, commissioned by the Department of Social Protection, revealed the average annual charge can diminish a final pension pot by as much as one third.

*ICTU supports the proposal to limit the number of approved providers at four.*

*ICTU recommends the contract for services be for 10 years.*

*ICTU recommends revising downwards the 0.5% maximum management fee.*

*ICTU recommends a weighting bonus for low fees in the tender marking system and that total charges and fees over the lifetime of the pension be capped.*

### **Draw-down arrangements**

Under the proposed scheme, the saving phase will cease at the qualifying State pension age and the retirement income accrued under the scheme will become payable. The only circumstances that are being considered in terms of early access to pensions savings is on the grounds of ill-health and enforced workplace retirement. In the event of early death, any assets accumulated in the retirement saving fund will be payable to the worker's estate.

ICTU supports early access to savings on the grounds of serious illness, injury or disability that either permanently affects ability to work or poses a risk to death.

As is normal practice in workplace pensions, ICTU recommends provision be made for an entitlement to a death-in-service benefit and a facility to require members nominate (and change) the beneficiary who should receive their pension pot upon death.

ICTU recommends consideration be given to State provision of annuities for pension pots up to a threshold.

*ICTU supports early access to funds on the grounds of permanent incapacity to work.*

*ICTU recommends a death-in-service benefit and members be required to nominate a beneficiary upon death.*

*ICTU recommends State provision of annuities for small pension pots.*

## Summary and Conclusion

ICTU agrees in principle with the introduction of an automatic enrolment retirement savings scheme as a means of increasing supplementary pension coverage, income adequacy for retirees, and employer responsibility for their workers in old age.

Our recommended amended changes to the proposed scheme are as follows:

- I. ICTU recommends there be no lower income threshold.
- II. Failing that, without prejudice, ICTU recommends the threshold be reviewed annually.
- III. ICTU recommends extending auto-enrolment coverage to self-employed workers with no employees, and to make the business they provide work or services to liable for an employer contribution.
- IV. ICTU recommends that the minimum age at which automatic enrolment applies be aligned to the PRSI minimum age threshold of 16 years.
- V. ICTU recommends the employee contribution be graduated up to €20,000 and a flat 5% rate on all additional earnings.
- VI. ICTU recommends the employer contribution be 7% of total earnings from the first euro.
- VII. Failing a mandatory employer contribution on low earnings, without prejudice, ICTU recommends the reduced employer Class A PRSI rate be abolished.
- VIII. ICTU recommends the mandatory employer contribution level to be revised upwards in the event of evidence of auto-enrolment resulting in levelling down and displacement.
- IX. ICTU recommends the State contribution be increased to €1 for every €2.50 a worker saves.
- X. ICTU recommends the upper earnings threshold of €80,000 to be index-linked.
- XI. ICTU recommends the proposed opt-out, re-enrolment and saving suspension facilities be replaced and merged into one time-limited 'contribution holiday', which can be claimed as a single period or numerous separate periods. Employer and State contributions will continue during the employee's contribution holiday(s).
- XII. Failing that, without prejudice, ICTU recommends the minimum period for compulsory unbroken participation be extended to 12 months.
- XIII. ICTU recommends the legislation provides for strong sanctions and penalties on employers found to pressurise staff to opt out.
- XIV. ICTU recommends that the entry rules for existing schemes that prohibit day one membership be reviewed and amended to avoid displacement.
- XV. ICTU recommends trade union representation on the CPA board.

- XVI. ICTU recommends the contract for services by commercial providers be for 10 years.
- XVII. ICTU recommends the 0.5% maximum management fee be revised downwards.
- XVIII. ICTU recommends a weighting bonus for low fees in the tender marking system and that total charges and fees over the lifetime of the pension be capped.
- XIX. ICTU recommends a death-in-service benefit and members be required to nominate a beneficiary upon death.
- XX. ICTU recommends State provision of annuities for smaller pension pots.