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IRELAND UPDATES AUTO-ENROLMENT PENSION SYSTEM IMPLEMENTATION

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Ireland's government has published an update on the implementation of its auto-enrolment (AE) system of supplementary pension savings. The announcement comes more than a year after the government issued its strawman structure for the AE system as part of an industry-wide consultation process.

The government has agreed "in principle" to a number of key components and remains committed to implementing the AE system by 2022, but certain policy decisions remain. In addition, other actions — such as introducing enabling legislation, tendering for services and establishing the operational infrastructure — must be completed. Furthermore, these matters could be impacted by other developments, such as a general election, Brexit, and regulatory changes required to introduce the institutions for occupational retirement provision (IORP II).

HIGHLIGHTS

The government has agreed on the following:

- Implementation of a defined contribution AE system by 2022. In general, employees between the ages of 23 and 60 who earn €20,000 or more will be automatically enrolled in the system with no waiting period, and other employees may opt in. Mandatory AE requirements won't apply to any employee who is already a pension scheme member, provided the scheme meets certain minimum standards.

- AE will be phased-in. The minimum mandatory contribution will be set at 1.5% of gross earnings, increasing by 1.5% every three years until year 10, when it will reach 6%.

- Employers will be required to make a matching tax-deductible contribution at a specified contribution rate, capped at a qualifying earnings threshold of €75,000 (the threshold will be reviewed periodically).

- Employees will be able to opt-out of the AE system after six months. The opt-out window will begin at the start of month seven and close at the end of month eight. Future opt-out windows would be provided when contribution rates increase, and savings suspension periods would allow members to

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temporarily cease contributions. If members opt out, they will be automatically reenrolled after three years, but could choose to opt-out in the future.

- Employees will choose their registered provider and fund options, with providers allocated to employees on a rotating basis if the employee doesn't make a choice.
- When employees change jobs, their accumulated contributions will follow them in the same fund (a "pot follows member" approach).
- Fund management charges on savings will likely be capped at 0.5%.

Numerous important elements remain, including the scope and role of the Central Processing Authority, the functions of registered providers, and the investment fund framework's structure. In addition, the government hasn't finalized its approach to the retirement benefit pay-out phase, and most crucially, the basis on which the state financial incentive will be provided.

OUTSTANDING QUESTIONS FOR EMPLOYERS

The government still needs to clarify a number of questions the AE system raises for employers, but employers should start considering how AE could impact their pension benefit proposition. Further developments and government announcements are expected early in 2020.

- **Occupational pension schemes.** The criteria for exempting employees from AE is unclear where the employer provides an occupational pension scheme, such as the scheme's minimum requirements on contribution and benefit design, and possibly fund choice. The government hasn't provided any clarity, only saying that schemes must meet prescribed minimum standards and contribution levels.
- **Voluntary pension scheme.** It's unclear how AE will work with employer-provided voluntary pension schemes. Employers will need to decide whether to use the AE vehicle (subject to meeting the necessary requirements) and if membership will be mandatory, or if employees will be allowed to enter the general AE system. The decision to provide different pension provisions could complicate employers' workforce communications and benefit expectations.
- **State financial incentives.** The interaction between any potential state financial incentives with existing tax relief system is unclear. The government has not announced its decision, but it's possible that the AE system could differ from current occupational pension schemes, creating more complexity. The government confirmed it will continue to study this aspect as well as recommendations from the Interdepartmental Pensions Reform and Taxation Groups expected in the first quarter of 2020.
- **Capped management charges**. The decision to cap fund management charges at 0.5% could restrict the scope of financial advice provided by fund managers to employees, making it difficult for employers to promote AE among their workforce.

- **Qualifying earnings.** The definition of "qualifying earnings" requires clarification so employers can assess the impact of AE on their benefit program costs and identify which remuneration elements must be included in the calculations.

- **Personal Retirement Savings Accounts (PRSAs).** It's unclear how PRSAs will fit with AE. Currently, many employers provide employees access to PRSAs as pensions savings vehicles, often on a non-contributory basis.

- **Pensions coverage.** AE will help improve pension coverage, but it's uncertain if the proposed structure will provide adequate pension benefits. Employers still need to consider their employees' expectations in the light of AE and employer-provided benefits.

RELATED RESOURCES

- Press Release (Department of Employment Affairs and Social Protection, 30 Oct 2019)

- A Strawman Public Consultation Process for an Automatic Enrolment Retirement Savings System for Ireland (Government of Ireland, 22 Aug 2018)

- IORP II Directive (EurLex, 14 Dec 2016)

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