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Joint Committee on Social Protection, Community & Rural Development and the Islands

Report on Pre – Legislative Scrutiny of the General Scheme of the Automatic Enrolment Retirement Savings System Bill 2022

April 2023

33/JCSPCRI/012

Committee Membership

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Cathaoirleach's Foreword

The Automatic Enrolment Retirement Savings System Bill is an important piece of legislation which is being designed to simplify the pensions decision for workers and make it easier for employers to offer a workplace pension. Under Automatic Enrolment, employees will have access to a workplace pension savings system scheme which is co-funded by their employer and the State.

The decision to implement an AE scheme is consistent with the key recommendation contained in the OECD's 'Review of the Irish Pensions System', that the single greatest goal in Irish pension policy should be to increase the supplementary pension coverage rate, and in this context, the General Scheme was referred to the Joint Committee on Social Protection, Community and Rural Development and the Islands in October 2022.

The introduction of Automatic Enrolment signifies a shift from a system whereby employers may or may not make provision for a workplace pension scheme to one where every worker will have access to a workplace pension. This Committee have put forward 21 recommendations in this report which span over 9 key issues.

In its pre-legislative scrutiny of this Bill, the Committee held meetings with officials from the Department of Social Protection, The Pensions Authority, the ESRI and stakeholders from ICTU, Irish Life, IBEC, and Insurance Ireland. The Committee also brought in expert consultants to carry out a piece of work on this topic.

I would like to thank all Officials and Stakeholders who came in for public consultation for their valuable engagement with the Committee, and Members for their hard work. I would also like to acknowledge the assistance of the Committee Secretariat in preparing this report.

Denis Naughten TD
Cathaoirleach
26 April 2023

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Introduction and Witnesses

Automatic Enrolment has been discussed for decades in Ireland. However, Ireland is currently the only OECD country that doesn't operate an Automatic Enrolment (AE) or similar system as a means of promoting pension savings. The proposed new system would be designed to simplify pensions decisions for workers and make it easier for employers to offer a workplace pension. Under the proposed AE scheme, employees will have access to a workplace pension savings scheme which is co-funded by their employer and the State.

Key features of the scheme include:

- Initially, approximately 750,000 workers will be enrolled into a new workplace pension scheme, which will grow significantly over time.
- Participation in the new scheme will be voluntary, workers will have the ability to opt-out or suspend participation for periods of time.
- The scheme will include matching employer contributions and a State top-up.
- For every €3 saved by a worker, a further €4 will be credited to their savings account, €3 by employer and €1 by the State
- No tax relief will be available on deductions from salary and wages for autoenrollment.

Under the proposed scheme, automatic enrolment will be applied to all employees aged between 23 and 60 years who are earning at least €20,000 a year across all employment and are not an existing member of a workplace pension scheme, or one that meets the minimum contributions requirements. The upper age limit of 60 means that after the age of 60, people will not be automatically enrolled for the first time, but they will continue in the scheme after they are 60 if already enrolled.

The decision to implement an AE system is consistent with the key recommendation contained in the OECD's 'Review of the Irish Pensions System', published in 2014, that the single greatest goal in Irish pension policy should be to increase the supplementary pension coverage rate through the introduction of a mandatory or quasi-mandatory earnings-related system. In response, in March 2018, the then Government published 'A Roadmap for Pensions Reform 2018-2023', in which it confirmed an intention to develop and implement a State-sponsored supplementary retirement savings system into which employees would be automatically enrolled. In June 2020, the Programme for Government ‘Our Shared Future’, reaffirmed the commitment to introduce an AE system. In line with this Commitment, the Government approved the final design principles in March 2022.

In this context, the General Scheme was referred to the Joint Committee on Social Protection, Community and Rural Development and the Islands (the Committee) in October 2022.

The Committee held six meetings on the General Scheme:

Date	Witnesses
7 December	*Stakeholders from the Irish Congress of Trade Unions (ICTU)* • Dr Laura Bambrick, Social Policy Officer • Mr Liam Berney, Industrial Relations Officer
14 December	*Officials from the Department of Social Protection* • Mr Tim Duggan, Assistant Secretary General • Ms Clare Dowling, Principal Officer • Mr Ciaran Diamond, Assistant Principal Officer
18 January	*Stakeholders from Irish Life* • Mr Declan Bolger, CEO, Irish Life Group • Mr Oisin O’Shaughnessy, Managing Director Corporate Business • Ms Teresa Kelly Oroz, Head of Public Policy, Irish Life Group *Officials from The Pensions Authority* • Mr Brendan Kennedy, Pensions Regulator and CEO of Pensions Authority • Dr David Begg, Chairperson • Mr Andrew Nugent, Head of Policy • Ms Gillian Smith, Assistant Head of Policy

25 January	*Stakeholders from IBEC* • Mr Fergal O'Brien, Executive Director, Lobbying and Influence • Ms Aoife McFadden, Senior Employment Law Solicitor
8 February	*Stakeholders from Insurance Ireland* • Ms Moyagh Murdock, CEO • Ms Jacqueline Thornton, Director Regulation and Policy Development • Ms Ruth NicGinneá, Advocacy and Public Affairs Manager • Ms Nadya Lazarova, Manager of Regulation and Policy Development. *Officials from the ESRI* • Dr Claire Keane, Senior Research Officer • Mr Barra Roantree, Research Officer
15 February	*Officials from the Department of Social Protection* • Mr Tim Duggan, Assistant Secretary General • Mr Ciaran Diamond, Assistant Principal, Autoenrollment Programme Management Office • Sarah Judge, Higher Executive Officer, Autoenrollment Programme Management Office

Observations and Recommendations

1. The Committee recommends that the lower age limit be reduced from 23 to 16 years, aligning it with the PRSI minimum age threshold.
2. The Committee recommends that the lower income threshold of €20,000 be removed as the threshold of €20,000 can penalise young workers, low earners, and disproportionately women.
3. The Committee recommends that the Department should revert to the proposal as set out within the Pensions Strawman and allow flexibility of contribution levels by employees and employers beyond the statutory minimum.
4. The Committee recommends that there be a provision for a state incentive during periods of maternity leave, and also one that would allow efficient tax mechanism for partners to make contributions when on unpaid leave.
5. The Committee recommends that when participants are auto enrolled, they should be given a sample of the likely pension they will receive on retirement in real terms by adjusting for inflation.
6. The Committee recommends that discretion should be exercised by the Central Processing Agency to consider periods of savings suspensions to coincide with instances of, for example, over indebtedness, maternity leave, bereavement, illness, and unpaid caring. Savings suspensions could be for a pre-determined period, after which contribution deductions would recommence.
7. The Committee recommends that all the guidance, rules, and consumer protections applicable to pensions providers as issued by the Central Bank of Ireland be equally afforded and implemented to auto enrolment members i.e., ongoing financial, lifetime advice.
8. The Committee recommends having employee and employer representatives on the board of the CPA.
9. The Committee recommends that a drawdown fund be developed to accommodate members post retirement choices.

10. The Committee recommends that Automatic Enrolment be covered by a strong governance framework, incorporating annual evidence-based reviews.
11. The Committee recommends that investment advice be offered to all AE members to allow them to select the most appropriate fund for their age, gender, financial position, and circumstances.
12. The Committee recommends that clarity be provided on the form of taxation to be applied to pension pots in retirement so that members can make proper provision for the future over the long term.
13. The Committee recommends that investment 'good practice' should include consideration of sustainability and environmental, social and governance factors and this should be explicitly stated in the Bill.
14. The Committee recommends that an examination be carried out as to why only 20% of Investments by Irish Pension funds are invested in Irish equities and bonds and whether there should be a mandatory minimum of auto-enrolment funds invested in Ireland to ensure that this country benefits economically from these very large funds".
15. The Committee recommends that the investment funds be prohibited from investing in fossil fuels or the arms industry.
16. The Committee recommends that a minimum percentage of the funds should be invested in Irish renewable energy developments in order to ensure our Climate Action obligations. As with without achieving these, the future of all pension funds will be at risk from climate change.
17. The Committee recommends that there is a two-year lead-in period following the Bill being passed and signed, to allow business to be ready for the implementation.
18. The Committee recommends that head 5 be carefully drafted to ensure that workers are not required to spend a short time in the AE system if they will be joining an occupational pension as part of their employment within 12 months.
19. The Committee recommends that the total amount of all charges should equate to a maximum of 0.5%.

20. The Committee recommends that the Department carefully consider tax relief in the General Scheme of the Autoenrollment Bill and its impacts on the wider pension system.
21. The Committee recommends that the State Pension should either be statutorily linked to the Consumer Price Index or a percentage of the Living Wage to ensure the real value of the State pension is not eroded as auto-enrolment is rolled out

Key Issues

Key Issue 1 – Eligibility: Age and Earning Limits

Head 4 of the general scheme concerns criteria for automatic enrolment and outlines that in order for an employee to be automatically enrolled in this retirement savings system, they must be between the ages of 23 and 60 years of age and must have overall gross earnings across all employment of €20,000 per annum or more. Those who are enrolled at a younger age will continue to pay contributions and remain in the system after 60 years of age, until the State Pension Age. Any employee who is already enrolled in a qualifying occupational pension scheme into which the employer and employee are actively making contributions, will be exempt.

The Committee heard from the Irish Congress of Trade Unions (ICTU)[2] that the lower age limit of 23 should be reduced to align it with the minimum age that people begin paying Pay Related Social Insurance (PRSI). The Committee acknowledge that there will be an option to opt-in but are unsure whether many 16-year-olds will even be aware that they will be able to opt-in, or if they would bother at all at that age. The Committee agreed that they could not see any reason for why people should lose seven years of pension contributions between the ages of 16 and 23 when they are paying PRSI and contributing. The Committee engaged with ICTU representatives regarding their concerns on this, and they asserted that the proposed age limit of 23 is a classist approach, which assumes that all young people will spend three or four years in college after doing the leaving certificate at 18 years of age and are entering full-time employment from the age of 22 and onwards. The witnesses explained that a great deal of young people might not go on to sit the Leaving Certificate exams but will instead enter the workforce at 16 years old, following the Junior Cert. These people will commence their full working life at 16,17 and 18 and will be liable for PRSI.

ICTU informed the Committee that, if the lower age limit of 23 is kept in place in Ireland, it will be the highest lower age limit in operation in comparable AE systems.

[2] ICTU Submission

In countries such as Australia and New Zealand, the lowest age is 18, and in the UK, it is 22.

Through their written submissions to the Committee, the Citizens Information Board[3], Society of Actuaries Ireland[4], Insurance Ireland[5], and Legal & General Investment Management[6] (LGIM) echo the sentiments above in that they also felt that the lower age limit should be reduced or removed.

The Committee questioned the Department of Social Protection (the Department) on how the lower income threshold if €20,000 was reached, and the Department informed them, that the €20,000 threshold was selected in trying to strike a balance between needs in ensuring that there is adequate provision for retirement and affordability in allowing them to live properly during their working lives. The Department do acknowledge in the explanatory note under Head 4, that the case was made during their consultation process for a lower income threshold or even no threshold at all.

However, the Committee engaged in a public consultation with Insurance Ireland, who conveyed to them that the limitation of access for people with a lower income exposes more vulnerable households and individuals. They stated that individuals with lower incomes in general such as people working in the care or hospitality sectors, will be the second major group losing out on the scheme.

The Committee heard from expert consultants in this field who told them that in Denmark this inequality is combatted through their state led supplementary pension saving scheme, ATP, which is similar to occupational workplace pensions schemes but is managed at a state level by social partners. In this scheme, if you receive any form of benefits from the state, a contribution goes into that supplementary scheme for you.

In their engagement with The Pensions Authority, the Committee raised the issue of gender aspects and difficulty for women in particular, who will be indirectly affected

[3] Citizens Information Board Submission
[4] Society of Actuaries Ireland Submission
[5] Insurance Ireland Submission
[6] LGIM Submission

by a lower income threshold of €20,000. The Pensions Authority acknowledged that the gender dimension is an important issue that needs to be considered, this was also mentioned in the submissions received by the Committee. The Society of Actuaries Ireland accept that an earnings threshold is necessary and suggest that the income threshold be lowered to below €20,000 to partly address the indirect discrimination against women, who are statistically lower paid. Insurance Ireland have called for the removal of the lower age limit as they feel it is a key barrier as it creates a huge risk in excluding those who need the system the most, such as part-time workers, people in social care and people with a lower level of formal education. Citizens Information Board, Irish Association Pension Funds[7], Irish Life[8], and Irish Institute of Pensions Management[9] and LGIM also feel that this earnings threshold will remove more women than men from inclusion in the AE Scheme.

ICTU recommends that there be no lower income threshold and have conveyed to the Committee in their opening Statement that it is their view that including a lower income threshold before compulsory retirement savings kick in, runs the risk of unintended consequences for workers in the form of income cliffs and employment disincentives. If working more hours taking a promotion or a new job brings incomes over the income limit, it can result in less take home pay. For employers, it creates an incentive for keeping the wages below the threshold, so as to avoid their obligation to contribute to the employee’s pension pot.

The ESRI told the Committee that the €20,000 threshold will affect part-time workers, many of whom may never reach the lower threshold, and who are predominantly women in caring roles and working part time when they can fit it in around family demands. The ESRI believe that address that now at the beginning of the new auto-enrolment scheme is the best time to do it. Based on the experience from other jurisdictions discussed by the ESRI, is that once it becomes part of legislation, there is little appetite from governments and political parties to go back in again and change the rules of the scheme.

[7] Irish Association of Pension Funds Submission
[8] Irish Life Submission
[9] Irish Institute of Pensions Management Submission

The ESRI also conveyed to the Committee that many lower-paid workers are younger people, ages under 23 who may still be living at home with their parents. They believe that this would be a good saving scheme for that cohort, given that they may be able to afford it more than expected because they are probable living at home with parents, without the demands of a family, mortgage, and household bills. The ESRI sees this as an opportune time to start a pension scheme and brings them into the practice of putting money aside for their long-term financial well-being.

Observations and Recommendations

1. The Committee recommends that the lower age limit be reduced from 23 to 16 years, aligning it with the PRSI minimum age threshold.
2. The Committee recommends that the lower income threshold of €20,000 be removed as the threshold of €20,000 can penalise young workers, low earners, and disproportionately women.

Key Issue 2 – Contribution Rates

Head 9 of the General Scheme relates to rates of contribution and states that:

For the employee, contributions will be levied as a percentage of the employee's gross earnings and the contributions will be phased in as follows:

i. 1.5% for years 1 to 3
ii. 3% for years 4 to 6
iii. 4.5% for years 7 to 9
iv. 6% from year 10 onwards.

This head also outlines that tax relief, as provided for in the Taxes Consolidation Act 1997 (as amended), will not be applied to these contributions. Head 9 also sets out that employer contributions will match the employee contribution and will also be phased in as above. For the employer, contributions will be deductible for Corporation Tax purposes pursuant to the Taxes Consolidation Act 1997 (as amended).

For the State, contributions will be levied as a percentage of the employee's gross earnings at the following rates:

i. 0.5% from years 1 to 3
ii. 1% from years 4 to 6
iii. 1.5% from years 7 to 9
iv. 2% from year 10 onwards

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.

It is a matter of concern to the Committee that a lot of participants will be shocked and surprised when they find out that the SSIA rebate is at the cost of forfeiting the right to tax relief on superannuation contributions.

Irish Life agrees with the rates of contribution and phasing; however, it does not agree with the inflexibility of the contribution rates. It does not provide for any mechanism by which employees can top up their pensions e.g., it does not allow for women to top up their contributions to remedy any gaps that can occur. Irish Life states in their submission to the Committee, that the current AE Bill does not allow for either employees or employers to make any additional contributions and is therefore embedding a pensions gender gap into the AE Scheme. In their public consultation with the Committee, Irish Life reiterated the point of lack of flexibility, and compared it to the existing occupational pension schemes where there is an ability to top up one's pension and people often do that having returned from maternity leave or if they are at a certain point in their career. They also stated that women often have less linear careers and may have periods where they earn more than other periods.

Irish Life told the Committee that the heads of the Bill are entirely silent on what happens during maternity leave. Some employers will top up maternity leave, and if that is done, the pensions contributions flow. However, if they do not top up maternity leave, then there seems to be nothing coming through from the employer. In the UK, in cases where you avail of unpaid leave, they will add a credit to your pension scheme on occupational schemes and on auto-enrolment, but that is not done here in Ireland at the moment, and as also stated by Irish Life, the heads of the Bill are silent on what happens to the State contribution in the scenario of a credit scheme.

In submissions received by the Committee on the general scheme of this bill, Aon[10] have agreed with the ultimate total contribution rate of 14% being sufficient for most employees to provide an adequate post retirement income, also allowing for the State pension, but Aon are of the opinion that phasing in over 10 years is quite a long phase-in period. They believe consideration should be given to reducing the 10-year phasing period, and also introducing an option for employees to made additional voluntary contributions to make up for career gaps, and to give them flexibility to increase their overall retirement savings.

However, in their submission to the Committee IBEC[11] feels that in comparison with auto-enrolment schemes in Australia, New Zealand, Poland and the UK, the overall contribution rate is high, and that the introduction of a State top up contribution approach alongside the current system of tax reliefs as proposed in the General Scheme, will add further complexity to the system.

In their public consultation with the Committee, IBEC discussed addition voluntary contributions and the gender challenge it will bring. They mention that pension coverage and pensions adequacy among females are considerably insufficient in comparison to those among males in the working population. IBEC conveys their hopes that auto-enrolment will help to address that issue, but the lack of flexibility on additional contributions will not help in terms of pension adequacy where people may have had several years out of employment and are essentially trying to play catch-up. Stressing the urgency of addressing gender inequality in pensions adequacy, notwithstanding that auto-enrolment will be a significant support in terms of pensions coverage from a gender perspective.

Observations and Recommendations

[10] AON Submission
[11] IBEC Submission

3. The Committee recommends that the Department should revert to the proposal as set out within the Pensions Strawman and allow flexibility of contribution levels by employees and employers beyond the statutory minimum.
4. The Committee recommends that there be a provision for a state incentive during periods of maternity leave, and also one that would allow efficient tax mechanism for partners to make contributions when on unpaid leave.
5. The Committee recommends that when participants are auto enrolled, they should be given a sample of the likely pension they will receive on retirement in real terms by adjusting for inflation

Key Issue 3 – Opting out, Re-Enrolment and Savings Suspension

Head 6 concerns voluntary participation – the right to opt-in. This head provides that any employee between 16 and 22 or over 60, who is not an actively contributing member of a qualifying occupational pension scheme, an employee who is not an actively contributing member of a qualifying occupational pension scheme in any one of their employments and whose annual gross earnings are below €20,000, and an employee who has previously opted out, may make an application to the Central Processing Authority to become participants to the automatic enrolment retirement savings scheme.

Part 4 of the General Scheme relates to opting out and savings suspension. Head 10 sets out the provisions for opting-out of the retirement savings scheme, and it provides that employees may opt-out following enrolment or re-enrolment, provided that the employees remain in the scheme for six months after enrolment or re-enrolment (mandatory participation period). Employees may opt-out in months 7 and 8 following enrolment or re-enrolment (the opt-out window). Subhead 4 states that employees who opt-out and continue to satisfy the criteria set out in this Act shall be automatically re-enrolled after two years from the date of their opt-out, after which they may opt out again.

The Departments explanatory note explains that the aim of the auto-enrolment opt-out option is to maximise participation without imposing compulsion, which is achieved by allowing limited access to opt-out periods so that employees are not forced to stay in the scheme. For auto-enrolment to remain quasi-mandatory in nature, there needs to be a choice for employees to opt-out of the scheme, even if it is only offered for a short time.

Head 11 provides that employees may suspend their contributions to the system and these suspension periods can be taken at any time, except for during the mandatory participation period, and savings suspension periods shall last a minimum of 1 year and a maximum of 2 years, after which the employee will be re-enrolled automatically. This provision of a savings suspension period provides a certain amount of flexibility and choice in the retirement savings system to allow for a change in certain circumstances in the lives of the employee, for example, to save for a first home, unmanageable debt, and Ill health/disability, to name a few.

In their submission to the Committee, AON conveyed that they are in favour of having an 'opt-out' and a savings suspension facility to offer flexibility for members but would also be very much in favour of participants being re-enrolled after two years to ensure those members have to continue to make an active choice not to participate.

Citizens Information Board (CIB) feel that in order for auto-enrolment to remain quasi-mandatory in nature, there does need to be options for employees to opt-out of the scheme, but the process for re-entering the scheme needs to be easily accessible and attractive to employees.

ICTU, in their submission to the Committee, suggested that the proposed opt-out, re-enrolment and savings suspension facilities be merged and replaced by a 'contribution holiday' which would be limited to a definite period of time, which could be claimed as a single continuous period or a number of separate periods of time, while employer and state contributions would continue. ICTU also suggested in their submission that the minimum period for unbroken participation in the retirement savings scheme be increased to 12 months.

Observations and Recommendations

6. The Committee recommends that discretion should be exercised by the Central Processing Agency to consider periods of savings suspensions to coincide with instances of, for example, over indebtedness, maternity leave, bereavement, illness, and unpaid caring. Savings suspensions could be for a pre-determined period, after which contribution deductions would recommence.

Key Issue 4 – Registered Providers/Central Processing Authority

Head 13 of the General Scheme of the Retirement Savings System Bill provides for the establishment of a body known as the Central Processing Authority. Head 15 outlines the responsibilities and functions of the Central Processing Authority (CPA) The purpose of the CPA is to act as the custodian of the auto-enrolment system in order to provide participants or their dependants or legal personal representatives with relevant benefits accrued under the AE retirement savings system. This Head states that the CPA shall, at all times, exercise fiduciary responsibilities in discharging its function, and the money and other assets from time to time held by the CPA on behalf of participants in the AE retirement savings system, shall constitute the Fund of the Scheme.

In their submission to the Committee, Irish Life suggest that rather than the CPA acting as the gate holder, they feel it would make more sense if the Revenue Commissioner were the primary point of engagement for employers as they feel the Revenue Commissioners are best placed to assess if employees' earnings in aggregate are breaching the salary thresholds and then to instruct those deductions be made. Irish Life, in their submission, acknowledge that some of Central Agency would be required, but after having studied the system in New Zealand, they believe that an expansion of the role of the Revenue Commissioners could be the most efficient, least costly, and least administratively burdensome for both employers and the State.

Similarly, IBEC accepts the rationale for a State-run administration system working with a small number of private providers, however, they state that the CPA is a large and potentially expensive infrastructure project, which should be subject to an appropriate cost benefit analysis. They echo Irish Life's sentiments in saying that

Revenue has well-established expertise and experience in collecting both tax and social insurance contributions. It can systematically deliver to employees across multiple employers under one structure. IBEC also feel the Revenue Commissioners are in the best position to accommodate other potential AE savers, such as self-employed and home carers.

Irish Institute of Pensions Management and Insurance Ireland, in their submissions to the Committee, feel that the creation of the Central Processing Agency to act as the State monopoly on auto enrolment is a significant change from what was originally proposed in the Pensions Strawman. They told the Committee that since the Strawman proposal, the Central Processing Authority was broadened out and became a bigger structure and a bigger authority. They said that in effect, it is becoming a pension provider.

The Pensions Authority also mentioned in their public consultation with the Committee the changes of the role and functions of the CPA between the original strawman and the draft Bill. They believe that it will bring additional complexity in terms of establishment. They feel it would mean significant technological and substantial administrative investment.

ICTU provided the Committee with some rationale behind the decision to hand the services over to a private provider like the CPA. When looking internationally, ICTU showed the Committee that none of the international retirement savings schemes give it wholly over to a state-run provider of pensions. Australia has no state involvement whatsoever. New Zealand has a mix of private, not-for-profit, and for-profit providers. ICTU are of the opinion that the Central Processing Authority is a good thing, and it is good that it will be independent in its function, but the governance of it must be done in such a manner and it must take such a form that people have confidence that there is no potential for bad practice within the CPA.

The Department touched on this point when they came before the Committee and stated that the CPA will have a fiduciary duty to act in the best interests of the participants of the scheme, which means it will be compelled under this law, pensions law generally and European pensions law to ensure it is able to get the best return for the investment.

When the Department[12] came before the Committee a second time, they addressed concerns around the rationale and proposed format for the Central Processing Authority and told the Committee that the CPA is proposed to be established as a statutory independent body, which will be accountable to Government. It will act as a custodian acting in the sole interests of the AE members. This means that it will be a buffer between the participants who are some of the lowest income individuals in the State, and the pensions and financial services industry.

Observations and recommendations

7. The Committee recommends that all the guidance, rules, and consumer protections applicable to pensions providers as issued by the Central Bank of Ireland be equally afforded and implemented to auto enrolment members i.e., ongoing financial, lifetime advice.

8. The Committee recommends having employee and employer representatives on the board of the CPA.

Key Issue 5 – 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 are 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.

In their public consultation with the Committee, Insurance Ireland raised the issue that the general scheme lacks sufficient detail on what will happen for scheme members on their retirement. The automatic enrolment system expects employees to invest in a pension with no knowledge of how they will be able to access their fund when they need it. Such uncertainty adds to Insurance Ireland's considerable

[12] Department of Social Protection Submission of supplementary information

concerns about the new regime. With this autoenrollment scheme, individuals are being asked to start investing into a pension at 23 years with no sight of how they will access their fund. At this point they have no sight on how, whether it will be an annuity, an accrued retirement fund or something else altogether. They feel that a "start now and fix it later" approach is not optimal.

ICTU also discussed the lack of legislation around draw down options in their public consultation with the Committee. They told the Committee that the Department has delayed making a decision on how it will be paid, given that it will first of all, take ten years to build up to the situation whereby people will be paying full contributions. For that first ten years, individuals will not have a big enough pension pot to do anything with it, other than take it in a lump sum. 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 of death. They recommend provisions 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 their death.

Contrary to ICTU, in their submission to the Committee, AON feel that it is not critical to have a pensions drawdown structure in place at the outset of the system, given the very small pension pots which will be in place at the outset, but feel that over the long term, it is crucial to have this facility integrated into the AE Retirement Savings System.

LGIM welcome the future focus on making drawdown available to the scheme as soon as possible after launch. They state that if appropriate investment options are aligned to a drawdown position at retirement and provide for "to and through" retirement solutions, this can avoid the need for investment changes at the point of accessing benefits and associated transaction costs.

The Department came before the Committee on the auto-enrolment retirement savings system bill and provided them with the rationale for the omission of a draw-down process within the general scheme. The department told the Committee that no-one will have built a sufficiently large pot for any kind of major pension product for a minimum of six years and, for the vast majority of people who will be in the scheme, it will take much longer than that. The department also expect there to be significant marker innovation between now, and ten, 12, or 15-years' time. The Department feel that it would be folly to design it now, as it is not needed, and it will change significantly.

Observations and recommendations

9. The Committee recommends that a drawdown fund be developed to accommodate members post retirement choices.

Key Issue 6 – Investment Arrangements

Part 8 of the General Scheme concerns Investment Profiles available to AE Participants, with Head 33 providing for the design of the default fund, stating that the CPA shall prepare a default investment strategy and shall provide a default fund for the investment of contributions. This default fund will be linked to good practice for investment for retirement. While participants will be able to choose a savings fund, in the absence of any savings decision, the enrolled employee will be automatically allocated by the CPA to the default fund.

Head 34 provides for the design of the alternative funds and states that the CPA shall prepare a range of investment strategies and shall provide at least the following three alternative funds which employees may choose from for the investment of contributions –

i. A conservative, low risk fund.
ii. A moderate risk fund.
iii. A higher risk fund.

These alternative investment options differ from the default fund in terms of asset allocation, risk level and composition. The number of alternative investment funds will be limited, with the intention of making the system simpler for participants who wish to choose.

Head 35 of the General Scheme allows for auto-enrolled participants who want to, can change to an alternative fund offered under the AE. The CPA will implement the default investment strategy in respect of each employee except where an employee elects not to have the default investment strategy applied to the retirement savings fund to which the employee contributes to, in which case the employee may choose one of the alternative investment strategies provided.

ICTU explained to the Committee that under the proposed scheme, everyone will be offered four types of products, namely, products that give high, moderate, or low risks on return and, if people do not decide about the level of risk, they will be offered a life-cycle product. The age of the person going into auto-enrolment will be considered and people in their 50s will be offered a low-risk product because if the market and investments hit a bump, they do not have enough years to recover that money. ICTU also stated that the number of providers being limited to four, means that they will be guaranteed a large part of the market share.

In their public consultation with the Committee, Irish Life raised the concern of too many fund choices. They used the Swedish model as an example, which took a long time to get to market and had a fund supermarket of 200 funds. Irish Life recommend that there would be no more than eight fund choices for the Irish AE system.

The Committee have raised concerns in a number of public consultations on whether the CPA will be insisting on ethical investments. They questioned whether investments in fossil fuels and the arms industry would be allowed. ICTU responded to the Committee regarding ethical investment and stated that that would be a matter for both the CPA and the tendering process to put limits on what can be done with the money. They also stated that it would be a matter for pension providers, where one provider may want to make its unique selling point that it will only do ethical, green investments.

In the engagement with Insurance Ireland, the Committee also raised concerns regarding investment and stated that from their understanding, the witness's stated that in Ireland they tend to opt for German state bonds rather than Irish state bonds even though the yield from an Irish bond is greater than a German bond because some risk is perceived there. The Committee asked Insurance Ireland if they could explain what is happening in Ireland in terms of the investment. Following their consultation with the Committee, Insurance Ireland provided the Committee with information regarding the query raised regarding investment within Ireland compared to foreign investment. This information showed that Policyholder's funds invested in Ireland increased from 19.4% in 2016 to 22.4% in 2020. It showed that approximately 78% of assets by value are foreign.[13]

The Department discussed the issue of investments when they first came before the Committee on the AE Bill, and they outlined that the principles set out in the legislation effectively mirror what is already in the Pensions Act with respect to ESG principles. The procurement process the CPA will operate to get investment managers will also reflect these principles. They also state that when it comes to investing in the country, they run into tension between the fiduciary duty to get the very best return for the members within ESG principles and supporting activities and initiatives in the nation.

Observations and recommendations

10. The Committee recommends that Automatic Enrolment be covered by a strong governance framework, incorporating annual evidence-based reviews.
11. The Committee recommends that investment advice be offered to all AE members to allow them to select the most appropriate fund for their age, gender, financial position, and circumstances.
12. The Committee recommends that clarity be provided on the form of taxation to be applied to pension pots in retirement so that members can make proper provision for the future over the long term.
13. The Committee recommends that investment 'good practice' should include consideration of sustainability and environmental, social and governance factors and this should be explicitly stated in the Bill.
14. The Committee recommends that an examination be carried out as to why only 20% of Investments by Irish Pension funds are invested in Irish equities and bonds and whether there should be a mandatory minimum of auto-enrolment

[13] Insurance Ireland Factfile 2020

funds invested in Ireland to ensure that this country benefits economically from these very large funds"

15. The Committee recommends that the investment funds be prohibited from investing in fossil fuels or the arms industry.
16. The Committee recommends that a minimum percentage of the funds should be invested in Irish renewable energy developments in order to ensure our Climate Action obligations. As with without achieving these, the future of all pension funds will be at risk from climate change

Key Issue 7 – Waiting Period

Head 5 of the General Scheme provides for no waiting period and states that contributions made in respect of an employee enrolled into the retirement savings scheme shall be collected as soon as practicable, pending an assessment of an employee's earnings. The explanatory note that accompanies this head says that once an employee is deemed eligible, the employee will be automatically enrolled into the retirement savings system and the deduction of contributions will commence. The rationale for this provision is linked to the need for employees to consistently save for their retirement.

In their engagement with the Committee, the ESRI mentioned briefly that the first six-months of auto-enrolment is an attempt to bed things in for people and to try get them to stay. They tell the Committee, that from a practical point of view, contributing from the very beginning of enrolment may make it easier for young people to remain enrolled, as they may never notice it. Contrary to the ESRI, in their public consultation with the Committee, IBEC made it clear that they do not agree with the fact that there is no waiting period. They do not agree with the general scheme's rationale behind no waiting periods, which precludes the use by employers of probationary periods or short temporary contracts as a means of avoiding auto-enrolment obligations. They told the Committee that many occupational pension schemes including waiting times, which are aligned with the probationary period specified in the contracts, whereas the proposed General Scheme is inconsistent with this practice. IBEC also feel that if the scheme is adopted as is, head 5 could create an anomaly whereby a new employee would be required to enrol in the auto-enrolment system and then switch to an occupational pension scheme. IBEC has also asked the Committee to support their request for a two-year lead-in period from the Bill being passed and signed, to allow businesses to be ready.

Observations and recommendations

17. The Committee recommends that there is a two-year lead-in period following the Bill being passed and signed, to allow business to be ready for the implementation.
18. The Committee recommends that head 5 be carefully drafted to ensure that workers are not required to spend a short time in the AE system if they will be joining an occupational pension as part of their employment within 12 months.

Key Issue 8 – Management fees

Part 18 of the general scheme relates to auto-enrolment fees and charged, with head 64 providing for the maximum direct cost charge to the participant to be capped and states that the total amount of all charges made to the assets of an employee's auto-enrolment retirement savings fund shall be calculated as a percentage of the value of those assets at a rate that shall not exceed a limit to be set by the Minister in regulations.

The initial strawman proposal had the cap for fees at 0.5% but as Irish Life pointed out in their engagement with the Committee, the general scheme did not specify a cap for fees. Irish Life feel that the 50-basis-points fee is at a good level, and they would be supportive of it, and it compares favourable internationally. Irish Life also made the point that if the State are taking on the cost of the full build of an end-to-end pension system, and if members pay 0.5% per annum on that, it will take a long time for that to recover the cost of the build. Irish Life stated that it would be important that members do not pick up that cost if that is the way things go.

When the ESRI came before the Committee, they stated that the key issue when discussing fees, is that the fees charged are as low as possible, because they are talking about a group that are not overly attentive to their pension affairs. For many people, paying for the management of a private pension is the biggest purchase they will make in life after buying a house. They told the Committee that it is clear from the research that unlike estate agent fees or those associated with many less important purchases, pension management fees are not very salient, and savers appear to face large switching costs. They feel that is a good case for ensuring that the fees associated with the schemes into which individuals are defaulted are capped at the minimum level required to cover costs. The ESRI mentioned the annual management charge of Nest Pensions, which is 0.3%, which provides an idea for what has been done in the UK with a similar motivation.

The ESRI feel that if it is the CPA who sets the fee level, it should be set on a bottom-up basis. The costs that must be covered should be considered and what level of fees that equates to. The key points the ESRI were making in terms of fees, was that they need to be as low as possible, because the fees do stack up and can become quite a large share of people's pension savings.

Observations and recommendations

19. The Committee recommends that the total amount of all charges should equate to a maximum of 0.5%.

Key Issue 9 – Taxation of Automatic Enrolment

Through their discussion with the Department of Social Protection, the Committee addressed the different tax treatment between contributions to the Auto Enrolment scheme and contributions to conventional pension schemes.

The Committee conveyed their concerns regarding the anomaly between both tax treatments and provided the following worked example.

Amount of gross income applied to pension €100
Take-home pay surrendered €60
(a) Under the AE proposal the €60 take home pay is invested in the pension fund and 1/3d i.e., €20 is added by the government as a top-up giving a final addition to the pension fund of €80.

(b) Under conventional the €100 gross income would directly be added to the pension fund.

Summary: for the same surrender of take-home pay (€60) a conventional arrangement would give a 25% higher addition (€100) to the pension fund than would be the case for AE (€80).

The Department disagreed with the Committee's example and in turn, provided the Committee with the following example of how this can be broken down.

Amount of gross wages per week €1,000
Take home pay before contribution to pension €600
Amount of income applied to pension €60 out of take-home pay leaving take-home pay of €540
(a) Under the AE proposal the €60 take home pay is invested in the fund and 1/3d i.e. €20 is added by the government as a top-up giving a final addition to the pension fund of €80.

(b) To get the same €80 increase in fund under conventional the €80 of gross income would directly be added to the pension fund. This would reduce take-home pay by 60% of €80 i.e., €48 leaving a final take-home pay of €552

Summary: for the same addition to the pension fund (€80) the surrender of take-home pay under AE (€60) would be 25% higher than under conventional (€48).

A submission sent to the Committee also discussed this anomaly and the EET system.

This submission stated that the fact that people paying 40% tax should get 40% tax relief is consistent with the EET approach to funding for pensions, which is: tax exempt on the contributions, tax exempt on the investments and taxed on the pension in payment. They told the Committee through their submission that the rationale for EET is that funding for a pension in effect defers current income while working so that is becomes income in retirement instead, and therefore should be taxed when received as a pension and exempt from current taxation.

For those who get 40% current relief and pay 40% tax on their pension this is neutral (ignoring PRSI and USC effects). Those in the €49k to €80k bracket would currently get 40% relief on their contributions but they will probably be in lower tax bands when they receive their pension. That will leave AE at a very significant disadvantage compared to conventional for workers paying tax at the higher rate.

There were a small number of proposed solutions to this 25% anomaly that can be seen in both worked examples.

The ESRI suggested that Auto Enrolment should get tax relief, the same as a conventional pension, instead of a “1 for 3” top up. However, this would result in many low earners receiving little or no tax incentive when that cohort are the main target for the Auto Enrolment initiative. Irish Life also suggested that AE should be subject to the same tax treatment as conventional pension schemes, but that the “1 for 3” top-up for low earners should be achieved by tax credits.

Through this submission, another solution to this anomaly was provided, which is that the “1 for 3” top up should be retained and operated outside the tax system. It stated that every employee contribution to the AE fund should be topped up by the State by 1 for 3, but that AE should also be entitled to tax relief in the same way as conventional. It also stated that in order to prevent double incentivisation, there should be a negative tax credit equal to the AE top-up but not greater than the conventional tax relief.

Observations and recommendations

20. The Committee recommends that the Department carefully consider tax relief in the General Scheme of the Autoenrollment Bill and its impacts on the wider pension system.
21. The Committee recommends that the State Pension should either be statutorily linked to the Consumer Price Index or a percentage of the Living Wage to ensure the real value of the State pension is not eroded as auto-enrolment is rolled out

APPENDIX 1 – Orders of Reference

Scope and context of activities of Select Committees (DSO 94 and SSO 70)

DSO 94

1) The Dáil may appoint a Select Committee to consider and, if so permitted, to take evidence upon any Bill, Estimate or matter, and to report its opinion for the information and assistance of the Dáil. Such motion shall specifically state the orders of reference of the Committee, define the powers devolved upon it, fix the number of members to serve on it, state the quorum, and may appoint a date upon which the Committee shall report back to the Dáil.

2) It shall be an instruction to each Select Committee that –

   a) It may only consider such matters, engage in such activities, exercise such powers, and discharge such functions as are specifically authorised under its orders of reference and under Standing Orders;
   b) Such matters, activities, powers, and functions shall be relevant to, and shall arise only in the context of, the preparation of a report to the Dáil;
   c) It shall not consider any matter which is being considered, or of which notice has been given of a proposal to consider, by the Joint Committee on Public Petitions in the exercise of its functions under Standing Order 125(1); and
   d) It shall refrain from inquiring into in public session or publishing confidential information regarding any matter if so requested, for stated reasons given in writing, by –
      i. A member of the Government or a Minister of State, or
      ii. The principal office – holder of a state body within the responsibility of a Government Department or
      iii. The principal officer – holder of a non – State body which is partly funded by the State,

Provided that the Committee may appeal any such request made to the Ceann Comhairle, whose decision shall be final.

3) It shall be an instruction to all Select Committees to which Bills are referred that they shall ensure that not more than two Select Committees shall meet to consider a Bill on any given day, unless the Dáil after due notice to the Business Committee by a Chairman of one of the Select Committees concerned, waives this instruction.

SSO 70

1) The Seanad may appoint a Select Committee to consider any Bill or matter and to report its opinion for the information and assistance of the Seanad and, in the case of a Bill, whether or not it has amended the Bill. Such motion shall specifically state the orders of reference of the Committee, define the powers devolved upon it, fix the number of members to serve on it, state the quorum thereof, and may appoint a date upon which the Committee shall report back to the Seanad.

2) It shall be an instruction to each Select Committee that –

    a) It may only consider such matters, engage in such activities, exercise such powers, and discharge such functions as are specifically authorised under its orders of reference and under Standing Orders;
    b) Such matters, activities, powers, and functions shall be relevant to, and shall arise only in the context of, the preparation of a report to the Seanad;
    c) It shall not consider any matter which is being considered, or of which notice has been given of a proposal to consider, by the Joint Committee on Public Petitions in the exercise of its functions under Standing Order 108 (1); and

d) It shall refrain from inquiring into in public session or publishing confidential information regarding any matter if so requested, for stated reasons given in writing, by –
    i. A member of the Government or a Minister of State, or
    ii. The principal officeholder of a State body within the responsibility of a Government Department, or
    iii. The principal officeholder of a non-State body which is partly funded by the State,

Provided that the Committee may appeal any such request made to the Cathaoirleach, whose decision shall be final.

Functions of Departmental Select Committees (DSO 95 and SSO 71)

DSO 95

1) The Dáil may appoint a Departmental Select Committee to consider and, unless otherwise provided for in these Standing Orders or by order, to report to the Dáil on any matter relating to—

    a) legislation, policy, governance, expenditure, and administration of—
        i. a Government Department, and
        ii. State bodies within the responsibility of such Department, and
    b) That performance of a non – State body in relation to an agreement for the provision of services that it has entered into with any such Government Department or State body.

2) A Select Committee appointed pursuant to this Standing Order shall also consider such other matters which –

    a) Stand referred to the Committee by virtue of these Standing Orders or statute law, or
    b) Shall be referred to the Committee by order of the Dáil.

3) The principal purpose of Committee consideration of matters of policy, governance, expenditure, and administration under paragraph (1) shall be –

   a) For the accountability of the relevant Minister or Minister of State, and
   b) To assess the performance of the relevant Government Department or of a State body within the responsibility of the relevant Department, in delivering public services while achieving intended outcomes, including value for money.

4) A Select Committee appointed pursuant to this Standing Order shall not consider any matter relating to accounts audited by, or reports of, the Comptroller and Auditor General unless the Committee of Public Accounts –

   a) Consents to such consideration, or
   b) Has reported on such accounts or reports.

5) A Select Committee appointed pursuant to this Standing Order may be joined with a Select Committee appointed by Seanad Éireann to be and act as a Joint Committee for the purposes of paragraph (1) and such other purposes as may be specified in these Standing Orders or by order of the Dáil: provided that the Joint Committee shall not consider –

   a) The Committee Stage of a Bill,
   b) Estimates for Public Services, or
   c) A proposal contained in a motion for the approval of an international agreement involving a charge upon public funds referred to the Committee by order of the Dáil.

6) Any report that the Joint Committee proposes to make shall, on adoption by the Joint Committee, be made to both Houses of the Oireachtas.

7) The Chairman of the Select Committee appointed pursuant to this Standing Order shall also be Chairman of the Joint Committee.

8) Where a Select Committee proposes to consider –

   a) EU draft legislative acts standing referred to the Select Committee under Standing Order 133, including the compliance of such acts with the principal of subsidiarity,
   b) Other proposals for EU legislation and related policy issues, including programmes, and guidelines prepared by the European Commission as a basis of possible legislative action,
   c) Non-legislative documents published by any EU institution in relation to EU policy matters, or
   d) Matters listed for consideration on the agenda for meetings of the relevant Council (of Ministers) of the European Union and the outcome of such meetings,

The following may be notified accordingly and shall have the right to attend and take part in such consideration without having a right to move motions or amendments or the right to vote:

   i. Members of the European Parliament elected from constituencies in Ireland,
   ii. Members of the Irish delegation to the Parliamentary Assembly of the Council of Europe, and
   iii. At the invitation of the Committee, other members of the European Parliament.

9) A Select Committee appointed pursuant to this Standing Order may, in respect of any Ombudsman charged with oversight of public services within the policy remit of the relevant Department consider –
   a) Such motions relating to the appointment of an Ombudsman as may be referred to the Committee, and
   b) Such Ombudsman reports laid before either or both Houses of the Oireachtas as the Committee may select: Provided that the provisions of Standing Order 130 apply where the Select Committee has not

considered the Ombudsman report, or a portion or portions thereof, within two months (excluding Christmas, Easter, or summer recess periods) of the report being laid before either of both Houses of the Oireachtas.

SSO 71

1) The Seanad may appoint a Departmental Select Committee to consider and, unless otherwise provided for in these Standing Orders or by order, to report to the Seanad on any matter relating to –

    a) Legislation, policy, governance, expenditure, and administration of –
        i. A Government Department, and
        ii. State bodies within the responsibility of such Department, and
    b) The performance of a non – State body in relation to an agreement for the provision of services that it has entered into with any such Government Department or State body.

2) A select Committee appointed pursuant to this Standing Order shall also consider such other matters which –

    a) Stand referred to the Committee by virtue of these Standing Orders or statute law, or
    b) Shall be referred to the Committee by order of the Seanad.

3) The principal purpose of Committee consideration of matters of policy, governance expenditure and administration under paragraph (1) shall be –

    a) For the accountability of the relevant Minister or Minister of State, and
    b) To assess the performance of the relevant Department, in delivering public services while achieving intended outcomes, including value for money.

4) A Select Committee appointed pursuant to this Standing Order shall not consider any matter relating to accounts audited by, or reports of, the Comptroller and Auditor General unless the Committee of Public Accounts –

   a) Consents to such consideration, or
   b) Has reported on such accounts or reports

5) A Select Committee appointed pursuant to this Standing Order may be joined with a Select Committee appointed by Dáil Éireann to be and act as a Joint Committee for the purposes of paragraph (1) and such other purposes as may be specified in these Standing Orders or by order of the Seanad: provided that the Joint Committee shall not consider –

   a) The Committee Stage of a Bill,
   b) Estimate for Public Services, or
   c) A proposal contained in a motion for the approval of an international agreement involving a charge upon public funds referred to the Committee by order of the Dáil.

6) Any report that the Joint Committee proposes to make shall, on adoption by the Joint Committee, be made to both Houses of the Oireachtas.

7) The Chairman of a Joint Committee pursuant to this Standing Order shall be a member of Dáil Éireann.

8) Where a Select Committee proposes to consider –

   a) EU draft legislative acts standing referred to the Select Committee under Standing Orde 116, including the compliance of such acts with the principal of subsidiarity,
   b) Other proposals for EU legislation and related policy issues, including programmes and guidelines prepared by the European Commission as a basis of possible legislative action,

c) Non-legislative documents published by any EU institution in relation to EU policy matters, or
d) Matters listed for consideration on the agenda for meetings of the relevant EC Council (of Ministers) of the European Union and the outcome of such meetings,

The following may be notified accordingly and shall have the right to attend and take part in such consideration without having a right to move motions or amendments or the right to vote:

i. Members of the European Parliament elected from constituencies in Ireland,
ii. Members of the Irish delegation to the Parliamentary Assembly of the Council of Europe, and
iii. At the invitation of the Committee, other members of the European Parliament.

9) A Select Committee appointed pursuant to this Standing Order may, in respect of any Ombudsman charged with oversight of public services within the policy remit of the relevant Department consider –

a) Such motions relating to the appointment of an Ombudsman as may be referred to the Committee, and
b) Such Ombudsman reported laid before either or both Houses of the Oireachtas as the Committee may select: Provided that the provisions of Standing Order 113 apply where the Select Committee has not considered the Ombudsman report, or a portion or portions thereof, within two months (excluding Christmas, Easter, or summer recess periods) of the report being laid before either or both Houses of the Oireachtas.

Powers of Select Committees (DSO 96 and SSO 72)

Unless the Dáil shall otherwise order, a Committee appointed pursuant to these Standing Orders shall have the following powers:

1) Power to invite and receive oral and written evidence and to print and publish from time to time –

    a) Minutes of such evidence as was heard in public, and
    b) Such evidence in writing as the Committee thinks fit.

2) Power to appoint sub-Committees and to refer to such sub-Committees any matter comprehended by its orders of reference and to delegate any of its powers to such sub-Committees, including power to report directly to the Dáil/Seanad.

3) Power to draft recommendations for legislative change and for new legislation.

4) In relation to any statutory instrument, including those laid or laid in draft before either or both Houses of the Oireachtas, power to –

    a) Require any Government Department or other instrument-making authority concerned to –
        i. Submit a memorandum to the Select Committee explaining the statutory instrument, or
        ii. Attend a meeting of the Select Committee to explain any such statutory instrument: Provided that the authority concerned may decline to attend for reasons given in writing to the Select Committee, which may report thereon to the Dáil/Seanad, and
    b) Recommend, where it considers that such action is warranted, that the instrument should be annulled or amended.

5) Power to require that a member of the Government or Minister of State shall attend before the Select Committee to discuss –

    a) Policy, or

b) Proposed primary or secondary legislation (prior to such legislation being published),

For which he or she is officially responsible: Provided that a member of the Government or Minister of State may decline to attend for stated reasons given in writing to the Select Committee, which may report thereon to the Dáil: and provided further that a member of the Government or Minister of State may request to attend a meeting of the Select Committee to enable him or her to discuss such policy or proposed legislation.

6) Power to require that a member of the Government or Minister of State shall attend before the Select Committee and provide, in private session if so requested by the attendee, oral briefings in advance of meetings of the relevant EC Council (of Ministers) of the European Union to enable the Select Committee to make known its views: Provided that the Committee may also require such attendance following such meetings.

7) Power to require that the Chairperson designate of a body or agency under the aegis of a Department shall, prior to his or her appointment, attend before the Select Committee to discuss his or her strategic priorities for the role.

8) Power to require that a member of the Government or Minister of State who is officially responsible for the implementation of an Act shall attend before a Select Committee in relation to the consideration of a report under DSO 197/ SSO 168.

9) Subject to any constraints otherwise prescribed by law, power, to require that principal officeholders of a –

a) State body within the responsibility of a Government Department or
b) Non-State body, which is partly funded by the State,

Shall attend meetings of the Select Committee, as appropriate, to discuss issues for which they are officially responsible: Provided that such an officeholder may decline to attend for stated reasons given in writing to the Select Committee, which may report thereon to the Dáil/Seanad; and

10) Power to –

a) Engage the services of persons with specialist or technical knowledge, to assist it or any of its sub-Committees in considering particular matters; and
b) Undertake travel.

Provided that the powers under this paragraph are subject to such recommendations as may be made by the Working Group of Committee Chairmen under DSO 120 (4)(a)/SSO 107 (4)(a)

APPENDIX 2 – Links to Meeting Transcripts

1. 7 December 2022 – Irish Congress of Trade Unions

2. 14 December 2022 –The Department of Social Protection

3. 18 January 2023 – Irish Life & The Pensions Authority

4. 25 January – IBEC

5. 8 February – Insurance Ireland & ESRI

6. 15 February – The Department of Social Protection

APPENDIX 3 – Links to Submissions and Opening Statements

List of submissions received by the Joint Committee

1. LGIM submission received 18 November 2022, available here.
2. SSGA submission received 18 November 2022, available here.
3. Aon submission received 18 November 2022, available here.
4. ICTU revised submission received 21 November 2022, available here.
5. Colm Fagan submission received 24 November, available here.
6. Society of Actuaries submission received 25 November, available here.
7. Brokers Ireland submission received 25 November, available here.
8. IBEC submission received 25 November, available here.
9. Irish Association of Pension Funds submission received 25 November 2022, available here.
10. Mercer submission received 25 November 2022, available here.
11. Insurance Ireland submission received 25 November 2022, available here.
12. Irish Life submission received 25 November 2022, available here.
13. Association of Pension Lawyers in Ireland submission received 25 November 2022, available here.
14. Irish Institute of Pensions Management submission received 25 November 2022, available here.
15. Social Justice Ireland submission received 9 December 2022, available here.
16. Chambers Ireland submission received 9 December 2022, available here.
17. Association of Pension Trustees in Ireland submission received 10 December 2022, available here.

18. Citizen's Information Board submission received 13 December 2022, available here.
19. Small Firms Association submission received 21 March 2023, available here.
20. Department of Social Protection supplementary information received 14 March 2023, available here.

Opening Statements provided to the Committee

1. Dr. Laura Bambrick, Irish Congress of Trade Unions, 7 December 2022, available here.
2. Tim Duggan, Department of Social Protection, 14 December 2022, available here.
3. Dr. David Begg, The Pensions Authority, 18 January 2023, available here.
4. Declan Bolger, Irish Life Group, 18 January 2023, available here.
5. Fergal O'Brien, IBEC, 25 January 2023, available here.
6. Moyagh Murdock, Insurance Ireland, 8 February 2023, available here.
7. Dr Barra Roantree and Dr. Claire Keane, ESRI, 8 February, available here.
8. Tim Duggan, Department of Social Protection, 15 February 2023, available here.

APPENDIX 4 – Report completed by expert consultations on behalf of the Committee

Report to the Joint Committee on Social Protection, Community and Rural Development and the Islands

General Scheme of the Automatic Enrolment Retirement Savings System Bill 2022

Authors	Karen Anderson, Matthew Donoghue, and Hayley James School of Social Policy, Social Work and Social Justice University College Dublin
Version	Draft
Date	6th March 2023

Executive Summary

This report has been prepared to support the Joint Committee on Social Protection, Community and Rural Development and the Islands in undertaking Pre-Legislative Scrutiny of the Automatic Enrolment Retirement Savings System Bill in early 2023.

Drawing on our expertise in international and comparative social policy research, we have undertaken a comparative analysis of the relative merits and demerits of supplementary pension savings system design covering the UK, New Zealand, Denmark, and Sweden; a summary of alternative interventions which could achieve the same or similar ends; an analysis of perspectives on system structures and a high-level assessment of the gender and equality impact of the proposed automatic enrolment scheme.

In Ireland currently, large groups of citizens (especially workers in the private sector) lack any form of earnings-related pension provision to complement the flat-rate benefits provided by the state pension. The proposed legislation for automatic enrolment will extend the coverage of capital funded defined contribution (DC) pensions to these groups, an estimated 750,000 eligible workers in Ireland. They will benefit from contributions from the employer and the state, with an option to optout if they do not wish to save through automatic enrolment. For employers, while the automatic enrolment scheme will increase costs, it offers a lower burden of administration and limits the employers' responsibility compared to setting up their own scheme. There may be positive implications for staff in terms of recruitment, retention, and morale.

Additionally, the proposed CPA model allows the government to maintain control over the scheme and thus offers an effective approach to the functioning of the automatic enrolment scheme. The outstanding questions about how the CPA will function in the regulatory and supervisory framework may not need to be answered during the legislative process, although there is consensus that the process of setting up the CPA may take longer than the period allowed for it.

However, there are concerns about the extent to which automatic enrolment will deliver sufficient pots for later life. Proposed contributions levels are higher than those in the UK and New Zealand, yet, as evidence from these countries confirms, the scheme will replicate labour market inequalities, meaning that anyone who is disadvantaged in the workplace will benefit less from automatic enrolment than peers who are on better terms and conditions. The analysis of the gender and equality impact of the automatic enrolment challenges the extent to which the scheme will deliver adequate pensions for women and other disadvantaged groups, and whether this will lead to sustainable pensions for those individuals and their families in the future.

The experience of other advanced industrial democracies suggests several alternative interventions that could achieve the goals identified in the auto-enrolment legislation: statutory earnings-related pension insurance; mandated earnings-related pension insurance; supplementary basic pension provision; and raising the contributory state pension. We conclude that none of these alternatives is suitable for Ireland, largely because of the political and procedural obstacles to layering (quasi-) mandatory arrangements onto existing statutory and workplace pension schemes.

To ensure adequacy and fairness, the auto-enrolment scheme should be as widespread as possible, although there is a need to iron out any perverse interactions with welfare that may arise. Other recommendations to improve the gender and equality impact of the scheme include: de-coupling pension provision from workplace and employment conditions, employing incentives targeted at lower income workers, implementing measures to improve equal participation in work and addressing issues in tax relief for pension saving more broadly.

Furthermore, the individualised nature of defined contribution accounts means that outcomes are dependent on investment gains. In times of financial or economic volatility, some people may fare worse than others. Attention should be drawn to the lack of collective insurance (to cover longevity risk, which is difficult to manage alone) in the Irish pension landscape, including the proposed automatic enrolment scheme.

Another gap identified in the proposals concerns the options at the point of retirement and the support needed for dealing with them. The burden of decision-making needed at the point of retirement stands in stark contrast to the nature of automatic enrolment which relies on people doing nothing. There is a widespread need for investment in financial literacy and advice services, which does not appear to have been considered alongside plans for automatic enrolment. In the UK, the cost of pensions guidance in the UK was budgeted at £15.8m, funded by the General Pensions Levy collected by the Pensions Regulator (MaPS, 2022; The Pensions Regulator 2023).

Finally, the layering of automatic enrolment onto an existing system of workplace pension saving introduces complexity into the occupational pension landscape, especially with different tax rules. This complexity may negatively affect employees, who may have pension pots across the different elements, as well as for employers and pension industry. The burden of dealing with this complexity undermines the long-term sustainability of the proposed automatic enrolment scheme.

Contents

Introduction

Background to the report

This report has been prepared to support the Joint Committee on Social Protection, Community and Rural Development and the Islands in undertaking Pre-Legislative Scrutiny of the Automatic Enrolment Retirement Savings System Bill in early 2023.

The Committee's key objectives are:

1. To gain an understanding of the merits and demerits – for the citizen, for Government, and for the pensions industry etc. – of an auto–enrolment initiative as proposed in the general scheme of an Automatic Enrolment Retirement Savings System Bill 2022.
2. To understand experience (both positive and negative) in other jurisdictions where schemes similar to the one contemplated have been introduced.
3. Possible alternative uses of the expenditure that is anticipated as likely to arise, to achieve the same or similar ends, in whole or in part.
4. Perspectives around how to structure the accounts that these pensions savings would be paid into.

Our approach

Drawing on our expertise in international and comparative social policy research, we conceived of three modules to answer these questions, as follows:

- Module 1: A comparative analysis of the relative merits and demerits of supplementary pension savings system design covering the UK, New Zealand, Denmark, and Sweden (Responding to 1 and 2).
- Module 2: A summary of alternative interventions which could achieve the same or similar ends (Responding to 3).
- Module 3: An analysis of perspectives on system structures: specifically accounts, delivery models (Responding to 4).

We have also prepared a high-level assessment of the gender and equality impact of the automatic enrolment scheme.

The findings of this work are reported in the subsequent sections.

Module 1 – A comparative analysis of the relative merits and demerits of supplementary pension savings systems.

Overview

This module has the following goals:

- To gain an understanding of the merits and demerits–for the citizen, for Government, and for the pensions industry–of the auto-enrolment initiative as proposed in the general scheme of an Automatic Enrolment Retirement Savings System Bill 2022.
- To understand experience (both positive and negative) in other jurisdictions where schemes similar to the one contemplated have been introduced.

In this module, we analyse the relative merits and demerits of supplementary pension savings system design, bringing in comparative analysis of supplementary pension savings systems in the UK, New Zealand, Denmark, and Sweden.

This document will be *structured by group*, considering the merits and demerit of automatic enrolment for citizens, Government, and industry (considering employers and pension insurance providers).

Citizens

The Irish pension system is based on 'Beveridgean' principles in that the contributory state pension provides a flat-rate income in retirement to keep pensioners out of poverty. Citizens/residents with inadequate contributory pension rights are covered by the non-contributory state pension. Both of these provide protection against poverty in retirement (European Commission, 2021, p. 99).

Like other 'Beveridgean' systems, the Irish pension system relies on employer voluntarism to provide income protection above the level offered by the flat-rate state pension (see Anderson 2019 on pension typologies). It is important to emphasise that Ireland has not made policy choices akin to those elsewhere in Europe where mandatory (Switzerland) or quasi-mandatory (Denmark, Netherlands) employment-related pensions supplement the flat-rate benefits provided by the state pension. Nor has Ireland chosen to introduce compulsory, statutory earnings-related pensions as in France, Germany, Sweden, and other countries. This means that earnings-related pension provision is voluntary, except in the public service. Large groups of private sector employees thus lack pension coverage above the level of the state pension; this is precisely the group that the proposed legislation seeks to cover.

The merits of automatic enrolment for citizens

Private sector workplace pensions are largely capital-funded defined contribution (DC) schemes in Ireland. The advantage of this approach is that employers do not face uncertainty about the cost of future pension obligations (by definition, contributions are capped) and employees do not lose pension rights when they switch employers. In private sector DC schemes, contributions are invested in appropriate investment/savings products designed to take advantage of potentially favourable rates of return on financial markets.

The main benefit of the automatic enrolment legislation for citizens is wider access to workplace pension saving to organisations where employers (or employers and unions) have not voluntarily set up workplace pensions under existing statutory and collective bargaining arrangements. This is expected to improve participation in workplace pension saving for an estimated 750,000 eligible workers in Ireland, who would not have had the option to do so before. Based on the experiences of UK and New Zealand, the main assumption behind automatic enrolment (that people will tend to do nothing and thus stay enrolled in the scheme) holds true, with opt-out rates around 10% at their peak in the UK (DWP, 2022b).

Second, in the Heads of the Bill concerning auto-enrolment, the idea is that the 750,000 eligible workers will **benefit from employer contributions and the state top-up** once they start contributing. The total contribution rate of 14% (comprised of 6% of gross pay, matched by employer, plus State matching €1 for every €3 an employee saves), which will be reached by 2034, represents a higher total amount than the minimum levels in the UK (8%) and New Zealand (6%).

Third, citizens may also **benefit from the ability to opt-out of the scheme**, for whatever reason they choose. The experience of the UK and New Zealand suggest that opt-outs are reasonably low, even if they fluctuate (DWP, 2022b). Having the ability to opt-out may provide a sense of control over pension saving, even for those who do not use it. However, it is not clear how widespread this feeling of control may be, or how this might contrast to the experience of citizens in quasimandatory systems, as in Denmark and Sweden.

Finally, the proposed delivery model with a Central Processing Agency (CPA) as a State agency may be seen as **more trustworthy than a purely commercial entity**. The Swedish experience with individual investment accounts in the statutory and occupational pillars demonstrate that CPAs can reduce administrative fees, help to prevent mis-selling, and improve the quality of investment products (see appendix on Sweden). This is potentially important in Ireland, where there are high levels of distrust in the financial sector amongst citizens in Ireland and research found that citizens felt that the government should play a strong role in an automatic enrolment system to ensure it delivers on expectations (Mulligan et al., 2019). The centrally-organised nature of the proposed scheme could also reduce issues regarding small pension savings pots and portability that have been raised following automatic enrolment in the UK.

The demerits of automatic enrolment for citizens

The **major pitfall of automatic enrolment** for citizens is that it will **take time to build sufficient pension savings pots**, and some people will be prevented from doing so due to breaks in employment, which will affect contributions and thus outcomes. Most illustrations of future pot sizes and potential adequacy generated in later life assume consistent contributions over the working life, which is not a reality for many groups, especially women who are most likely to take breaks for maternity and caring responsibilities but also anyone who experiences periods of unemployment.

In the **short-term**, there is a trade-off between how quickly pots accumulate and the long roll-out period. The 10 years to reach full contributions may be unnecessarily long. In the UK (where contributions were staggered by organisation size over 6 years) there was little evidence that increases in contribution levels were badly received, with no noticeable difference in opt-out levels (DWP, 2022b; 2022d). This suggests that the roll-out could be conducted on a faster basis without jeopardising engagement.

In the **longer-term**, the question of whether automatic enrolment will deliver sufficient pension pots for later life remains. It bodes well that proposed contributions levels are higher proportions than those in the UK and New Zealand, yet as these schemes are still reaching maturity, there is no way of really assessing the result of contributions over the lifetime under automatic enrolment. Modelling of pension saving amongst defined contribution savers in the UK suggests that over half are not on track to achieve their expected income in retirement (Pheonix Insights, 2022). Additionally, evidence from New Zealand suggests that contributions to KiwiSaver may be displaced from other areas of saving, rather than increasing total savings (NREU, 2015; St John et al., 2014). While savings are 'locked away' for later life with pensions, which is not the case with other means of saving, this interaction still highlights the lack of clarity as to whether automatic enrolment can deliver sufficient pensions for later life. Ultimately, the level of adequacy needed in later life will depend on other factors which influence living costs in retirement, such as health care provision, a key difference between the UK and Ireland.

A **second area of concern** for citizens is that automatic enrolment **replicates labour market structures, exacerbating existing inequalities**. Anyone who is excluded from eligibility or is disadvantaged on terms and conditions such as pay, will benefit less from automatic enrolment than those who are eligible and on better terms and conditions. This suggests a significant gender gap in the benefit of automatic enrolment, evidenced from data on schemes in the UK (where latest figures suggest women have just 20% of the pension wealth of their male peers (Palmer, 2020)) and New Zealand (where there is a 20% gap in KiwiSaver pot sizes between women and men (NZIER, 2022)).

In terms of the automatic enrolment policy design, measures such as reducing or removing the lower income thresholds and age limits for eligibility, as well as giving access to self-employed people, improve the unequal impacts by extending access. These features are already part of the KiwiSaver scheme in New Zealand but are not in automatic enrolment in the UK. The main argument against the lowering of thresholds in the UK is that individuals are able to opt-in if they wish to and there is evidence to suggest that some people outside of the policy do voluntarily opt-in. There is also a concern that automatically enrolling low earners into such a scheme you may push already stretched incomes further. In Ireland, recent analysis conducted by the ERSI finds that automatic enrolment will not affect at-risk-of-poverty rates, as very few people in the lowest two quintiles of the income distribution will actually be affected by automatic enrolment due to lower prevalence of employment and the fact that low-income workers may often be part of higher income households, due to the presence of a working partner (Keane et al, 2021).

However, improvements in access to the policy are unlikely to reduce the unequal impact of automatic enrolment entirely, since pension contributions are calculated as a proportion of income. Solutions are policies to ensure equal participation in employment more broadly, such as equality in parental leave, pay during parental leave and childcare provision to support women to maintain consistent employment, alongside action to reduce the gender pay gap (Foster et al., 2017). In Denmark, which scores highly on equal employment policies and has a low gender pay gap, as well as a redistributive state pensions, the gender pension gap is just 7.75% (European Commission, 2018; Foster et al., 2017; OECD, 2019b).

Third, eventual pot sizes at retirement will be determined not just by contributions but also by **investment gains and financial or economic volatility**. This is an important consideration for Ireland as a small, financialised economy which has been historically vulnerable to economic cycles (Bohle, 2018; Norris and Lawson, 2022). The individualised nature of defined contribution accounts means that some people may fare worse than others in times of volatility. This stands in contrast to the Danish systems, where an element of collective risk sharing is employed to share both the positive and negative consequences of financial investment between members.[14] As auto-enrolment schemes in the UK and New Zealand are still maturing, there is little evidence to assess the impact of investment and economic volatility over the lifecycle of automatic enrolment. Another factor is how economic volatility shapes saving practices more broadly. The historically high interest rates Ireland, which after a recent period of reduction are expected to be high again, may lead people to deprioritise pension saving compared to paying rent, saving for a housing deposit of keeping up with mortgage payments – especially considering continuing significant pressure in the housing market, keeping both purchase and rental costs comparatively high. In New Zealand, Kiwisavers are able to use accumulated savings for a house deposit, which could be an option to overcome this for Ireland.

Fourth, the layering of automatic enrolment onto an existing system of workplace pension saving results in significant differences in schemes between the automatic enrolment system and trustbased occupational pension. This may be confusing for citizens who may have pots in both systems: while the Design Principles confirm the 'pot follows member' approach within the automatic enrolment system, this is not the case between automatic enrolment and trust-based occupational pensions. A particular area of concern is the state 'top-up' included in automatic enrolment which works in a different way to tax relief on occupational pensions, which could prohibit consolidation and create perverse interactions for households where members save according to different tax rules. While other countries do have aspects of difference within their pension landscape (e.g., in the UK there is a difference between group, workplace, and occupational pensions), the automatic enrolment policy has been a blanket across them.

Finally, there is a need to consider **options at the point of retirement and the support needed for dealing with them**. The Design Principles for automatic enrolment suggest that automatic enrolment pensions will be subject to the prevailing legislation for accessing pensions, which currently include a lump sum, an annuity, or approved retirement product. There is work ongoing by the Interdepartmental Pensions Reform and Taxation Group to simplify pensions, with recommendations to change these options in the future. On one hand, there is a concern that citizens would be automatically enrolled without clarity over what they will be able to do at retirement, potentially reinforcing distrust in the system. On the other hand, there may also be concerns about the burden of decision-making needed at the point of retirement, which stands in stark contrast to the nature of automatic enrolment which relies on people doing nothing. There is a widespread need for investment in financial literacy and advice services, which may quickly become a pressing issue in Ireland yet does not appear to have been considered alongside plans for automatic enrolment. In the UK, the 'Pension Freedoms' legislation was introduced in 2015, after the roll-out of automatic enrolment had started. Evidence suggests that UK citizens face complex decisions at the point of retirement in relation to managing pension decisions across multiple pots and entitlements, (DWP, 2022c; Pheonix Insights, 2022) yet only around half take formal financial advice when making decisions about their pensions (MaPS, 2019; 2021). The UK government established PensionWise, a free advice service for those aged 50 or older with a defined contribution pension, which delivered 200,000 advice transactions in 2019/20, in a year when approximately 645,000 defined contributions were accessed (Ipsos Mori, 2020; MaPS, 2019; 2021). In 2022-2023, the cost of pensions guidance was budgeted at £15.8m, funded by the General Pensions Levy collected by the Pensions Regulator (MaPS, 2022; The Pensions Regulator 2023).

[14] **In several large capital funded, DC occupational pension schemes in Denmark, investment returns are collectively shared (for example, PensionDenmark). Even where individual investment choice exists, very few members avail of this.**

State

The merits of automatic enrolment for the Government

A **major benefit of automatic enrolment** for the Government is to that it will be **taking action** in a space where the current voluntaristic model for workplace pensions has failed citizens, preventing access and participation.

Second, the format of the automatic enrolment scheme **encourages contributions from both employees and employers**. It may be harder to the Government to encourage such a significant level of investment in retirement provision through other means, such as increases to the state pensions funded through PRSI (although alternatives will be discussed in more detail in Module 2).

The **final merit** of the current proposals for automatic enrolment with the CPA is that the **Government maintains control** over the parameters of the system and can act on behalf of citizenmembers. This could include, for example, managing fees and charges (the UK has used a cap (DWP, 2021), or potentially including ESG considerations. While workplace pension trustees in Ireland are encouraged to consider ESG implications of the investment portfolio, the CPA could potentially employ more stringent guidelines. For example, the KiwiSaver scheme in New Zealand includes ESG requirements for the six default providers since 2021 (New Zealand Financial Markets Authority, 2022).

The demerits of automatic enrolment for the Government

The **first pitfall** of automatic enrolment for the Government is that it is **unclear to what extent automatic enrolment** can really deliver improved retirement incomes in later life. Based on evidence from the UK and New Zealand, automatic enrolment is likely to increase participation in pension saving, yet delivers uneven improvements in adequacy, for all of the reasons mentioned above. For these reasons, the experience of KiwiSaver has been described as a political rather than programmatic solution (Macdonald and Guest, 2019).

Second, following on from that, some groups will be unlikely to generate significant pots for later life, even once automatic enrolment is in place at full capacity and maturity. While some needs will be met through the state pension schemes, there is risk that these smaller pots could **interact with state welfare entitlements in ways which penalise individuals**.

Third, the format of the automatic enrolment scheme **introduces complexity into the occupational pension landscape**. While the automatic enrolment scheme run by a CPA would be regulated as an IORP falling under the jurisdiction of the Pensions Authority like other schemes, there are still a number of key differences, not least the nature of the state's contribution. This may lead to burdens around maintaining the separate systems in the future. This will be discussed further in Module 3.

Finally, the automatic enrolment scheme will generate total savings of around €21 billion after 10 years. It is likely that these funds will be invested overseas, continuing existing patterns in the Irish market, and supported by evidence from New Zealand, as a comparatively sized economy (NREU, 2015). Insurance Ireland (2023) report that approximately 78% of Irish life assurance and pension assets by value were made in foreign investments in 2020. Domestic investments tend to be in mutual funds (IMF, 2022). The largest share of the insurance industry's foreign investment goes to the US, France, and the UK (IMF, 2022). This geographic spread provides some diversification, especially across currencies.

Industry (Employers and Providers)

The merits of automatic enrolment for industry

For employers, the automatic enrolment scheme offers a **low burden of administration**, especially when compared to setting up their own scheme. Evidence from New Zealand suggests KiwiSaver has resulted in minimal workload increases at a low cost: compliance was estimated to cost NZ$770 IN 2009 and decreased to NZ$661 by 2013 (NREU, 2015). However, the level of burden may vary for different sized businesses. Evidence from the UK (where the administrative burden on employers is much higher) suggested that larger firms were more likely to consider the administration of automatic enrolment to have been subsumed within business-as-usual processes, while smaller businesses still registered a burden from it (DWP, 2022a).

Second, automatic enrolment also **limits the employers' responsibility**, for example, for determining contribution levels and ensuring the proper running of the scheme. The defined contribution nature of the scheme limits the potential for funding gaps in the future.

Third, there may be **positive implications for staff in terms of recruitment, retention, and morale**. Evidence from qualitative research with employers in the UK suggests that most feel that there has been a positive impact overall (DWP, 2022a).

For pension and financial service providers, the automatic enrolment scheme will induce saving in an area where voluntarism has not been able to do so. This will create a significant increase in asset volumes, which will be managed by providers. The providers nominated for automatic enrolment will benefit from fees or charges, which, even if capped by the Government, will nonetheless represent increases in revenue. There may also be a potential role for pension and financial service in terms of providing financial advice or guidance to citizens more broadly, an area which has not been evaluated so far in regard to automatic enrolment.

The demerits of automatic enrolment

For employers, the main demerit is that contributions for automatic enrolment **will increase costs for the business**. The upper limit (currently suggested to be €80,000) will help to limit their expenditure. The suggested limit is higher than that in the UK (£56,410 in 2023/24, approx. €63,163). The long roll out period may help to accommodate these costs. However, evidence from the UK suggests that most employers find automatic enrolment beneficial (DWP, 2022a).

While the cost burden of automatic enrolment is less than setting up a scheme, there may still be an increased burden of administration for employers than if existing systems, such as PRSI, were increased or expanded.

Employers may also be affected by **the variation between automatic enrolment and workplace pension systems,** which have different implications for them. There could be opportunities for levelling down, where employers close their scheme to avail of automatic enrolment as a less costly or less burdensome scheme. However, there was little evidence of levelling down in the UK when automatic enrolment was introduced and eventually the contribution levels of automatic enrolment may surpass what some employers offer, which may even raise the bar on contributions more broadly.

For pension and financial service providers, the centrally-administered model for automatic enrolment offers **less potential for their services** than would be the case in trust-based workplace pension schemes. However, the voluntaristic approach has failed to establish these trust-based schemes in the organisations targeted by the automatic enrolment policy.

Module 2 - A summary of alternative interventions which could achieve the same or similar ends

Overview

The goal of the proposed auto-enrolment legislation is to expand pension provision beyond the basic coverage offered by the state contributory pension and the state non-contributory pension. 750,000 wage- and income-earners in Ireland do not have access to workplace-based pension coverage. Public sector employees enjoy adequate earnings-related provision, whereas large groups employed in the private sector have no coverage at all and must organise additional pension savings on their own. Non-standard workers must also arrange for their own supplemental pension savings. The experience of other advanced industrial democracies suggests several alternative interventions besides auto-enrolment: statutory earnings-related pension insurance; mandated earnings-related pension insurance; supplementary basic pension provision; and raising the contributory state pension. This module examines each in turn. We conclude that none of these alternatives is suitable for Ireland, largely because of the political and procedural obstacles to layering (quasi-) mandatory arrangements onto existing statutory and workplace pension schemes.

Statutory earnings-related pension insurance

One effective approach to robust earnings-related pension insurance is based on statutory provision. The dominant version is referred to as 'Bismarckian' because it relies on shared financing (via contributions) by employers and employees, facilitated by state-provided tax incentives (pension contributions are deducted from gross pay for tax purposes). The United States, Germany, and Sweden rely on variations of this broad approach. Such schemes are typically pay-as-you-go (PAYGO).

Bismarckian pension insurance systems require careful choices concerning the benefit formula (number of years of contributions required for full pension; contribution rates; and how to include part-time employment, years in education, and periods of parental/maternity leave), the ceiling on contributions and benefits, and the relationship between earnings-related benefits and basic pension benefits (if they exist).

The advantage of this approach is its broad coverage, not just in terms of the labour market, but also in terms of income. The Swedish system covers all wage-earners, including the self-employed. The German system covers public and private employees but does not include tenured civil servants who have their own scheme. The US system covers most wage-earners with some opt-outs for public servants at the state level.

Statutory Earnings-Related Pension Systems in Sweden, Germany, and the United States, 2023

	SWEDEN	GERMANY	UNITED STATES
coverage	all income-earners, including selfemployed	income earners except tenured civil servants	income earners; some public sector employees exempt

financing	• 18.5% of qualifying income • 50/50 employer & employee • ceiling: € 53,817	18.6% of qualifying income 50/50 employer & employee ceiling: € 87,600	12.4% of qualifying income 50/50 employer & employee ceiling: $160,200
benefit formula	• notional defined contribution	• average earnings with indexation to life expectancy	• weighted average earnings
basic pension	• pension-tested	• means-tested	no

There are two disadvantages to the statutory, income-related pension approach with reference to Ireland:

- Extensive research demonstrates that it is difficult to introduce statutory earnings-related coverage on top of existing public and private schemes. Two examples referred to here (DE, USA) introduced PAYGO statutory earnings-related pensions very early (DE 1880s and USA 1930s) before the expansion of other private and public sector schemes. In Sweden, the introduction of PAYGO statutory earnings-related provision in the late 1950s (with buffer funds) occurred after a protracted political conflict because of the difficulties of amalgamating existing public and private schemes into a single statutory scheme (Anderson 2018).
- The introduction of statutory earnings-related provision on top of existing public and private sector schemes would require the establishment of a state agency to collect contributions, administer individual pension records, and execute pension payments. Such an approach could rely on existing administrative arrangements, but would require potentially complex record-keeping and administration. Some sort of CPA could carry out this task, but its functions are likely to be far more complex than those proposed in relation to the CPA discussed for auto-enrolment. For example, a state agency administering earnings-related pension insurance would need to undertake complex record-keeping tasks, primarily earnings records, and it would have to translate earnings records into pension benefits at retirement. This requires complex decision-making---including legislation--- around accrual rates, indexation, and the reference period for benefit calculation (see chapters in Ebbinghaus 2011; Immergut, Anderson, and Schulze 2007 for details).

Mandated earnings-related pension provision

A second alternative is mandated earnings-related provision based on capital funding. This approach relies on state power to require employers to offer, either unilaterally, or in negotiation with employees, earnings related pension provision. The foremost example of this approach is the Swiss multipillar pension system. Swiss legislation provides for a flat-rate basic pension that prevents poverty in retirement, and 1982 legislation (implemented in 1985) requires employers to provide funded (usually DC) earnings-rated coverage (for details, see Bonoli and Haeusermann 2011). All earners with a minimum salary of CHF 22,050 (€ 22,174) per year (starting from age 17) are covered. Many employers retained more generous coverage than the 1982 legislation required.

The advantage to this approach is that all wage-earners are covered by basic and earnings-related coverage. The combined replacement rate is 60% of average career wages. Employers also have the flexibility to offer more generous benefits (Bonoli and Haeusermann 2011).

At first glance, this approach appears attractive for Ireland, because the institutional preconditions are similar: there is adequate basic provision and uneven earnings-related pension coverage. By requiring employers to provide an obligatory minimum level of earnings-related coverage, Swiss legislation from 1982 addressed gaps in pension coverage similar to the ones that exist in Ireland today. Swiss public sector workers were already covered, as were many private sector workers. Accounts of the implementation of the 1982 legislation in Switzerland point to the important role of direct democracy in producing this outcome. In the context of strong employer influence and centreright political party dominance, direct democracy created strong enough pressure for reform that employers and centre-right political parties could not block. These political conditions are absent in Ireland.

Supplementary Pension Provision not related to earnings

Another option for expanding access to supplementary employment-related pension insurance concerns arrangements that relax the principle of earnings-related benefits.

The Danish pension system offers an interesting alternative to strictly earnings-related workplace pension coverage. The ATP (*arbejdsmarkedets tillægspension*) system is a capital-funded statutory system that provides pension benefits based on hours worked rather than previous earnings. A state agency administers contributions and manages how funds are invested. Government, employers, and unions run the scheme. Individuals accrue pension rights based on the number of hours worked in the course of their career. Based on this, the ATP scheme provides a guaranteed deferred annuity. Employers pay 2/3 of the contribution and the worker pays the remaining 1/3 (recipients of social welfare benefits like unemployment insurance and sickness insurance are covered)

Employees paid monthly (Work hours per month)	Employee's share (1/3)	Employer's share (2/3)	Total A-contribution DKK
At least 117 hours (full-time)	94,65	189,35	284,00
78 to 117 hours (2/3 working time)	63,10	126,25	189,35
39 to 78 hours (1/3 working time)	31,55	63,10	94,65
Less than 39 hours	0,00	0,00	0,00

In 2023, the maximum annual ATP pension is DKK 27,300 (€ 3,667) for individuals who reach the state retirement age of 67 and have paid full contributions from the age of 18.

The advantages of this type of scheme is that it breaks the link between earnings and pension benefits, thus providing a supplement to statutory flat-rate pensions. The ATP is particularly important for low-income earners with insufficient workplace pension rights. Administration is demanding, but not as complex as it would be for supplementary schemes that rely on earningsrelated pension provision (because of the complexity of administering earnings records).

Increasing the State Contributory Pension

A final option is to increase the state contributory pension or the state non-contributory pension instead of investing government resources in auto-enrolment.

The merits of this approach are:

- state pensioners will receive an immediate increase in their pension income. This is particularly important for pensions with little or no workplace pension income.
- the share of payroll (for employers and employees) that would have been allocated to autoenrolment can be used to improve incomes immediately.
- employers will not be required to take on additional administrative tasks

The demerits of this approach are:

- there is a risk that raising the state pension would not improve the pension provision of groups that the auto-enrolment legislation is designed to help. Many of the 750,000 workers without occupational pension coverage would benefit somewhat from a higher state pension. Many individuals who stand to benefit from auto-enrolment have steady, full-time employment, but are not in a position to purchase pension insurance on the private market without the additional resources provided by the state and employers. They might also not possess the financial literacy required for complex decision-making concerning how their savings are invested.

Module 3 - An analysis of perspectives on system structures

Overview

This module analyses perspectives on the structures for the automatic enrolment scheme provided in the Heads of the Bill and the Automatic Enrolment Design Principles. Specifically, this module considers structures relating to individual accounts and delivery models, including how the system should be run and by whom, as well as some design choices around safeguards.

The module is structured as follows: the first section introduces some concepts used in comparative and international research for evaluating systems. The second section applies these concepts to the proposed structures for automatic enrolment, including (a) the structure of individual accounts, (b) the delivery model and (c) the safeguards around the system.

Evaluating pension systems in international research

In comparative and international research, there are two main ways of evaluating pension systems, which are relevant for understanding the proposed automatic enrolment system in Ireland.

The first considers the function of the various that make up any given pension scheme, or what it is they are practically doing. For example, Bovenberg et al. (2012) refers to the three functions of pension systems which are consumption smoothing, meaning spreading income and consumption over an individual's lifetime, redistribution, referring to the allocation of resources to those who need it most, and collective insurance against unpredictable shocks which affect resources in later life.

The second means of evaluation considers the characteristics or principles which guide the pension system. There have been various articulations of these, but a recent, comprehensive analysis of the UK's pension system by the Pensions Policy Institute (2022) summarised the principles as follows:

- Adequacy, referring to the extent to which pension systems can provide an adequate income in retirement, as a combination of labour markets, state support, private pension saving, non-pension wealth and living costs.
- Sustainability, referring to the extent to which the pension system can deliver their longterm purpose, in light of population and ageing, financial foundations and the design and interaction of pension system elements.
- Fairness, referring to the equity of processes and outcomes for dealing with citizens/members, as well as protection from the worst outcomes.

These functions and principles can be considered together, as the principles run across the functions of the pension system, as shown in the figure below:

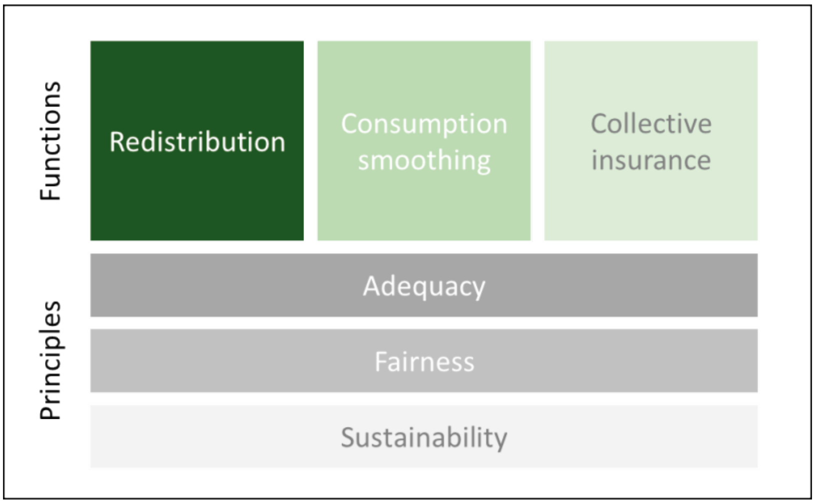

Figure 1: Adapted from Bovenberg et al. (2012) and PPI (2022)

These concepts will be used to evaluate the system structures proposed in the design principles for automatic enrolment in the next section.

Evaluating the system structures for automatic enrolment in Ireland

This section will be split into three parts considering (a) the structure of individual accounts, (b) the delivery model and (c) the safeguards around the system.

(a) The structure of individual accounts

The main function of the proposed automatic enrolment scheme is **consumption smoothing,** and this is reflected in the individual, defined contribution accounts, where eventual outcomes will be determined by contributions made by the employee, the employer and tax relief, plus investment gains or losses on this pot over time. This approach complements the primarily redistributive state welfare provision by promoting supplementary saving to improve pension **adequacy**. While exact outcomes are unpredictable, total contributions have been set at a level more likely to improve pot sizes, relative to other countries that have introduced automatic enrolment.

In interest of **fairness**, expert consensus suggests that auto-enrolment schemes should be as widely accessible as possible to avoid exclusions (OECD, 2022; European Commission et al., 2021). This means reducing exclusions such as age or income thresholds for participation. In the UK, where age and income threshold are in place for automatic enrolment, increasing levels of coverage amongst workers who were not eligible[15] has been considered a successful spillover effect of the policy (Cribb and Emmerson, 2020). However, this effect also suggests that there is demand for pension saving solutions outside of eligibility thresholds. Under the current proposals for eligibility criteria, only 1%

[15] **By 2015 (three years after the start of the rollout of automatic enrolment), pension participation amongst groups who were not eligible for automatic enrolment in the UK had increased by 18 percentage points, doubling the pension participation rate in these groups (Cribb and Emmerson, 2020).**

of family units in the lowest quintile and 7% in the lowest quintile will be affected by the scheme, predominantly due to lower employment incomes (Keane et al. 2021). However, if the earnings thresholds were to be lowered or removed, it may be necessary to identify and iron out any potential for perverse interactions with **redistributive welfare**. There may also be other measures that could be considered to improve both adequacy and fairness of the system, for example, policies to improve women's engagement with pension saving, and incentives targeted at lower income workers. As an example of the latter, in their statement to the Committee, the ESRI raise the potential for a SSIA-style scheme for pensions, providing a top-up to pension funds if and when annuitised (discussed in the ESRI submission to the Interdepartmental Pensions Reform and Taxation Group in 2018). In New Zealand, a kick-start bonus was included in the first few years of the automatic enrolment scheme.

However, a point related to **sustainability** concerns the disconnect between the proposed system of automatic enrolment and established workplace pensions. As the latter are also primarily consumption smoothing devices, any complexity built into the landscape could undermine the shared purpose and create issues in the future. There are a number of key areas where consistency and transferability between the systems could be improved, including (but not limited to):

- Tax implications – the proposed format for state support under automatic enrolment functions in a very different way to tax relief in established workplace pensions. As many citizens may move between the systems, it adds a barrier to transferability and understanding of how the schemes works (ESRI, 2023).
- Contribution levels – given the state top-up structure in automatic enrolment, contribution levels are not directly comparable to those in established workplace pensions. The automatic enrolment contribution levels could pull contributions up in existing schemes if minimum standards are clear and comparable.
- Additional voluntary contributions – additional contributions above the minimum levels are not provided for under automatic enrolment, although it is fairly standard in established workplace pensions. This puts auto-enrolled pension savers at a disadvantage.
- Fund thresholds – there are thresholds for saving in established pension schemes and often members who will reach this limit will opt out of pension saving to limit any tax impact. It is not clear how fund thresholds will work across the two systems.
- Options at retirement – the automatic enrolment bill does not cover options at retirement in detail, as the design principles state they will follow prevailing options for workplace pensions. While this appears to be consistent, it is unclear how options (such as the tax-free lump sum), will work for those who have savings in both systems. Indeed, limiting or removing the tax-free lump sum has been highlighted as a key area for improving the fairness and sustainability of pension saving generally (ESRI, 2023; Collins, 2020; IFS 2023). As decisions about pensions at the point retirement can have significant implications on the extent to which individuals will have a comfortable retirement, there may also be a need for support for financial literacy and advice services, as discussed in Module 1.

In summary, this analysis highlights some potential developments that could be considered for the automatic enrolment policy in terms of achieving adequacy and fairness, but the biggest gap sits around the sustainability of the scheme, as the disconnect from established workplace pensions builds in complexity for citizens and the administration of the pension landscape.

(b) The delivery model

The proposed delivery model involves a Central Processing Agency (CPA), who will be responsible for the administration of the system.

The major costs of this model are the cost and time needed to establish the CPA to run the system. While operating at a much larger scale than the proposed automatic enrolment scheme in Ireland, as an illustration, the centralised SuperStream platform in Australia, which acts as a clearing house and gateway for the Super system, took around 4 years to complete at a cost of approximately €1 billion, largely paid for by levies (European Commission et al., 2021; PPI 2021). The automatic enrolment scheme in Ireland will be self-funding over time, although the set-up costs are intended to be initially borne by the Exchequer. There is reasonable consensus that setting up the CPA-led system is likely to take longer than is currently set out in the bill, and indeed, longer than it would take if the scheme was being led by commercial providers who already have the know-how and tools in operation. There could be a potential to reduce set-up costs and time by using an established department, such as the Revenue, as Is the case in New Zealand (European Commission et al., 2021; PPI 2021).

Once the scheme is set up, the centralised format is likely to ensure cost-efficient solutions, which is positive for the **sustainability** of the scheme. The central role of a government agency can ensure that the automatic enrolment scheme meets its long-term objectives, for example, by ensuring favourable terms for savers. For example, the National Employment Savings Trust (NEST) in the UK was founded as a low-cost Master Trust for lower income workers, yet it has been found to compete with commercial solutions not just on cost but also on quality (Berry, 2021). The centralised model should also mean less burden for employers, the vast majority being small or medium sized organisations who may not have internal resources available to operate a scheme independently (PPI, 2021). As automatic enrolment is a **consumption-smoothing** device, more cost-efficient saving will contribute to better **adequacy** for individuals in the long-term.

There is little evidence to suggest that private solutions could deliver any more cost-efficient or effective pension solutions for the target groups for automatic enrolment, especially since voluntarism has failed to provide coverage for these groups. Fees and charges in existing pension schemes in Ireland are reportedly inconsistent (The Pensions Authority, 2021a). The proposed automatic enrolment scheme would operate a 0.5% charge cap. This is similar to the UK, where a cap for the private providers operating automatic enrolment to standardise fees across the scheme; the cap is particularly necessary in the UK since employers implement the scheme working directly with providers (Berry, 2021). The UK cap is currently set at 0.75%, with most schemes around 0.5% while NEST, the scheme set up by the government to target lower income workers following automatic enrolment, operates at a 0.3% charge. This differential demonstrates that a governmentled solution can offer cost-efficiency and effectiveness. This is further backed up by the experience of other countries where the operation of pension systems is not led by private or commercial providers. For example, the centralised Swedish Fund Selection Agency administers pension contributions through contracted providers in a similar fashion to envisioned for the CPA and in the industry-wide occupational pension schemes in Denmark, commercial providers play a marginal role, akin to that suggested in the CPA model. The scale of the proposed automatic enrolment system in Ireland once established, estimated to be €21bn, is a significant volume of assets which will engage commercial providers to support the scheme as registered providers, leveraging their expertise.

The role of the CPA can also contribute to the perceived **fairness** of the system too. The CPA can ensure that defaults are well-designed to meet the needs of the target population, as well as monitoring potential perverse interactions with state welfare. As mentioned in Module 1, research found that many Irish citizens wanted the Government to play this sort of role in automatic enrolment (Mulligan et al., 2019).

However, in making such decisions, there is a potential conflict between the CPA's role as custodian and decision-maker. The governance functions of the CPA have not been determined: while the CPA echoes in many senses the role of a Registered Administrator in established pension schemes, there would be an independent board of trustees for each scheme which would make all decisions. An independent governance board could enhance the perceived **fairness** of the CPA, especially as research felt the government should play a strong role in automatic enrolment (Mulligan et al., 2019), while also limiting any perceptions of the agency as providing a backstop to the scheme (i.e., ensuring **sustainability**). The framework for Master Trusts, where the trustee board is run as a designated activity company, could provide a model for employing individuals with professional expertise. However, the CPA board may consider additionally ensuring representation for members, which is not currently required in the Master Trust model (The Pensions Authority, 2021b).

In summary, the CPA model provides an effective approach to ensure adequacy, fairness, sustainability although there are some considerations around the governance framework.

(c) System safeguards

An important facet of any system is the safeguards that are put in place. The CPA will be regulated by the Pensions Authority under the Master Trust framework, which should provide some safeguards to the management of members' assets. However, given the unique position of the CPA, there are some additional considerations.

First, there is an established regulatory framework for workplace pensions in Ireland through the Pensions Authority. Their remit covers the compliance with the Pensions Act, 1990, as amended by trustees of occupational pension schemes and trust RACs, personal retirement savings account (PRSA) providers, registered administrators (RAs) and employers. It has been suggested that the proposed automatic enrolment scheme, as a form of Master Trust, will fall under the supervisory remit of the Pensions Authority. However, it is not clear how employers who form part of automatic enrolment will be supervised, as an existing part of the Authority's duty or via the CPA directly, and the extent to which this supervision will cover decision-making as to whether the employer operates a normal workplace pension or falls under automatic enrolment. A greater level of compliance and enforcement may be required in the set-up period for automatic enrolment, until the scheme beds in (European Commission et al., 2021).

Second, a key part of the CPA's role is to manage the four registered providers. This will need a strong framework for regular review of the providers, especially around the characteristics of the default fund which is likely to be applicable to a high proportion of members. In Sweden a new agency was set up to manage and select investment providers. There may be an opportunity to consider how sustainable investment options are included in this framework, as illustrated in the New Zealand case. Furthermore, the current proposal suggests that members will go into the default fund, unless they choose a fund option. It has been raised that members may wish to split their contributions across more than 1 fund, which would entail more complex blending of investment products. The Swedish experience demonstrates, however, that allocating contributions across one to four funds is administratively possible.

Third, the principles of the adequacy, fairness and sustainability will need to be regularly reevaluated for the system, especially in context of interaction with redistributive welfare. One area that already stands out from this analysis is the lack of collective insurance in the proposed landscape. Collective insurance provides for longevity risk, a risk which is hard to manage individually. While collective insurance is similarly absent from the UK system, other countries demonstrate different ways of achieving this. For example, in Sweden there is collective insurance at the cohort level through the Statutory Income Pension, a notional defined contribution system and in Denmark there are elements of risk sharing at the industry level through collective non-profit defined contribution occupational pension schemes. To what extent collective insurance could work in the Irish pension landscape either alongside or through the proposed automatic enrolment scheme is an area to be examined further.

In summary, in terms of safeguards, there are some considerations around how the CPA this will work in the existing regulatory/supervisory framework to be worked through and a gap around the provision of collective insurance, a key function of pension systems.

Conclusion

The key points arising from this analysis are:

- To ensure adequacy and fairness, the scheme should be as widespread as possible, although there is a need to iron out any perverse interactions with welfare that may arise.
- In interest of sustainability, the structure of individual accounts should be consistent with other consumption smoothing devices, as much as possible.
- The CPA model provides an effective approach to ensure adequacy, fairness, sustainability although there are some considerations around how this will work in the regulatory and supervisory framework.
- The pension landscape will need to be monitored against the principles of adequacy, fairness, and sustainability, especially interactions between existing and new elements.
- Attention should be drawn to the lack of collective insurance in the Irish pension landscape, including the proposed automatic enrolment scheme, as longevity risk is difficult for individuals to manage alone.

Gender and Equality Assessment

Background

Evidence shows there is a persistent gender inequality in pensions in Ireland. The OECD (2021) report that the gender pension gap in Ireland, measured as the relative difference between men and women aged 65+ (among pension beneficiaries) is between 24.4 – 29.4%.[16] However, only 28% of women receive a private or occupational pension, compared with 55% of men. (Nolan et al., 2019), suggested there is also a broader gap around access.

These gaps have been shown to be caused by gender norms regarding employment (Foster et al., 2020), such as the prevalence of part-time work amongst women (Ní Léime, Duvvury, & Finn, 2017; Duvvury, Ní Léime, & Callan, 2018) and lower wages paid to women. For example, a higher proportion of women receive the minimum wage than men (CSO, 2020). The gender gap in pensions is a particular concern as women tend to live longer than men and this is forecasted to remain the same, despite different patterns in life expectancy improvements for women and men (Whelan, 2022).

The aim of this section is to analyse how the proposed automatic enrolment scheme will impact gender and equality in workplace pensions in Ireland.

Analysis of automatic enrolment from gender and equality perspective

The consensus around the impact of automatic enrolment from a gender and equality perspective is that, while the scheme extends access of workplace pension saving to groups who do not currently have access, the scheme is unlikely to resolve inequalities (Foster et al. 2020; The Pensions Council, 2022; also noted submission from Insurance Ireland). This is specifically because the scheme is tied to workplace conditions and therefore replicates any underlying labour market inequalities – any groups who are disadvantaged in the workplace will also be disadvantaged in relation to pension accumulation through workplace pensions. Evidence from automatic enrolment in countries such as UK and New Zealand supports this (as discussed in Module 1).

Foster et al (2020) identify aspects of the automatic enrolment policy in Ireland which disadvantage women[17]:

- Age bands – women would benefit from having a wider age eligibility band to help accommodate mid-career breaks for childrearing and caring responsibilities (see also Agunsoye and James, 2022).

  - Earnings thresholds – women are disproportionally excluded as they tend to earn less, due to gender pay gap and the higher incidence of part-time working (see also Dale and St John, 2020).

[16] Source: OECD calculations based on the HFCS, the LIS, the LWS; Eurostat (EU-SILC), https://doi.org/10.1787/888934230129

[17] The analysis was based on the 'Strawman' for automatic enrolment. Many aspects still stand, but the analysis has been adapted here to reflect the recent developments in the proposed policy.

- Caring breaks – the policy does not include any form of credits for caring breaks, which disadvantages women in particular. However, given the ageing population in Ireland, alongside changing patterns of work which reflect this, breaks in employment for caring or other needs may be more prevalent across all groups in the future.

- Contributions levels – while the contribution levels proposed are higher than those in other countries (including the UK and New Zealand), as they are determined as a proportion of income, men will contribute more than women. This has a cumulative impact as contributions increase through investment returns into the future, exacerbating income inequalities into the size of accumulated pots. Additionally, the restriction on additional voluntary contributions in automatic enrolment may restrict women who do want to save more.

- Multiple employments – women tend to be more likely to have multiple employments, due to incidence of part-time working. While the automatic enrolment system provides for multiple employments within it, some women may be covered by automatic enrolment in one employment and workplace pensions in another. The complications associated with having two different systems for workplace pension would be exacerbated for women in this situation.

Additionally, the current system of tax relief on workplace pensions has been determined to be disadvantageous for women, as it is regressive in rewarding higher earners (who are disproportionately men). Based on data from the 2014 Survey on Income and Living Conditions (SILC), Collins (2020) finds that two-thirds of tax relief on pensions goes to men, with just a third to women. The Pensions Council (2020) highlight that the system of tax reliefs in rigid and favours those in full-time and continuous work, reinforcing the gender bias in the pension system (Grady, 2015; James and Agunsoye, 2022). The automatic enrolment scheme proposes a different model for state support, through a state top-up of €1 for every €3 saved. This format was proposed due to its simplicity and fairness, as the top-up applies regardless of marginal tax rate and even for those who are outside of the income tax net. The Design Principles point to evidence from the ESRI suggests that 75% of likely AE participants will be at the standard (20%) rate of tax or outside the income tax net (see also Keane et al. 2021), and many of these will be women. So, on one hand the proposed state top-up is more beneficial to women. However, the difference between the top-up and tax relief in workplace pensions generally builds in complexities for women, e.g. when moving between or holding both automatic enrolment and workplace pension pots, which could create barriers to pension saving.

In summary, drawing on the principles introduced in Module 3, the analysis of the gender and equality impact of the automatic enrolment highlights that there are concerns around the extent to which the scheme will deliver adequate pensions for women and other groups who are disadvantaged in the workplace, and whether this will lead to sustainable pensions for those individuals and their families in the future. This challenges the principle of fairness, as some people will do better from the automatic enrolment scheme and workplace pension saving generally than others.

Key recommendations identified

De-couple pension provision from workplace and employment conditions – for example, the Pensions Council (2020) suggest that the automatic enrolment state top up should be applicable for all, even if individuals are unable to contribute. Another route would be greater recognition for unpaid work, such as caring, either as credits within the automatic enrolment system or in other aspects of the pension landscape.

Employ incentives targeted at lower income workers – there are multiple options to target lower income workers though automatic enrolment, which would proportionally benefit women. These include a SSIA-style scheme for pensions, providing a top-up to pension funds if and when annuitised (ESRI, 2023; ESRI, 2018). In New Zealand, a kick-start bonus was included in the first few years of the scheme.

Implement measures to improve equal participation in work – this refers to breaking down the gender norms around caring and family responsibilities which create labour market inequalities and cumulate in the gender pension gap (Foster et al., 2017). Policy measures include maternity leave compensation, compensated maternity leave and affordable childcare provision (Foster et al., 2017).

Address issues in tax relief for pension saving more broadly – the Pensions Council (2020) suggest that women would benefit from making tax relief on personal contributions more flexible through salary averaging over more years, introducing joint assessments for tax relief on pension contributions, and standardising the maximum contributions (currently structured according to age). Another area to be considered is the tax-free lump sum, which is regressive in benefitting higherearners (generally men) (ESRI, 2018; Collins 2020). A retirement lump sum can be taken up to €200,000 tax-free, between €200,001 and €500,000 taxed at the standard rate, and anything above taxed at the marginal rate. The cost of this tax relief is estimated to be €134 million annually (Government of Ireland, 2022).

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Appendix: Country summaries

Table 1: Net pension replacement rates, % of pre-retirement earnings, 2020

Country	Replacement rate
Denmark	84.00
Ireland	39.90
New Zealand	43.30
Sweden	56.20
United Kingdom	58.10

(Source: OECD (2023) Net pension replacement rates (indicator). DOI: 10.1787/4b03f028-en)

Note that the net pension replacement rate is an indicator calculated by the OECD which includes all public and private sources, estimated according to the prevalent rules in each system (i.e. they may not be like-for-like comparisons).

UK

The UK pension landscape comprises state and private provision (workplace and personal pensions). The state pension has focussed on delivering a 'safety net' for poverty relief funded through National Insurance Contributions (NIC). The latest incarnation, the New State Pension (nSP) was introduced in 2016 and provides a flat-rate benefit, currently £185.15 (approx €207.31) per week in 2021/22, representing approximately 25% of weekly national average earnings.

The modest nature of the state pension means that citizens are expected to save actively and additionally through the private pensions, primarily workplace pensions. Despite this, the coverage of workplace pension saving fell throughout the 90s and early 00s to just 31% of the working population in 2012 (7.8 million) (Office for National Statistics, 2014). The low coverage of private saving led to the introduction of automatic enrolment, a policy which obliges employers to enrol eligible workers into a qualifying workplace pension scheme with minimum contributions, phased in from 2012. By July 2021, more than 10.5 million eligible employees had been automatically enrolled (1/3 of the workforce) (ONS, 2021). The total number of people regularly saving through a workplace pension has reached around 20 million, or 88% of eligible employees (DWP, 2022d). However, many members save at minimum levels (which may not be enough to provide an adequate income in later life) and a significant proportion of people are excluded from the scheme, including 5.3 million who are employed but do not meet the eligibility criteria of the scheme (PPI, 2017). The net replacement rate in the UK, across public and private sources, was estimated to be 58.1% of pre-retirement earnings in 2020.

New Zealand

Pensions in New Zealand consist of New Zealand Superannuation ("New Zealand Super") and KiwiSaver. The former is the state pension, paid to all legal residents at age 65. This is provided to all residents regardless of contributions, savings, or assets, and is funded through a sovereign wealth fund. The latter is a voluntary, auto-enrolment savings system. Rates depend on household status. A single person without a dependent will receive NZ$1,076.48 before tax fortnightly. A couple who are both eligible will receive NZ$817.32 *each* fortnightly (NZ$1,634.64 combined) before tax (Ministry of Social Development, 2022).

KiwiSaver is a private, voluntary, auto-enrolment savings scheme, to which employees and their employers contribute a set amount each month. Apart for specific circumstances, money saved cannot be withdrawn until 65 years of age. Those not in employment may join a scheme and make voluntary contributions if they wish. Due to the nature of the scheme, there is no monthly rate of pay.

The net replacement rate in New Zealand stands at 43% of average earnings, as of 2020 (OECD, 2023)

Denmark

Denmark is known for the effectiveness and generosity of its multi-pillar pension system. The statutory pension schemes provide a universal pension scheme based on residency and means testing, funded from general taxation and a capital-funded defined contribution scheme (ATP) covering wage earners and those in receipt of social security provision, such as unemployment, sickness, and parental leave benefits (as well as being optional for the self-employed), funded by contributions. The latter scheme is managed by social partners through a tripartite agreement. These public schemes provide two-thirds of all pension income and support higher replacement rates amongst lower-income workers through redistribution (European Commission, 2018).

Danish private sector workplace pensions are quasi-mandatory, defined contribution schemes established in the 1990s, which are collectively agreed and managed. The coverage of these schemes in Denmark is 63.4% of the working population, or 94% of full-time workers (European Commission, 2018). As these schemes are still maturing, the proportion of income in retirement is likely to increase up until 2030. The net replacement rate from all public and private schemes was 84.0% of pre-retirement earnings in 2020 (OECD, 2023).

Sweden

The net replacement rate in Sweden, across public and private sources, was estimated to be 56.2% of pre-retirement earnings in 2020.

The Swedish Experience

The Swedish pension system offers insights into the merits and demerits of a state-run or non-profit agency to administer individual pension savings vehicles. The Swedish Parliament adopted a farreaching pension reform in 1994 that included the introduction of mandatory individual investment accounts. The Premium Pension is part of the statutory pension system, but it is sufficiently similar to the reform sketch presented in the Heads of the Bill to illustrate several merits/demerits. The Swedish experience also highlights the necessity to view merits/demerits in the context of the entire pension system, especially the interaction of statutory and employment-based pension provision.

2.5 percentage points (out of a total statutory pension contribution of 18.5 percentage points of qualifying income) are allocated to the Premium Pension system. The remaining 16 percentage points in contributions is paid into the PAYG earnings-related pension scheme (the "income pension" IP). All income earners, including the self-employed, participate in the statutory pension system. The design of the premium pension reflects a compromise between five, and now six political parties representing about 80% of voters in the 1990s.

Key features of the Premium Pension

- 2.5% of qualifying earnings are paid into an individual account housed at the Pension Agency (*Pensionsmyndigheten*).
- individuals may choose up to five investment funds from a pre-approved fund catalogue.
- individuals may change their investment portfolio as often as they wish.
- the pension savings of individuals who do not make an active choice are allocated to a default fund (currently a life-cycle fund).
- individual's pension savings are converted into a fixed of variable annuity at retirement (this is an individual choice)
- individuals do not legally own the capital in their accounts; instead, they have the right to an income generated by that capital. At death, an individual's remaining pension savings are allocated to the members of their birth cohort.
- individuals may choose survivor's coverage, but this reduces the potential size of their own pension income in retirement.
- financial service providers must meet minimum criteria to qualify for inclusion in the catalogue of investment funds.
- financial service providers must agree to large fee rebates to qualify for inclusion in the catalogue of investment funds.

For **citizens**, the key **merits** of this system are

- freedom of choice,
- risk diversification, and
- low cost investing and access to financial advice

Individuals may choose to invest "their" pension savings in a wide variety of vehicles; there is a default fund for non-choosers; and the pension income generated from the premium pension can benefit from the opportunities of long-term investment on global financial markets. The latter is important because most of an individual's future pension income is based on the PAYGO income pension. The IP is a notional defined contribution system (NDC) that pays a notional rate of return based on macroeconomic performance. The premium pension diversifies pension income risks by supplementing the NDC IP with pension income derived from investments on global financial markets. Finally, individual pension savers pay very low administrative fees, because the Pensions Authority negotiates large fee rebates from investment fund providers. The Pensions Authority charges a low administrative fee.

For **government**, several of the **merits** discussed above apply, particularly risk diversification and the provision of low cost pension savings vehicles to citizens and residents.

For **employers**, the chief **merit** is risk diversification, pension security, and cost control. Since the 1970s, organised employers argued that rising non-wage labour costs (including pension contributions) impeded competitiveness. The introduction of NDC in the income pension and DC in the premium pension meets some of these concerns (because contributions are capped). Moreover, risk diversification (PP income as supplement to PAYG IP income) is argued to secure, stable pensions in the long term.

For the **insurance/financial services sector**, the key **merit** is access to new potential customers, even if they cannot charge customary fee levels.

For **citizens**, the key **demerits** of the Premium Pension System are:

- the risk of lower pension income compared to the PAYG IP (because of volatility on financial markets). There are no nominal guarantees.
- the risk of falling victim to fraud and/or management on the part of investment fund companies. This has been a problem in the PP; recent legislation established the Swedish Fund Selection Agency (*Fondtorgsnämnden*) to administer the procurement of funds in the PP catalogue. The new agency has more regulatory power to evaluate potential investment funds for quality and reliability.

For **government**, **demerits** include:

- regulatory failure
- potential downfalls in financial markets

For **employers**, **demerits** include:

- administrative costs of compliance

For the **insurance sector**, **demerits** include:

- potential costs of regulatory compliance

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