Auto-Enrolment
Impacting Every Company in Ireland

Bank of Ireland

Mark O'Connor, Head of Corporate Pensions, Bank of Ireland speaking after his attendance at the National Pensions Summit said *"As an Employer, the best thing you can do now is get good quality advice from an established and trusted Occupational Pension Scheme provider and have your Company in the most advantageous position possible in advance of the introduction of what will be the most significant change to the pensions industry in Ireland in a lifetime."*

The pensions industry in Ireland has seen dramatic changes in recent years, not least of which was the publication of the Automatic Enrolment Retirement Saving System Bill in late 2022. Speaking at the National Pensions Summit at Croke park recently, Minister Heather Humphries confirmed that Auto-Enrolment legislation will indeed be introduced in Q4 of this year. As a result, employers, regardless of size, scale or sector, must now consider how they intend to approach and deal with Auto-Enrolment, and budget to pay for it. It has been indicated by Government that employees will only be permitted to have one pension fund – either Auto-Enrolment or an Employer sponsored Occupational Pension Scheme, employees may not have both at the same time.

An outline of some of the basics

Eligibility for Auto-Enrolment will likely be determined by:

- assessing data derived from details reported via payroll applications directly to the Revenue Commissioners. It's likely that anyone earning over €20k will be eligible, and
- age checks against Department of Social Protection data to determine if applicants are between 23-60 years old.

For the initial three years at least, it seems pension contributions on an employee's payroll slip over the prior 13 week rolling periods will be sufficient to exclude a member of an existing pension scheme from the Auto-Enrolment system. Once eligibility has been determined, participants will be automatically enrolled or they will be deemed exempt.

Contributions will be calculated on the employee's gross earnings up to €80,000 per year. Employee contributions are not relieved for tax, USC, or PRSI but a State top-up of €1 for every €3 paid by the employee is equivalent to 25% tax relief.

Participants once enrolled must stay in the plan for 6 months. After that time they may **opt out** during months 7- 8 and any contributions they have made up to that point will be refunded. All employer and State contributions to that date will remain in the system. Participants may stop or pause contributions under specific circumstances and in such cases their contributions and all employer and State contributions will stay in the fund. Where a participant opts-out or suspends their contributions, they will be automatically re-enrolled after two years, after which they may opt-out or suspend again in accordance with these options.

It is proposed that the Auto-Enrolment scheme will operate a 0.5% **charge** cap. This is similar to the UK, where a cap for the private providers operating Auto-Enrolment exists to standardise fees across the scheme. The UK cap is currently set at 0.75%, with most schemes around 0.5% while the National Employee Savings Trust (NEST), the scheme set up by the UK government to target lower income workers following Auto-Enrolment, operates at a 0.3% charge.

Contribution charges of 1.8% apply in the UK but none appear likely for the Irish scheme. The scale of the proposed Auto-Enrolment system in Ireland once established, estimated to be c.€21bn*, is a significant volume of assets which will engage commercial providers and encourage participation, even at keen fee arrangements.

Source: http://gov.ie/autoenrolment.

Years from launch	Contribution rate for Employee	Contribution rate for Employer	Contribution rate for Government	Contribution rate Total
1 to 3	1.5%	1.5%	0.5%	3.5%
4 to 6	3.0%	3.0%	1.0%	7.0%
7 to 9	4.5%	4.5%	1.5%	10.5%
10+	6.0%	6.0%	2.0%	14.0%

Source: http://gov.ie/autoenrolment.

What's the right approach for Employers?

Auto-Enrolment or a Occupational Pension Scheme (Master Trust)?

As is always the case with financial planning, the specific needs of the employer may make one scheme more appealing than the other as each have particular characteristics. For example, Occupational Pension Schemes afford generous tax relief to the employer and contributions offer much greater flexibility, including Additional Voluntary Contributions (AVCs), whereas it appears that Auto-Enrolment will be much less flexible with a rigid structure and fewer options.

Employees who pay tax at 20% or do not pay any tax will benefit from the State contribution in Auto-Enrolment, which is effectively tax relief at a rate of 25%, as opposed to 20% or 0% if they don't pay any tax in an Occupational Pension Scheme.

Equally, employees who are higher rate tax payers will be significantly better off in an Occupational Pension Scheme where they will get tax relief on contributions at the marginal rate (up to 40%) rather than at 25% in Auto-Enrolment.

Employers who ensure that all their employees are members of their Occupational Pension Scheme will avoid the potential need to administer contributions to two or more schemes at the same time, i.e. some employees are auto-enrolled and others are members of the Occupational Pension Scheme.

The absence of Risk Benefits (Death in Service/Income Protection) for employees with Auto-Enrolment is another key consideration. There is also little or no ongoing advice available to either employers or employees. Both of these are key and highly valued features with Occupational Pension Schemes.

	Auto-Enrolment*	Occupational Pension Scheme (Master Trust)**
Contributions	• Rigid and fixed criteria • No option for AVCs • Once-off contributions not allowed	• Complete flexibility subject to Revenue limits
Tax Benefits	• Contributions deducted from net pay • Benefits lower rate taxpayers • Higher rate taxpayers worse off	• Marginal tax relief through net pay
Retirement Age	• In line with State Pension age • 66 to increase to 68 • No early access allowed • Doesn't appear to make provision for ill health	• Employer choice • Members can take benefits from age 50 and may choose never to take benefits • Provision can be made for the impact of ill health
Death in Service/ Income Protection	• No Risk Benefits	• Death in Service can be included • Income Protection can be included
Fund Choice	• 4 fund types • No member selection • Average returns	• Wide range of investment choice • Certain restrictions in place to ensure compliance
Advice	• None • Default only	• Professional and qualified advice available throughout the life of the scheme
Charges	• All in 0.5% • Not clear what this covers	• Negotiated between advisor/provider and employer • Covers a range of services

Source: * http://gov.ie/autoenrolment. **Bank of Ireland Life.

Employers who have an existing Occupational Pension Scheme in place must consider a number of key issues in advance of the launch of Auto-Enrolment:

- Full review of the existing scheme to ensure that it meets the needs of the Company and its members, e.g. contribution levels
- Reviewing existing Vesting Rights – what happens to employer and employee contributions when an employee leaves service within a certain time frame
- Potentially changing the eligibility rules of existing schemes to ensure new hires have the opportunity to join within a few weeks of commencing employment
- Reviewing Contracts of Employment for current and new hires
- Adding or enhancing risk benefits such as Death in Service and Income Protection

Notwithstanding any potential shortcomings of the proposed Auto-Enrolment Scheme, any initiative that will boost the level of contributions and participation in retirement planning is welcome. Auto-Enrolment has worked effectively elsewhere but we can certainly learn lessons from the experience in other countries, particularly our nearest neighbours in the UK. The proposed Auto-Enrolment Scheme in Ireland has plenty to like and lots to improve on. As an employer, the best advice would be to take time before its introduction to seek quality advice from a trusted Occupational Pension Scheme provider and decide what avenue is best for your Company.